



VARMA

2016

REPORT OF THE BOARD OF DIRECTORS  
AND FINANCIAL STATEMENTS

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# Report of the Board of Directors 2016

## The economic operating environment

Global economic growth continued in 2016. Economic recovery in the US and eurozone continued, and Finland's economy finally took a cautious upward turn. The uncertain operating environment will make 2017 another challenging year. Earnings-related pensions are well secured also during economic turmoil. Varma has been preparing for the future changes in pension laws together with its customers.

Investment market sentiment changed many times during 2016. Political uncertainty increased as a result of several important votes, but their impacts were muted and short-lived or even contrary to expectations.

Early in 2016, the uncertainty concerning China's economy and capital markets and the situation in the Middle East shook up the markets. Prior to the Brexit vote market disturbance were expected, but the downswing was short-lived. The market reaction to the US presidential election result was positive. Interest rates were on a downward trend in the early months of the year but following the US elections the interest rates of government bonds picked up. The inflation rate started to rise in both the US and the eurozone towards the end of the year. Changes in monetary policy are also mirrored in the valuation of other asset classes.

The positive momentum in the US economy continued: the employment rate improved, the number of available jobs increased, as did salaries. Consumer confidence has been driving the increase in consumer consumption for a while now, and inflation expectations have been rising as a result of economic recovery and a stronger labour market situation. In December, the US central bank, the Fed, continued to normalise its monetary policy by hiking its benchmark rate and forecasting further hikes in 2017. The scale of the stimulus programme planned by the US administration and its progress are still uncertain, but intentions of increasing protectionism add to uncertainty relating to the direction and growth of the global economy.

As a result of stimulus measures, China's economy showed steady growth, but the growth rate is set to slow down due to structural changes relating to the efforts to increase the importance of the home market. On the other hand, China is burdened by overcapacity, increasing debt, market bubbles and other problems in the financial sector. Japan's economy showed signs of moderate recovery during the first three

quarters of 2016. The Russian economy remained in deep trouble.

The eurozone economy progressed favourably and recovery was further boosted by the European Central Bank's (ECB) substantial monetary policy measures. Although there has been uncertainty in the eurozone concerning the situation of certain major banks, the financing conditions have relaxed. Both consumers' and companies' confidence in the economy has strengthened. The strengthening of the US dollar against the euro helps to boost exports, but the confusion relating to the final contents of Brexit is still a source of uncertainty.

The monetary policy framework continues to prop up growth in the eurozone. In December 2016, the ECB announced that it will extend its bond purchase programme until the end of 2017 but cut the value of its monthly purchases. Inflation rates have also started to pick up in the eurozone, and several crisis-stricken countries have been able to get their economies back on track, thanks to structural reforms. The easing of tight financial policy has promoted growth in demand.

## Finnish economy finally resumes growth

Finland's economy grew faster than forecasted in 2016. The Ministry of Finance estimates a GDP growth of 1.6% over 2015. Growth was accelerated by the development of the domestic markets, which was more favourable than anticipated.

Consumer confidence in the Finnish economy strengthened. Combined with the low interest rates and increase in household indebtedness, the lower savings rate of households, increase in real income and subdued rise in consumer prices supported private consumption. The improved employment rate also supported this trend. Long-term unemployment has risen and the labour market continues to be burdened by structural inflexibility, which shows as discrepancy in demand and supply.

The outlook for Finnish companies remained very cautious. Private investments did, however, increase 2.8% in January-September 2016 in comparison to the previous year.

Towards the end of 2016 export demand picked up, and the worst was over. The volume of industrial output increased during the year in most months in comparison to both the corresponding period in 2015 and the previous month.

According to Statistics Finland, industrial output increased 2.3% in January–November 2016 in comparison to the corresponding period in 2015.

In 2016, a tripartite labour market agreement, the competitiveness pact, was concluded, which strengthens exports' price competitiveness in relation to competitor countries. The improved competitiveness and recovery of exports are expected to strengthen employment and economic growth. In the short term, the competitiveness pact will weaken the growth potential of private consumption, as no pay increases will be implemented. The immediate impacts on public finances will be negative, when the impact of the increasing social security payments of employees will be compensated through tax reliefs.

The deficit in public finances is still substantial and it will be highlighted in the coming years, as the ageing of the population will increase pension and care expenditure. Economic growth, although stronger, is not sufficient for balancing public finances. The recovery of exports is vital for strengthening the growth base, as the domestic markets alone are incapable of creating adequate economic growth.

## Earnings-related pension system

The reformed pension legislation took effect at the start of 2017. The pension reform targets longer careers and stronger financial and social sustainability of the earnings-related pension system, and it helps close the sustainability gap of public finances. The age limits for old-age pension will gradually rise to 65 years, and thereafter will be linked to life expectancy. Part-time pension will be replaced by partial early old-age pension, and new part-time pensions will no longer be granted. Those who have been working in a strenuous job for a long time can apply for years-of-service pension.

The significance of employment is highlighted in the partly fund-based pension system. This makes it important to promote the achievement of the pension reform goals in the workplace. The goal of extending careers does not always necessarily coincide at workplaces and in people's lives when the economy is suffering and structural changes are shaking the business sector. We support our client companies and the insured in the midst of these changes: Varma is a strong expert in vocational rehabilitation and workability management.

The goal of the pension reform is to stabilise the pension contribution level. In conjunction with the pension reform and the competitiveness pact negotiations, it was agreed that the average level of pension contributions would be 24.4% until the end of 2021. According to the long-term calculations by the Finnish Centre for Pensions at the end of 2016, it seems that in the long term the 24.4% contribution level will not be sufficient for the funding of the pension benefits agreed on in the pension reform. Reasons for this are the weaker than

anticipated economic growth and the fact that in the calculations, investment return assumptions for the earnings-related pension system were lowered. In the long term, the lower birth rate will also cause pressure to increase the contributions. In the pension reform it was agreed that the pension investors' opportunities for risk taking and targeting higher returns will be improved as of the beginning of 2017.

New laws concerning the calculation of the solvency limit took effect on 1 January 2017. The calculation is now more based on risk factors, and the separate regulations on technical provisions were abolished. As an indicator, the new solvency limit is not directly comparable with the current limit. Varma introduced calculation methods pursuant to the new solvency legislation from the start of the financial year 2017.

It was agreed in the competitiveness pact that the employees' pension contribution will be gradually increased by a total of 1.2% between 2017 and 2020, and employers' average contribution will be lowered by an equal amount. The labour market parties also agreed on changes to earnings-related pension companies' administration. In future, 1/3 of the members of the board of directors and supervisory board will be elected on the proposal of the major central organisations representing the employees, and 1/6 on the proposal of the major central organisations representing the employers. The changes will take effect in 2020 for the board of directors and in 2019 for the supervisory board.

Finland was ranked fourth in an international pension scheme comparison in 2016, improving on its previous ranking. According to the Melbourne Mercer Global Pension Index, Finland has the most reliable and transparent pension system in the world in terms of governance.

## Pension contributions and return requirement on technical provisions

In 2016, the average TyEL contribution was 24.0% (24.0%) of the salaries or wages. Employees below the age of 53 contributed 5.70% (5.70%) of their pay, while the rate for employees aged 53 and over was 7.20% (7.20%). The YEL contribution was 23.6% (23.7%) of the confirmed earnings for those below the age of 53, and 25.1% (25.2%) for those aged 53 and over.

The return requirement on technical provisions consisted of a 3.00% fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 1.12% on average in 2016. The return on equity component in 2016 was 5.80. The technical rate of interest, which is used to determine the interest rate of the oldest premium loans and a number of other items, was 4.50% throughout the year. The insurance contribution interest rate, used to calculate pension contributions, stood at 2.00% throughout the year.

## Varma's financial trends

Varma's total result at fair value stood at EUR 457 (-164) million. The total quarterly result varied during the financial year, such that the third-quarter result was the strongest and the first-quarter result the weakest.

Varma's solvency strengthened during 2016 by EUR 243 million, and at the end of the year, solvency capital amounted to EUR 10,199 (9,956) million. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, was at 30.9% (31.4%). Solvency capital was at a strong level: 1.9 (1.9) times higher than the solvency limit. The solvency limit is changed in accordance with the risk level of the investments. Varma's strategic goal is to maintain the company's strong solvency through stable returns and operational efficiency.

The return on investments at fair value was EUR 1,953 (1,679) million, which represents 4.7% (4.2%) of the invested capital. The interest credited on the technical provisions was EUR 1,511 (1,902) million. Thus, the investment result for 2016 totalled EUR 441 (-223) million. Operating expenses were 28% (26%) lower than the expense loading included in insurance contributions, and the loading profit stood at EUR 39 (36) million. The underwriting result was EUR -38 (23) million.

At the end of 2016, EUR 121 (115) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.6% (0.6%) of the estimated payroll of the insured.

The TyEL payroll of those insured by Varma totalled about EUR 18.8 (18.4) billion in 2016. The payroll is estimated to have grown by 2.5%. Varma's premiums written totalled EUR 4,675 (4,576) million, of which TyEL insurance accounted for EUR 4,488 (4,380) million and YEL insurance for EUR 187 (196) million.

At the end of the year, 529,892 (524,340) individuals were insured by Varma. At year-end, the number of valid insurance policies totalled 62,116 (64,530), covering 35,998 (37,380) self-employed persons and 493,894 (486,960) employees.

During the year, a total of 2,616 (2,732) new TyEL insurance policies and 3,157 (4,330) YEL insurance policies came into force at Varma. Once again, Varma did well in the TyEL portfolio transfers. According to the TyEL client transfer statistics of the Finnish Pension Alliance TELA, Varma's net result was the best in the sector, at EUR 43 (52) million. This success in client acquisitions will promote a positive trend in premium income.

Earnings and employment notifications received during the year totalled 1,905,672 (1,744,332), of which 96% (95%) were received electronically.

Varma provides policyholders with services through its own service channels and through the service networks of If P&C Insurance Ltd and the Nordea Group.

In 2016, a total gross amount of EUR 5,345 (5,183) million in pensions was paid out. The number of pension recipients increased, and at year-end, Varma was paying pensions to 340,100 (337,100) people.

A total of 22,579 (23,113) new pension decisions were made during the year. The number of new pension decisions decreased 2.3% and the total number of all pension decisions was 4.7% higher than in 2015. Old-age pension decisions numbered 12,585 (13,175), disability pension decisions 5,577 (5,652), and part-time pension decisions 1,076 (694). Continuation decisions on temporary pensions totalled 4,432 (4,161), and other decisions numbered 19,233 (16,876). Other decisions include decisions and preliminary decisions required as a consequence of the changes in pension rights. The share of rejected new disability pension applications was 31.7% (31.7%). Pension applications made online accounted for 47% (39%) of all new pension applications.

In 2016, the total processing time of pension applications at Varma was significantly shorter than the average processing time in the earnings-related pension sector. The new pension application processing system came into full use in 2015, which is why the processing times were markedly shorter in 2016. It will speed up the processing of pension applications and facilitate the automatization of the different stages of the process in the future.

Vocational rehabilitation is an alternative to disability pension, and the number of rehabilitation cases at Varma increased again. Rehabilitation has proven to be successful, as about 77% of those who received Varma's rehabilitation returned to the job market either in full or partly. Varma has for years been a forerunner in vocational rehabilitation, and the company actively steers those at workability risk to rehabilitation. A larger share of Varma's customers use rehabilitation to return to working life than retire on disability pension. Throughout 2016 Varma assisted its client companies in managing personnel risks through client-oriented co-ordination of workability management, rehabilitation services and pension decision services in order to support the management of pension costs and longer careers.

Varma also contributed to the costs of customers' workability management projects in accordance with jointly agreed and often multi-year plans and contracts. Early 2016, the Financial Supervisory Authority issued guidelines concerning support for workability management projects. Varma has implemented these guidelines in its business processes and will be publishing its new well-being at work contracts from April 2017.



	31 Dec 2016	31 Dec 2015	Change
<b>Number of insured</b>			
TyEL <sup>1</sup>	493,894	486,958	6,936
YEL	35,998	37,376	-1,378
Total	529,892	524,334	5,558
<sup>1</sup> of which covered by TEL registered supplementary pension insurance	3,427	3,867	-440
<b>Number of insurance policies</b>			
TyEL	26,118	27,151	-1,033
<b>Number of pensioners</b>			
Part-time pension	1,615	1,765	-150
Survivors' pension	50,702	51,156	-454
Disability pension	26,530	28,545	-2,015
Old-age pension	247,230	241,084	6,146
Early old-age pension	14,018	14,556	-538
Total <sup>2</sup>	340,095	337,106	2,989
<sup>2</sup> Those receiving YEL pension	29,469	28,674	795
Those receiving TEL/YEL supplementary pension	43,913	43,643	270

In terms of Varma's customer service, online services have become a major service channel. During the year under review, 73% of all private customer contacts took place online. Through Varma's online services, the insured can obtain the most recent estimate of their old-age and part-time pensions at various retirement ages; 91% of these estimates were carried out online. You can also apply for pension and follow the progress of the application online. 54% of old-age pension applications were submitted online. A total of 11,359 applications were submitted electronically.

Varma sends a pension record to the insured once every three years. A total of 223,000 (208,000) pension records were sent out in 2016. The record shows information on earnings that apply to pension as well as the pension that has accrued until the end of the preceding year. The pension record is also available via Varma's eServices.

## Technical provisions

Varma's technical provisions grew 5.1% (decreased 0.6%) to EUR 33,501 (31,866) million. They contain a provision of EUR 122 (115) million for current bonuses reserved for client bonuses, a provision of EUR -578 (-1,083) million for future bonuses contained in the solvency capital, and EUR 324 (1,402) million in an equity-linked provision for current and future bonuses. The equalisation provision amounted to EUR 1,067 (1,203) million. On 1 January 2017, the equalisation provision

was incorporated in the provision for future bonuses, and it will no longer be monitored as a separate item.

At the end of the year, the assets covering the technical provisions were 124.5% (130.6%) of the technical provisions.

## Changes in insurance portfolio

During the financial year, no portfolio transfers from other pension companies or pension funds to Varma took place, nor did Varma make portfolio transfers to others.

## Investments

In 2016, the return on Varma's investments was 4.7% (4.2%), and the fair value of Varma's investments increased to EUR 42.9 (41.3) billion.

The return on investments was slightly higher than the interest credited on the technical provisions, but solvency weakened to 30.9% (31.4%). Varma's solvency remained at a strong level.

The average ten-year nominal return on Varma's investments was 4.3% and the five-year return 6.5%. The real returns were 2.6% and 5.4% respectively.

In the first months of 2016, the investment markets were weighed down by concerns over the weakening of China's economic growth and the decline in the prices of raw materials. The low price of oil caused fear over the risk of bankruptcies within the oil industry and the state of oil-producing countries' economies. In the spring, the markets simmered down due to the ECB's announcement that it was expanding its monetary stimulus measures and especially by the postponement of the Fed's interest rate hike until the end of the year. As a result, interest rates continued to decline in both Europe and the U.S.

As other market sentiment improved, the investment markets started to become rattled by the Brexit vote and the US presidential election. The UK's likely exit from the EU weakened economic growth expectations in both Europe and the US immediately after the Brexit vote. Following the results of the US presidential election, the promised tax reliefs and public investments by the president-elect raised expectations for economic growth and pulled the equity markets up.

Despite the increased geopolitical risks, global economic growth seems to have picked up both in the US and Europe. The realised economic figures at the end of the year have proved to be better than expected on both continents. As expected, the Fed hiked its benchmark rate in December. Elevated expectations of inflation picking up and the Fed tightening its monetary policy at a faster rate drove interest rates up and strengthened the US dollar.

Generally speaking, the investment year was strong: share prices increased significantly and returns on corporate bonds were relatively high. Varma's investment result developed in line with the markets: the market development was negative in the first half, but the second half developed very strongly. Equities generated the strongest return, and unlisted equities and private equity in particular performed strongly. Corporate bonds also yielded a solid return. The total return on investments was weighed down by the slightly negative return on real-estate investments, which was significantly influenced by EUR 218 million in write-downs.

Varma's investment activities focussed on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management. In its investment risk management, the company used derivatives for hedging purposes and to control the risk level of the portfolio.

Varma has US-dollar-denominated investments in hedge funds, equities, corporate bonds and other bonds, and private equity funds. In accordance with our investment policy, most of the exchange rate risks have been hedged, but in the final quarter of the year, currency exposure was increased. In terms of operations, foreign currency risks are managed as a single entity, while in the performance indicators the exchange rate impact is included in the investment returns of various asset classes.

At the end of 2016, the fair value of Varma's investments totalled EUR 42,852 (41,293) million and the return at fair value was EUR 1,953 (1,679) million or 4.7% (4.2%). The value and returns of the investments are grouped according to risk in this report. The Notes show the breakdown of investments and investment returns by asset classes, grouped according to regulations and according to risk.

### **Fixed-income investments**

Varma's fixed income investments stood at EUR 18,066 (12,268) million at the balance sheet date. The return on fixed-income investments was 4.2% (-0.4%). The return on the loan portfolio was 4.2% (2.4%), on public-sector bonds 1.8% (-2.5%), on other corporate bonds 7.8% (0.4%) and on other money-market instruments -0.4% (0.5%).

Fixed income investments consisted mainly of government and corporate bonds, money-market instruments and loans which include pension loans to Varma's customers.

In the fixed income markets, the year was characterised by the ECB's sizable public sector bond purchase programme, increase in US interest rates and deposit fees charged by banks. In Europe, interest rates fell during the year to a record-low level, whereupon investors reported positive interest rate returns. The narrowing risk margins on corporate bonds improved returns on bonds.

The return on government bonds was 1.8% (-2.5%) and on corporate bonds 7.8% (0.4%). The duration of the loan portfolio was kept fairly short, at around 3.4 years, which dampened the impact of the interest rate movements on the result.

The return on loan receivables, 4.2% (2.4%), was strong in the low interest-rate environment. The amount of pension loans continued to decrease during the year.

The return on money market investments, -0.4% (0.5%) was negative due to the interest charged on cash deposits by banks. Interest rates in Europe have dropped to a very low level. In future, it will be challenging to achieve a positive real return on fixed-income investments in future. Interest income may also easily turn negative, should interest rates start to rise.

### **Equity investments**

At the balance sheet date, the value of Varma's equity investments was EUR 18,527 (18,465) million. The return on equities totalled 6.4% (8.8%), of which listed equities yielded 4.5% (8.0%), private equities 11.2% (7.8%), and unlisted equities 23.7% (21.2%).

Share prices fell sharply in the first months of 2016. The valuation of shares was affected by several risk factors during

the year. Preparing for these factors was challenging, but, in the end, they turned out to be positive. These included assessments concerning the financial standing of European banks, the Brexit vote in the UK, and the US presidential election. The impact of all of these on share prices was smaller than expected.

Towards the end of the year, share prices rose, and the equity year as a whole turned out to be strong as the low interest rate level steered capital to higher-risk investments. The general economic development has not had a direct impact on the development of the equity markets.

### Real estate investments

Varma continued to increase the international diversification of its real estate investments in 2016. Real-estate investments stood at EUR 3,643 (3,906) million at the balance sheet date, with direct real estate investments accounting for EUR 2,897 (3,313) and international and Finnish real estate investment funds for EUR 746 (593) million of the total.

The return on real estate investments was -0.9% (3.3%). Direct real estate investments yielded a return of -2.6% (2.3%) and real estate investment funds 6.8% (9.9%). The return on direct real estate investments remained negative owing to the fair value write-downs during the financial year. In 2016, the impact of the impairment of the fair value of the real estate under Varma's direct ownership totalled EUR -218 (-88) million. The value of and total return on the portfolio were influenced by fair valuations, the divestment of properties and investments carried out.

The weighting of domestic, directly-owned real estate investments was decreased. Varma divested a total of EUR 301 million in direct real estate investments. At year-end, the vacancy rate for the business premises owned directly by Varma stood at 6.2%.

Investments in 2016 totalled EUR 116 million, and they were focussed on development, maintenance construction and renovations of existing properties, and housing construction. During 2016, the construction of 128 new flats owned by Varma was completed, and at the end of the year, Varma had 103 new rental flats under construction in the Helsinki area. Several other housing construction and development projects are also under planning. In Finland, investments are focussed on the Helsinki Metropolitan area and the largest growth centres.

### Other investments

Other investments amounted to EUR 7,320 (6,991) million. These consisted of hedge funds EUR 7,184 (6,663) million, commodities EUR 137 (352) million, and other investments

EUR -2 (-24) million. The return on other investments was 5.3% (3.5%).

The return on hedge fund investments was 5.6% (3.9%). The return on hedge fund investments picked up significantly towards the end of the year, improving Varma's total result. Within the portfolio, different types of funds containing credit risk yielded the strongest returns.

### Total portfolio risk

The market risk of investments constitutes the greatest risk affecting the company's result and solvency. Equities constituted by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 1,633 (1,842) million. The figure represents the maximum fall in the market value of the company's investment portfolio in normal conditions over a period of one month with a probability of 97.5%.

### Varma's share ownership policy

The central principles in Varma's ownership policy are high-quality governance in the companies in which it has a holding, transparency of operations, active engagement, and the monitoring of incentive schemes for key personnel. In 2016, Varma actively participated in the Annual General Meetings of the domestic companies in which it owned shares and in the work of the companies' Shareholders' Nomination Boards. Varma's website contains a list of the company's memberships on the Nomination Boards of listed companies.

### Operating expenses

Varma used 72% (74%) of the expense loading, included in the pension insurance contributions, to cover operating expenses. Controlling operating expenses is a key objective while simultaneously improving operational efficiency. Good operational efficiency benefits Varma's customers by means of client bonuses. Varma's goal is to manage the assets of both present and future pensioners as efficiently as possible.

Increasing operational efficiency also requires continuous control of human resources and, in particular, IT system expenses, as these account for most of Varma's operating expenses. Overall operating expenses decreased 5%, totalling EUR 138 (145) million.

Varma is actively involved in the development and administration of the pension sector's joint information systems, and expects from the joint systems transparency and efficiency in terms of costs.

## Personnel

The average number of the parent company's personnel and the salaries paid during the financial year are shown in the table below.

	2016	2015	2014	2013	2012
Average number of personnel	540	549	552	565	572
Salaries and remunerations, EUR million	36.0	39.6	40.1	37.9	37.0

Tieto Esy, which is included in the Consolidated Financial Statements using the equity method, had an average of 64 employees in 2016.

At year-end, Varma's personnel were distributed as follows: pension services and customer service departments 56%, investment operations 13%, and other functions 31%.

## Group companies and associates

At the end of 2016, the Varma Group comprised 152 (186) subsidiaries and 22 (20) associates. The most important subsidiaries and associates are Tieto Esy Ltd (50.1%), Technopolis Plc (24.0%) and NV Kiinteistösjoiutus Oy (45.0%). The Varma Group also owns 50% of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

## Governance

At Varma's Annual General Meeting, policyholders have about 78%, the insured about 20%, and the Sampo Group (the owner of the guarantee capital) about 2% of the votes.

Varma's Annual General Meeting was held on 17 March 2016. The Annual General Meeting approved the financial statements and discharged the Board of Directors, the Supervisory Board and the President and CEO from liability for the financial year 2015. The new members elected to the Supervisory Board are Jukka Jäämaa, Timo Karttinen, Niina Koivuniemi, Ville Kopra, Timo Koskinen and Jari Suominen.

Kari Jordan (Chairman), Martti Alakoski (Deputy Chairman), Satu Wrede (Deputy Chairman), Juri Aaltonen, Petri Castrén, Erkki Etola, Stig Gustavson, Tauno Heinola, Jarmo Hyvärinen, Erkki Järvinen, Tapio Korpeinen, Päivi Kärkkäinen, Päivi Leiwo, Olli Luukkainen, Ilkka Nokelainen, Lauri Peltola, Matti Rihko, Leena Vainiomäki, Jorma Vehviläinen, Christoph Vitzthum, Anssi Vuorio and Göran Åberg continued as Supervisory Board members. Tauno Heinola resigned from the Supervisory Board on 1 October 2016 and Martti Alakoski on 2 December 2016.

Authorised Public Accountants Petri Kettunen and Paula Pasanen were elected as Varma's auditors. Authorised Public

Accountant Marcus Tötterman and auditing firm KPMG Oy Ab were elected as deputy auditors.

In 2016, Varma's Board of Directors was composed of Berndt Brunow (Chairman), Jari Paasikivi (Deputy Chairman), Antti Palola (Deputy Chairman), Riku Aalto, Mikael Aro, Johanna Ikkäheimo, Ari Kaperi, Jyri Luomakoski, Petri Niemisvirta, Ilkka Oksala, Kai Telanne and Veli-Matti Töyrylä, and deputy members Eija Hietanen, Mikko Ketonen and Liisa Leino.

In its meeting on 1 December 2016, Varma's Supervisory Board elected to the Board of Directors Casimir Lindholm and Pekka Piispanen as new members and Eila Annala as a new deputy member, effective 1 January 2017. The terms of Berndt Brunow, Veli-Matti Töyrylä and Mikko Ketonen expired on 31 December 2016.

At its meeting on 15 December 2016, Varma's Board of Directors elected Jari Paasikivi as Chairman, and Kai Telanne and Antti Palola as Deputy Chairmen of the Board, effective 1 January 2017.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website. Varma publishes quarterly interim reports with the aim of ensuring transparent financial reporting that conforms to best practices.

## Capital and reserves

Varma has 71 guarantee capital shares, which are held by Sampo Plc and Mandatum Life Insurance Company Limited. Under the Articles of Association, an interest approved by the Annual General Meeting is paid to the guarantee capital of EUR 11,941,342.78 each year. The maximum rate is the technical interest rate applied to the insurance provided in accordance with the legislation on employee pensions plus one percentage point.

## Risk management

The risks related to Varma's result and solvency are primarily affected by the result of investment activities. The most important operative risk concerns IT systems, which have a key role particularly in the processing of pensions and

insurances within a mainframe environment and in the networked operating environment of the pension system.

In the earnings-related pension system, the liquidity risk is manageable, as pension expenditure can be accurately forecast and investments are strongly focussed on liquid instruments. Varma's insurance business risks, which are minor, are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility.

Varma's investment plan determines, among other things, the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising foreign currency business. The Board of Directors assesses the risks in Varma's investments with respect to changes in value, expected returns, security, and the foreign currency business, and the company's risk-bearing capacity in the area of investments, including the development of the company's solvency position. The basic allocation laid down in the investment plan also lays down the basic level for the total portfolio risk. Deviations from the basic allocation are allowed within defined limits. The maximum risk level is measured so that even after a 25% drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Risks are managed by, for example, diversifying investments by asset class and item, by analysing the investment portfolio and items, by avoiding risk concentrations, by securing guarantee policy, through careful valuation practice, by using derivatives, and by applying a supervision and follow-up system.

Varma has been increasing its currency exposure towards the end of the financial year, and this trend has been continued in 2017. The opening of the currency risk involves normal investment risks.

The pension reform that took effect at the beginning of 2017 will contribute to the structural adjustment of the Finnish economy. The main risk of the pension reform, from the point of view of implementing pension provision, relates to the application of the new legislation, especially in terms of the new pension benefits, years-of-service pension and partial early old-age pension.

The defined-benefit nature of earnings-related pension provides security and financial predictability. Securing the pension benefits of the young and future generations strengthens the future of the earnings-related pension system. Agreeing on the contribution level until the end of this decade is an important stabilising factor for companies in the current challenging economic situation. Owing to the agreed benefit

adjustments, balancing the financing of pensions with a reasonable cost burden appears to be possible. The increase in the retirement age will facilitate financing in the longer term.

More information about insurance, investment, operative and other risks, the means for managing them, as well as related quantitative data, is provided in the notes to Varma's financial statements.

## Responsibility

Since autumn 2015, Varma has been building a Corporate Social Responsibility (CSR) programme, including targets and measures. The programme defines the most essential impacts of Varma's CSR. Varma has assessed its CSR risks relating to operations and business relations and has put in place sufficient and appropriate processes, which ensure duty of care as regards these risks.

Varma's CSR targets and measures are explained in a separate report conforming to the GRI guidelines.

## Report on non-financial information

### Business model description

Varma has a responsible core task – to secure pensions. The greatest impacts in terms of matters relating to environmental and social responsibility and employees, respecting human rights, and fighting corruption and bribery are linked to Varma's investment operations. Taking care of personnel and responsibility for the environment bear the greatest importance in Varma's own operations.

### Environmental responsibility

In 2016, Varma determined the carbon footprint of its investments and drew up an environmental policy, which sets targets for CO<sub>2</sub> reduction in direct investments by asset class. In 2016, the carbon footprint of Varma's listed equity investments in relation to net sales declined 22% from the previous year and was 36% lower than Varma's benchmark index. The carbon footprint of Varma's listed corporate bond investments in relation to net sales was 50% lower than Varma's benchmark index. The calculation method for the carbon footprint of listed corporate bond investments was improved in 2016, which is why the results are not fully comparable to the previous year. The CO<sub>2</sub> footprint of real estate investment was 8% lower per gross square metre than in 2015.

The environmental impacts of Varma's own operations are monitored using WWF's Green Office system. In 2016, Varma received a Green Office certification following an office audit. The carbon footprint from Varma's own operations declined

23% in 2016; switching to green electricity had the greatest impact.

### **Social responsibility and employee-related factors**

For Varma, social responsibility means disruption-free implementation of pension provision and promoting our customers' workability. Our operational target is to make sure that pension and rehabilitation customers receive their decisions without delay and that pension decisions are fair. In 2016, the average processing times of pension applications at Varma were shortened from 60 days in 2015 to 43.9, and applications were processed 8.8 days faster than on average in the earnings-related pension sector. Pensions were paid to customers' accounts within four days of the pension decision.

Varma's goal is to reduce disability pensions by developing workability management and offering effective rehabilitation. The average disability pension contribution category of Varma's client companies was 3.4 (3.5) in 2016. Varma's clients are happy with our workability management services, and the willingness to recommend is at a high level (in 2016, NPS was 54.2). 77%, or around 1,230, of Varma's vocational rehabilitation customers returned to working life in 2016.

Varma's goal is to take care of our employees' well-being at work and competence, and guarantee a high and consistent level of supervisory work for our employees. The achievement of these goals is monitored through a regular employee survey. In 2016, employees' overall satisfaction was at a good level with a rating of 3.90 (previous survey: 3.83) on a scale of 1 to 5.

Varma's supervisors are continuously coached, and feedback on how performance in managed is monitored in the employee survey. In 2016, performance management was given a good rating of 3.7, which is at the same level as in the previous survey.

### **Respecting human rights and fighting corruption and bribery**

Varma expects listed companies that it invests in to comply with local legislation and international norms and agreements, typically the principles of the UN Global Compact initiative on social responsibility. Varma reviews the compliance with the standards with the help of an external service provider, which examines Varma's direct listed equity investments, listed corporate bond investments and equity funds twice a year.

The review of compliance with agreements, performed in October 2016, covered entirely Varma's direct investments in listed companies, direct listed corporate bonds and active equity funds. The review covered 32% of Varma's investment portfolio.

At the end of the year, Varma's listed equity investments or listed corporate bond investments did not include companies with long-term violations. For ethical reasons Varma excludes companies that concentrate on the manufacture of tobacco and nuclear weapons from its direct listed investments. Varma signed the UN-supported Principles for Responsible Investment (PRI) in 2011. We report on responsible investments annually in accordance with the PRI framework.

Varma own operations do not entail major human rights risks. Our supply chain only covers Finland, for the most part. Varma's Code of Conduct provides anti-bribery and anti-corruption guidelines concerning, for example, offering and accepting gifts and hospitality and avoiding conflicts of interest. Every Varma employee is expected to complete an online Code of Conduct course every two years. In 2016, the course was completed by 88% of all Varma employees.

### **Outlook**

Economic growth continues globally, and economic recovery is also expected to continue in the eurozone, supported by monetary policies. US growth is sustained, and the Fed has indicated a further tightening of its monetary policy. The economic policy of the new US administration will likely begin to take form early in 2017. The fiscal stimulus of the economy is expected to strengthen inflation. The heightened inflation expectations and changes in monetary policy point to a positive economic shift of some kind.

Although valuation levels in the capital markets held their ground in the political turmoil of 2016, we anticipate further uncertainty in 2017. For pension investors, the operating environment in the investment markets remains challenging in the current year.

In terms of Finland's economy, employment and exports are expected to pick up with a delay, thanks to the competitiveness pact, provided that pay rises remain moderate in the following pay agreements, too. The strengthening of investments is expected to continue. A slowdown in global economic growth, potential increase in protectionism in the US and a general build-up in political uncertainty could pose a risk to Finland's economic recovery.

In Finland, the pension reform has brought about changes to both pension benefits and pension financing as of the beginning of 2017. Changing pension legislation increases the need for information among customers, and we have prepared for this through measures in customer service and increased communication. Varma is, together with its customers, well prepared for changes in pension legislation, and the company has improved the effectiveness and efficiency of its services, especially in the well-being at work and pension adjudication activities.

# Financial statements 31 Dec 2016

## Income statement

1 Jan–31 Dec, € million	Notes	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>Technical account</b>					
Premiums written	1	4,675.1	4,576.4	4,675.1	4,576.4
Investment income	3	6,336.0	6,210.7	6,321.0	6,067.7
Claims incurred					
Claims paid	2	-5,044.3	-4,874.9	-5,044.3	-4,874.9
Total change in provision for claims outstanding		-1,304.5	-976.1	-1,304.5	-976.1
Portfolio transfers		0.3	8.0	0.3	8.0
		-6,348.5	-5,842.9	-6,348.5	-5,842.9
Change in provision for unearned premiums					
Total change		-331.1	1,180.1	-331.1	1,180.1
Portfolio transfers		-1.1	27.9	-1.1	27.9
		-332.2	1,208.0	-332.2	1,208.0
Operating expenses	4	-77.7	-81.3	-77.7	-81.3
Investment expenses	3	-4,238.1	-6,055.9	-4,204.5	-6,046.2
<b>Balance on technical account</b>		<b>14.5</b>	15.1	<b>33.1</b>	-118.2
<b>Non-technical account</b>					
Balance on technical account		14.5	15.1	33.1	-118.2
Share of associated companies' profit				12.7	-1.2
Income taxes on ordinary activities					
Taxes for the financial year		-8.2	-8.0	-8.2	-8.0
<b>Profit/loss on ordinary activities after taxes</b>		<b>6.2</b>	7.1	<b>37.6</b>	-127.4
Minority interest in the result for the financial year				0.0	0.0
<b>Profit/loss for the financial year</b>		<b>6.2</b>	7.1	<b>37.6</b>	-127.4

# Balance sheet

31 Dec, € million	Notes	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>ASSETS</b>					
<b>Intangible assets</b>					
Other intangible assets	17	1.0	7.8	1.0	7.8
<b>Investments</b>					
Real estate					
Real estate and real estate shares	14	1,630.8	1,806.0	2,254.7	2,508.3
Loans to Group companies	14	709.6	807.6		
		2,340.4	2,613.7	2,254.7	2,508.3
Investments in Group companies					
Shares and participations in Group companies	12, 13	4.3	4.3	0.6	0.5
Shares and participations in associates	12, 13	131.7	90.7	137.8	84.9
		136.0	94.9	138.4	85.4
Other investments					
Shares and participations	16	21,991.9	19,246.5	22,003.8	19,262.6
Money-market instruments		6,530.4	6,532.3	6,530.4	6,532.3
Loans guaranteed by mortgages		289.4	314.9	289.4	314.9
Other loan receivables	18	1,160.7	1,068.8	1,160.7	1,068.8
		29,972.4	27,162.4	29,984.3	27,178.5
		32,448.7	29,871.0	32,377.4	29,772.2
<b>Receivables</b>					
Direct insurance operations					
Policyholders		222.3	213.0	222.3	213.0
Other receivables					
Other receivables		404.2	622.8	408.3	624.9
		626.5	835.8	630.7	837.9
<b>Other assets</b>					
Tangible assets					
Equipment	17	2.1	2.2	2.1	2.2
Other tangible assets	17	0.9	0.9	0.9	0.9
		3.0	3.1	3.0	3.1
Cash at bank and in hand		777.8	1,827.3	778.1	1,827.6
		780.8	1,830.3	781.1	1,830.7
<b>Prepayments and accrued income</b>					
Accrued interest and rent		78.3	81.9	80.7	84.3
Other prepayments and accrued income		4.4	8.9	4.4	8.9
		82.7	90.8	85.1	93.2
<b>TOTAL ASSETS</b>		<b>33,939.7</b>	32,635.7	<b>33,875.2</b>	32,541.7

# Balance sheet

31 Dec, € million	Notes	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Guarantee capital		11.9	11.9	11.9	11.9
Other reserves		100.3	94.1	100.3	94.1
Profit/loss brought forward		0.5	0.4	-91.1	42.9
Profit/loss for the financial year		6.2	7.1	37.6	-127.4
	26	118.9	113.6	58.7	21.6
<b>Minority interest</b>					
				12.7	14.0
<b>Technical provisions</b>					
Provision for unearned premiums	23	16,111.6	15,780.5	16,111.6	15,780.5
Provision for claims outstanding	23	17,389.6	16,085.1	17,389.6	16,085.1
		33,501.3	31,865.6	33,501.3	31,865.6
<b>Liabilities</b>					
Direct insurance operations		18.2	14.2	18.2	14.2
Other liabilities		235.0	585.5	218.0	569.4
		253.1	599.8	236.1	583.6
<b>Accruals and deferred income</b>					
		66.4	56.8	66.5	56.9
<b>TOTAL LIABILITIES</b>					
		33,939.7	32,635.7	33,875.2	32,541.7

# Statement of source and application of funds

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>Cash flow from operations</b>				
Profit/loss on ordinary activities	14.5	15.1	33.1	-118.2
Adjustments				
Changes in technical provisions	1,635.6	-204.1	1,635.6	-204.1
Impairments and revaluations on investments	109.8	542.5	52.5	487.3
Depreciation according to plan	21.4	22.0	114.7	132.2
Capital gain and loss	-1,259.8	-1,533.1	-1,264.4	-1,409.1
Cash flow before change in working capital	521.6	-1,157.5	571.5	-1,111.9
Change in working capital:				
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	217.3	155.8	215.4	429.4
Increase (-) / decrease (+) in non-interest-bearing short-term debts	-337.0	206.0	-337.9	201.1
Cash flow from operations before taxes	401.9	-795.7	448.9	-481.4
Direct taxes paid	-8.2	-8.0	-8.2	-8.0
<b>Cash flow from operations</b>	<b>393.7</b>	<b>-803.7</b>	<b>440.7</b>	<b>-489.4</b>
<b>Cash flow from investments</b>				
Net investments and proceeds from asset sales	-1,441.6	1,955.6	-1,488.6	1,916.9
Investments and gains on intangible, tangible and other assets	-0.7	-1.2	-0.7	-1.2
<b>Cash flow from investments</b>	<b>-1,442.3</b>	<b>1,954.4</b>	<b>-1,489.3</b>	<b>1,915.7</b>
<b>Cash flow from financing</b>				
Interest paid on guarantee capital and other profit distribution	-0.9	-0.7	-0.9	-0.7
<b>Cash flow from financing</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-0.9</b>	<b>-0.7</b>
<b>Change in financial resources</b>	<b>-1,049.4</b>	<b>1,150.0</b>	<b>-1,049.4</b>	<b>1,425.6</b>
<b>Financial resources, 1 Jan.</b>	<b>1,827.3</b>	<b>677.3</b>	<b>1,827.6</b>	<b>402.0</b>
<b>Financial resources, 31 Dec.</b>	<b>777.8</b>	<b>1,827.3</b>	<b>778.1</b>	<b>1,827.6</b>

# Notes to the financial statements

## Accounting principles

These financial statements are prepared in accordance with sound accounting principles, and in compliance with legislation applicable to Varma and the regulations and guidelines of the Financial Supervisory Authority. The financial statements have been drawn up so as to give a true and fair view of Varma's financial performance and financial position in accordance with the materiality principle.

## Consolidated Financial Statements

In addition to the parent company, those companies in which the Group holds more than 50 per cent of the votes (controlling interest) either directly or indirectly have been consolidated in the consolidated financial statements as subsidiaries.

On the closing date, the parent company had 150 (186) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the Notes to the Annual Accounts.

The Consolidated Financial Statements are compiled as combinations of the income statement, balance sheets and notes. When the Consolidated Financial Statements are compiled, intra-group business transactions and cross-shareholdings are eliminated. However, Tieto Esy Ltd, in which Varma has a 14.4 per cent shareholding but holds over 50 per cent of the votes from all the shares, is consolidated using the equity method. Intra-group cross-shareholdings are eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items proportional to their fair values, and depreciated in accordance with the depreciation plans of these asset items.

Subsidiaries acquired during the year are consolidated from the moment of acquisition. Subsidiaries divested during the year are consolidated until the moment of divestment. Minority interest in the profit and loss and in capital and reserves are recognised as a separate item. Revaluations on Group companies' shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Relevant associated companies in which the Group holds 20–50 per cent of all the votes are included in the Consolidated Financial Statements using the equity method. When an associated company draws up its financial statements using fair values, these values are used in the consolidation. Housing and real estate companies are not treated as associated companies. Their non-inclusion has a

minimal effect on Group profit and capital and reserves, since the expenses arising from these companies are covered by the maintenance charges collected from their owners.

The Group owns 50 per cent of the guarantee capital and 25 per cent of the votes of Kaleva Mutual Insurance Company, which is not, however, included in the Consolidated Financial Statements due to limitations concerning controlling interest and distribution of profits.

Share of associated companies' profit or loss is included in the consolidated income statement. The Group's share of the associated companies' profit or loss produced after the day of acquisition is added in the consolidated balance sheet to the acquisition cost of the associated company in question.

Associated companies are listed in the notes (12 and 13) to the financial statements.

## Book value of investments

Investments in land and buildings are entered in the balance sheet at the lower of acquisition cost less depreciation or fair value. The values of real estate have been revaluated in the previous years. Revaluation of buildings entered as income is also depreciated according to plan.

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value. Acquisition cost is calculated by class using the average price.

Money-market instruments are entered in the balance sheet at the lower of acquisition cost or fair value. Changes in value due to interest rate fluctuations are not entered. The difference between the nominal value and acquisition cost of the money-market instruments is allocated to interest income and its reduction over the maturity of the instrument. The counterpart entry for the allocations entered as an increase or decrease in the acquisition cost is shown in the notes to the balance sheet. The acquisition cost is the average price calculated for each instrument.

Loan receivables and other receivables are entered in the balance sheet at the lower of nominal value or probable value.

Value adjustments made to investments in the previous financial years are entered in the income statement as value readjustments corresponding to the value appreciation.

## Premium receivables and other receivables

Premium receivables and other receivables are valued at the lower of nominal value or probable value.

## Derivative contracts

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value is entered in the income statement for the hedged balance sheet item, no entry is recorded in the income statement for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract.

Negative value adjustments of derivative financial instruments other than those created for the purposes of hedging are entered in the income statement as an expense. The profits and losses resulting from the termination or expiration of contracts are entered as income or expenses for the financial year.

Income and expenses from interest rate derivatives are entered under interest income.

## Depreciation according to plan

The acquisition cost of buildings, including components in buildings, movable property and other expenses with long-term effects, are depreciated according to plan over their useful lives. Revaluation of buildings entered as income is also depreciated according to plan. The straight-line depreciation method is applied to planned depreciation using the following economic useful lives:

Residential, office and business premises, hotels	40–60 yrs
Industrial premises and warehouses	25–50 yrs
Components in buildings	10 yrs
Equipment	7–10 yrs
Computer hardware	3 yrs
Transport equipment	5 yrs
Other expenses with long-term effects	5–10 yrs

## Fair values of investments

The fair values of real estate and real estate shares are measured item by item as prescribed in the regulations of the Financial Supervisory Authority and based on the opinions of the company's own and external experts.

The last available buying rates or, if these are not available, closing prices at the balance sheet date are used as fair values for listed securities.

Investments in private equity funds are entered in the balance sheet at fair value estimated by the management company or,

if this is not available, at acquisition cost. Investments in mutual funds are entered at the last available value of the share calculated by the management company.

The fair value of other shares and participations is the purchase price or the net realisable value or the net asset value.

The fair value of money-market instruments is primarily based on market value. If the market value is not available and the value of the investment cannot be reliably determined, the fair value is determined by using estimates by external parties or commonly approved calculation models, or the fair value is the purchase price.

Receivables are entered at the lower of nominal value or probable value.

## Fair values of derivative contracts, and related liabilities and guarantees

The method for determining the fair values of derivative contracts, the liabilities and the collateral received and given to cover the clearing of derivative transactions are presented in the notes to the financial statement under Contingent liabilities and liabilities not included in the balance sheet.

## Loaned securities

Loaned securities are included in the balance sheet. They are presented in the notes to the balance sheet under Guarantees and liabilities, Loaned securities (Note 31).

## Profit for the year, and capital and reserves

In an earnings-related pension insurance company, the parent company's profit after taxes in the income statement is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. The division of the parent company's capital and reserves between the insurance portfolio and the owners of the guarantee capital is presented in the notes to the financial statements.

## Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. It comprises capital and reserves, accumulated appropriations, valuation differences, the provision for future bonuses, and the equalisation provision.

The minimum limit of the solvency capital is one third of the solvency limit. The solvency limit is determined using a risk-theory-based method taking into account the allocation of

investments into different asset classes and their mutual correlations as required in legislation. When the limit is calculated, investments are classified according to their actual risk.

The solvency position is the ratio of the solvency capital to the solvency limit. The solvency ratio is the ratio of the solvency capital to the technical provisions, which does not include the provision for future bonuses nor equalisation provision.

Solvency capital and the solvency limit are presented in the notes to the financial statements.

## Taxes

Taxes for the financial year and previous financial years are recognised in the income statement on an accrual basis.

Deferred tax liabilities or assets are not calculated for temporary differences between income statement items and income and expenses approved in taxation, such as confirmed losses or tax credits, because the company's net result is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. Nor is the deferred tax liability or asset calculated in the mutual real estate companies owned by the Group, because they are not significant for the companies in question or the Group.

## Foreign-currency-denominated investments

Foreign-currency-denominated investments are entered at the lower of rate on the date of transaction or rate at the balance sheet date, in such a way, however, that also the effect of the change on the investment's market price is taken into account in the valuation. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand and deposits and items that cannot be entered as adjustments to income and expenses are entered under investment income and charges. When calculating fair values, the European Central Bank average rates quoted on 30 December are used.

## Operating expenses and depreciation by function

Operating expenses and the depreciation of furniture and fixtures and expenses with long-term effects are included in the items of the income statement by function. In the income statement, the operating expenses from operations related to compensations and operations for the maintenance of workability are included in claims paid, and expenses related to investment management are included in investment charges. The expenses of insurance policy acquisition and management and administration are presented as net operating expenses. Statutory fees and payments are included

in the administrative expenses. Planned depreciation on buildings is presented as investment expenses.

## Pension plans and remuneration statement

Statutory pension coverage for personnel is arranged through TyEL insurance and supplemented by voluntary pension insurance. The supplementary pension insurance TEL-L was terminated at the end of 2016. Varma and the persons covered by said pension system have agreed on lump-sum compensation, which will be paid in 2017. The lump-sum compensations have been entered as an expense in the 2016 financial statements. The pension plans of the President and CEO are explained in the notes to the financial statements (Note 7). A salary and remuneration statement in accordance with the Financial Supervisory Authority's recommendation has been published on Varma's website and in the Annual Report.

## Balance sheet and income statement at fair values

In addition to the information required by the regulations, the parent company's income statement and balance sheet at fair values are presented in the notes to the financial statement. The purpose of this is to improve the transparency of the annual account information of an earnings-related pension insurance company.

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses and valuation differences of investments. The equalisation provision is also included in solvency capital. The provision for current bonuses reserved for the payment of client bonuses and equity-linked provision for current/future bonuses are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision. The company's operating expenses have been combined into one line in the income statement.

## Investments classified according to risk

The notes to the financial statements report investments and their returns classified according to risk. The stipulations of the Financial Supervisory Authority concerning the calculation of the financial key figures are also used in the calculation of the return percentages. The method is described in the section Key figures and analyses.

## Key figures and analyses

The key figures and analyses describing financial development are calculated and presented in accordance



with the stipulations of the Financial Supervisory Authority concerning notes to the financial statements.

The key figures and analyses for investment operations and solvency are presented at fair values.

Net investment income at fair values over invested capital has been calculated by type of investment and for the total amount of investments with reference to daily or monthly time-weighted cash or output flow.

The return for the period has been calculated using a modified Dietz formula (time and money weighted formula) so that invested capital has been calculated by adding to the opening market value the cash flow for the period (cash flow/output flow = purchases - sales - income + expenses) weighted by the relative share of the length of the period that is left from the date of the event to the end of the period.

# Group companies 31 Dec 2016

## The following companies are included as new subsidiaries in Varma's consolidated financial statements

Kiinteistö Oy Helsingin Yrjönkatu 17  
As. Oy Vantaan Tellervo  
Kiinteistö Oy Helsingin Satamakatu 3  
Kiinteistö Oy Helsingin Takomotie 1-3

## The following 148 companies are included as subsidiaries in Varma's consolidated financial statements

As Oy Kuokkalan Tahkonkartano  
As Oy Lahden Vilhon Vaakuna  
As. Oy Espoon Amiraali  
As. Oy Espoon Kyyhkysmäki 14  
As. Oy Näkinkuja 4  
Asunto Oy Espoon Keijumäki  
Asunto Oy Espoon Kilonlemmikki  
Asunto Oy Espoon Lintuvaarantie 37-39  
Asunto Oy Espoon Pyölinpuisto  
Asunto Oy Haukikoto  
Asunto Oy Helsingin Arabiankatu 4  
Asunto Oy Helsingin Arabiankatu 8  
Asunto Oy Helsingin Haukilahdenkuja 13  
Asunto Oy Helsingin Hiihtäjätien Huippu  
Asunto Oy Helsingin Hiihtäjätien Kaarre  
Asunto Oy Helsingin Hiihtäjätien Laakso  
Asunto Oy Helsingin Kimmontie 3  
Asunto Oy Helsingin Klaneettitie  
Asunto Oy Helsingin Näyttelijäntie 22  
Asunto Oy Helsingin Päijänteentie 4-6  
Asunto Oy Helsingin Roihuvuorentie 20  
Asunto Oy Helsingin Roihuvuorentie 30  
Asunto Oy Helsingin Tyynenmerenkatu 5  
Asunto Oy Jyväskylän Kiramo 4  
Asunto Oy Järvenpään Bjarnenkuja 6  
Asunto Oy Kokkovaori  
Asunto Oy Korkeavuorenkatu 2 a  
Asunto Oy Lahden Kulmakatu 10  
Asunto Oy Lahden Kulmakatu 12  
Asunto Oy Lahden Lahdenkatu 39  
Asunto Oy Lahden Massinhovi

Asunto Oy Lahden Massinpoiju  
Asunto Oy Merihauki  
Asunto Oy Neilikkatie  
Asunto Oy Oulun Lehmuskuja  
Asunto Oy Paratiisintie  
Asunto Oy Siltavoudintie 1  
Asunto Oy Tampereen Jankansampo  
Asunto Oy Tampereen Kultaköynnös  
Asunto Oy Tampereen Nahkakuja 9  
Asunto Oy Tampereen Nahkakuja 13  
Asunto Oy Tampereen Näsijärvenkatu 3  
Asunto Oy Tampereen Palatsinraitti 1  
Asunto Oy Tampereen Puuvillatehtaankatu 6  
Asunto Oy Tampereen Satakunnankatu 22  
Asunto Oy Tampereen Vihilahdenkontu  
Asunto Oy Tervahovinkatu 12  
Asunto Oy Turun Itäinen Rantakatu 64  
Asunto Oy Turun Itäinen Rantakatu 70  
Asunto Oy Turun Laivurinkatu 2  
Asunto Oy Turun Vilhonkatu 15  
Asunto Oy Vantaan Kärjäkuja 1  
Asunto Oy Vantaan Vernissakatu 5  
Helsingin Kiinteistösijoitus Oy  
Kiint. Oy Helsingin Tapulikaupungintie 13  
Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus  
Kiinteistö Oy Arabian Parkki  
Kiinteistö Oy Atomitalo  
Kiinteistö Oy Avia Prima  
Kiinteistö Oy Eerikinkatu 24  
Kiinteistö Oy Elocinkulma 3  
Kiinteistö Oy Espoon Kamreerintie 2  
Kiinteistö Oy Espoon Komentajan-Varma  
Kiinteistö Oy Espoon Niittyhaka  
Kiinteistö Oy Espoon Riihitonttu  
Kiinteistö Oy Fredrikinkatu 42  
Kiinteistö Oy Gigahermia  
Kiinteistö Oy Helsingin Hiilipiha  
Kiinteistö Oy Helsingin Hiiliranta  
Kiinteistö Oy Helsingin Itämerenkatu 11-13  
Kiinteistö Oy Helsingin Lönnrotinkatu 18

Kiinteistö Oy Helsingin Malminkatu 28  
 Kiinteistö Oy Helsingin Ratakarttinkatu 5  
 Kiinteistö Oy Helsingin Suolakivenkatu 1  
 Kiinteistö Oy Helsingin Valimopolku 4  
 Kiinteistö Oy Helsingin Valimotie 9–11  
 Kiinteistö Oy Helsingin Valimotie 16  
 Kiinteistö Oy Helsinki Niittylänpolku 10  
 Kiinteistö Oy Hotelli Leivohovi  
 Kiinteistö Oy Hotelli Tori  
 Kiinteistö Oy Hyvinkään Hämeenkatu 9  
 Kiinteistö Oy Hämeentie 135  
 Kiinteistö Oy Ilmailunkatu 7  
 Kiinteistö Oy Itäinen Rantakatu 60  
 Kiinteistö Oy Itälahdenkatu 15–17  
 Kiinteistö Oy Itälahdenkatu 22 A  
 Kiinteistö Oy Joensuun Pilkontie 3  
 Kiinteistö Oy John Stenberginranta 2  
 Kiinteistö Oy Juhana Herttua 3  
 Kiinteistö Oy Jyväskylän Kylmälahdentie 6  
 Kiinteistö Oy Jyväskylän Mattilanniemi  
 Kiinteistö Oy Jyväskylän Saarijärventie 50–52  
 Kiinteistö Oy Jyväskylän Sorastajantie 1  
 Kiinteistö Oy Kaakkurinhovi  
 Kiinteistö Oy Kaikukatu 7  
 Kiinteistö Oy Keskustahotelli  
 Kiinteistö Oy Koroppa  
 Kiinteistö Oy Kotkan Jumalniementie 8  
 Kiinteistö Oy Kuntotalo  
 Kiinteistö Oy Kuopion Lukkosalmenportti  
 Kiinteistö Oy Lahden Virastotalo  
 Kiinteistö Oy Lappeenrannan Kodinkeskus  
 Kiinteistö Oy Lappeenrannan Patria  
 Kiinteistö Oy Lohjan Sampotalo  
 Kiinteistö Oy Lönnrotinkatu 12  
 Kiinteistö Oy Lönnrotinkatu 12 A  
 Kiinteistö Oy Lönnrotinkatu 13  
 Kiinteistö Oy Mannerheimintien Pysäköintilaitos  
 Kiinteistö Oy Menotie 1  
 Kiinteistö Oy Metsäpojankuja 1  
 Kiinteistö Oy Nihitörpänkuja 4  
 Kiinteistö Oy Nokian Nuijamiestentie 5  
 Kiinteistö Oy Oulun Aurora  
 Kiinteistö Oy Partolan Kauppajätti  
 Kiinteistö Oy Pirkkalan Myllyhaantie  
 Kiinteistö Oy Pirkkalan Vesalanportti

Kiinteistö Oy Porin Itsenäisyydenkatu 5  
 Kiinteistö Oy Pyykin Triko  
 Kiinteistö Oy Rajalla  
 Kiinteistö Oy Rajasampaanranta 2  
 Kiinteistö Oy Salmisaaren Liikuntakeskus  
 Kiinteistö Oy Savonkatu 21  
 Kiinteistö Oy Seinäjoen Puskantie 13  
 Kiinteistö Oy Seinäjoen Rengastie 4  
 Kiinteistö Oy Sompasaaren Tukoeka  
 Kiinteistö Oy Spektrin Trio  
 Kiinteistö Oy Tampereen Kalevanpaasi  
 Kiinteistö Oy Tampereen Harjuntausta 7  
 Kiinteistö Oy Tampereen Sarankulmankatu 20 A  
 Kiinteistö Oy Tavastkulla  
 Kiinteistö Oy Tietotalo  
 Kiinteistö Oy Vaasan Sampotalo  
 Kiinteistö Oy Vallilan toimisto  
 Kiinteistö Oy Vantaan Tasetie 8  
 Kiinteistö Oy Varkauden Kauppakatu 7  
 Kiinteistö Oy Varmantalo  
 Kiinteistö Oy Vierumäen Portti  
 Kiinteistöosakeyhtiö Mikkelin Karikontie 101  
 Kiinteistöosakeyhtiö Varma  
 Old Mill Oy  
 Osakevarma Oy  
 Oy Ässäkeskus Ab  
 Pitäjänmäen Kiinteistöt Oy  
 P-Turkuparkki Oy  
 Saimaan Kylpyläkiinteistöt Oy  
 Tampereen Kiinteistö Invest Oy  
 Tieto Esy Oy  
 Ässäparkki Oy

**The following 38 real estate companies exited the Group during the year under review**

Kiinteistö Oy Ahertajantie 3  
 Kiinteistö Oy Aspius  
 Kiinteistö Oy Haunistenniitty  
 Kiinteistö Oy Heinolan Hevossaarentie 2  
 Kiinteistö Oy Helsingin Lemuntie 7  
 Kiinteistö Oy Joensuun Linjatie 2  
 Kiinteistö Oy Jyväskylän Tourulantie 13  
 Kiinteistö Oy Kaakkurinhovi  
 Kiinteistö Oy Kaakkurinkulman Kauppakeskus  
 Kiinteistö Oy Koskikastanja

Kiinteistö Oy Kotkan Jumalniementie 2  
Kiinteistö Oy Kouvolan Lehtikaari 3  
Kiinteistö Oy Kuusankosken Puhjonrinne  
Kiinteistö Oy Lahden Tupalankatu 3  
Kiinteistö Oy Lappeenrannan Korpikunnaankatu 1  
Kiinteistö Oy Lassilanlinna  
Kiinteistö Oy Lohjanharjun kauppapuisto 1  
Kiinteistö Oy Lohjanharjun kauppapuisto 2  
Kiinteistö Oy Lohjanharjun Kauppapuisto 3a  
Kiinteistö Oy Lohjanharjun kauppapuisto 4  
Kiinteistö Oy Lohjanharjun kauppapuisto 5  
Kiinteistö Oy Oulun Tyrnäväntie 6  
Kiinteistö Oy Oulun Uusikatu 72  
Kiinteistö Oy Palokanvarma  
Kiinteistö Oy Pharma City  
Kiinteistö Oy Porin Eteläväylä 2  
Kiinteistö Oy Porin Satakunnankatu 39  
Kiinteistö Oy Porvoon Ratsumestarinkatu 3  
Kiinteistö Oy Quartetto Gongi  
Kiinteistö Oy Sinihelmi  
Kiinteistö Oy Sipoon Kaskikylänkuja 2  
Kiinteistö Oy Suometsänkaari 2  
Kiinteistö Oy Tekniikantie 4  
Kiinteistö Oy Teräsrautelanrinne  
Kiinteistö Oy Tilkan Paletti  
Kiinteistö Oy Vaasan Monopol Fastighets Ab  
Kiinteistö Oy Vantaan Martintalo  
Kiinteistöosakeyhtiö Iisalmen Lammenkaari 4

**The following 3 companies are included as a new associate in Varma's consolidated financial statements**

CMCV Kungens Kurva HoldCo AB  
Serena Properties AB  
Leineläntien pysäköintikiinteistö Oy

**In addition, the Group comprises the following 18 associates**

Aros Bostad III AB  
Kamreerintien Pysäköintitalo Oy  
Kiinteistö Oy Elocinkulma 1  
Kiinteistö Oy Karkkilan Sähkökiinteistö  
Kiinteistö Oy Liikejalava  
Kiinteistö Oy Pyykin Parkki  
Kiinteistö Oy Selloparkki  
Kiinteistö Oy Suursuon Ostoskeskus  
NV Kiinteistösijoitus Oy  
Näkin Pihapuitikko II Oy  
Oulun Lehmusparkki Oy  
Ruohoparkki Oy  
Salmiparkki Oy  
Spektri Business Oy  
Spektri-Park Oy  
Technopolis Oyj  
Vaasan Toripysäköinti Oy  
WT Kiinteistösijoitus Oy

**The following 4 associates exited from the Group during the year under review:**

Asunto Oy Paatsamantie 3  
Martinparkki Oy  
Poha-Pysäköinti Oy  
Realia Holding Oy

# Notes to the income statement

## 1. Premiums written

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Direct business				
Basic insurance under TyEL				
Employer's share	3,350.0	3,266.0	3,350.0	3,266.0
Employee's share	1,137.4	1,110.1	1,137.4	1,110.1
	4,487.4	4,376.2	4,487.4	4,376.2
Supplementary pension insurance under TEL	3.5	4.4	3.5	4.4
Insurance under minimum YEL cover	187.1	195.9	187.1	195.9
	4,677.9	4,576.5	4,677.9	4,576.5
Transition payment to the State Pension Fund	-2.7		-2.7	
Reinsurance	0.0	0.0	0.0	0.0
Premiums written before reinsurance	4,675.3	4,576.5	4,675.3	4,576.5
Reinsurance share	-0.2	-0.1	-0.2	-0.1
Premiums written <sup>1</sup>	4,675.1	4,576.4	4,675.1	4,576.4
Credit loss on premium receivables				
TyEL	18.0	15.2	18.0	15.2
YEL	2.2	2.0	2.2	2.0
	20.1	17.2	20.1	17.2

<sup>1</sup> Less credit loss

## 2. Claims paid

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Direct business				
Paid to pensioners				
Basic insurance under TyEL	4,982.1	4,826.1	4,982.1	4,826.1
Supplementary pension insurance under TEL	94.4	97.8	94.4	97.8
Insurance under minimum YEL cover	268.0	258.6	268.0	258.6
Supplementary pension insurance under YEL	0.7	0.7	0.7	0.7
	<b>5,345.3</b>	5,183.1	<b>5,345.3</b>	5,183.1
Clearing of PAYG pensions received <sup>1</sup>				
TyEL pensions	-51.7	-33.2	-51.7	-33.2
YEL pensions	-51.1	-40.6	-51.1	-40.6
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	-212.9	-257.8	-212.9	-257.8
YEL state share	-24.2	-16.5	-24.2	-16.5
VEKL state compensation	-0.5	-0.4	-0.5	-0.4
	<b>-340.5</b>	-348.5	<b>-340.5</b>	-348.5
Reinsurance	0.0	0.0	0.0	0.0
	<b>5,004.8</b>	4,834.6	<b>5,004.8</b>	4,834.6
Claims handling expenses	33.9	34.2	33.9	34.2
Workability maintenance expenses <sup>2</sup>	5.7	6.1	5.7	6.1
Claims paid before reinsurance	<b>5,044.4</b>	4,874.9	<b>5,044.4</b>	4,874.9
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Total claims paid	<b>5,044.3</b>	4,874.9	<b>5,044.3</b>	4,874.9

<sup>1</sup> The PAYG pensions paid/received do not include the share of the Unemployment Insurance Fund contribution, cost distribution of pension components accrued on no-pay periods, YEL state share, or VEKL compensation.

<sup>2</sup> Between 2000 and 2016 the administrative cost components of Varma's premium income totalled EUR 84 million, 100 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2016 the administrative cost components totalled EUR 5.7 million, and EUR 5.7 million were transferred to claims incurred.

### 3. Breakdown of net investment return

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>Investment return</b>				
Returns on investments in Group companies				
Dividend	0.3	0.5		
	0.3	0.5		
Returns on investments in associates				
Dividend	4.3	3.8		
	4.3	3.8		
Returns on investments in real estate				
Interest				
Group companies	32.8	38.3		
Other			0.5	0.6
Other returns	228.4	248.2	250.8	271.0
	261.2	286.5	251.3	271.5
Returns on other investments				
Dividend	463.4	473.2	463.6	473.3
Interest	249.4	308.3	249.4	308.3
Other returns	2,028.1	2,142.7	2,028.1	2,142.7
	2,740.9	2,924.2	2,741.1	2,924.3
	3,006.8	3,214.9	2,992.4	3,195.9
Reversed impairment	348.0	123.3	342.7	123.3
Sales proceeds	2,981.2	2,872.5	2,985.8	2,748.5
Total	6,336.0	6,210.7	6,321.0	6,067.7
<b>Investment expenses</b>				
On real estate	-153.6	-152.4	-90.5	-84.8
On other investments	-1,886.5	-3,882.8	-1,886.5	-3,886.2
Interest	-5.0	-1.6	-3.8	-1.0
	-2,045.1	-4,036.8	-1,980.8	-3,972.0
Impairment and depreciation				
Impairment	-457.8	-665.8	-395.2	-610.6
Planned depreciation on buildings	-13.8	-13.9	-107.1	-124.1
	-471.6	-679.7	-502.3	-734.7
Sales losses	-1,721.4	-1,339.4	-1,721.4	-1,339.4
Total	-4,238.1	-6,055.9	-4,204.5	-6,046.2
<b>Net investment return in the income statement</b>	<b>2,097.9</b>	154.8	<b>2,116.4</b>	21.6

## 4. Operating expenses in the income statement

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Insurance policy acquisition costs				
Direct business commissions	1.3	1.4	1.3	1.4
Other insurance policy acquisition costs	6.8	8.2	6.8	8.2
	8.1	9.6	8.1	9.6
Portfolio administration expenses	38.8	44.9	38.8	44.9
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	9.4	10.2	9.4	10.2
Judicial administration fee	0.9	1.0	0.9	1.0
Financial Supervisory Authority supervision fee	0.6	0.6	0.6	0.6
	11.0	11.8	11.0	11.8
Other administrative expenses	19.8	14.9	19.8	14.9
	77.7	81.3	77.7	81.3

## 5. Overall operating expenses by function

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Claims paid				
Claims handling expenses	33.9	34.2	33.9	34.2
Workability maintenance expenses	5.7	6.1	5.7	6.1
	39.6	40.3	39.6	40.3
Operating expenses	77.7	81.3	77.7	81.3
Investment management charges				
Expenses on real estate	3.0	3.5	3.0	3.5
Expenses on other investments	17.6	19.6	17.6	19.6
	20.6	23.1	20.6	23.1
Total operating expenses	137.9	144.6	137.9	144.6

## 6. Personnel expenses

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Salaries and remunerations	36.0	39.6	36.0	39.6
Pension expenses	6.1	6.8	6.1	6.8
Other personnel-related expenses	7.7	3.5	7.7	3.5
Total	49.8	50.0	49.8	50.0

## 7. Management salaries and remunerations

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
President and CEO	0.8	0.8	0.8	0.8
Members and deputy members of the Board of Directors	0.4	0.4	0.4	0.4
Members and deputy members of the Supervisory Board	0.1	0.1	0.1	0.1
Total	1.3	1.4	1.3	1.4
Average number of personnel during the financial year	540	549	540	549

President and CEO Risto Murto was paid EUR 806,958 in salary and fringe benefits. Risto Murto's retirement age is 63 years and his pension will be 60 per cent of his calculated pensionable salary.

## 8. Auditors' fees

1 Jan–31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
<b>KPMG Oy Ab</b>				
Audit fees	0.2	0.2	0.2	0.2
Taxation advice	0.1	0.1	0.1	0.1
Other fees	0.0	0.0	0.0	0.0
<b>Other audit firms</b>				
Taxation advice	0.1	0.0	0.1	0.0
Other fees	0.2	0.0	0.2	0.0

## 9. Income taxes

Deferred tax liabilities or assets based on accumulated appropriations or other temporary differences between book value and taxable values have not been entered in the balance sheet, because such deferred tax liabilities or assets are unlikely to be realised in the financial statements of a company engaged in the statutory pension insurance business or of its Group.

# Notes to the balance sheet

## 10. Investments at fair value and valuation differences, Parent Company

31 Dec, € million	Remaining acquisition cost 2016	Fair value 2016	Fair value 2016	Remaining acquisition cost 2015	Book value 2015	Fair value 2015
<b>Real estate investments</b>						
Real estate	354.3	370.0	483.3	397.7	413.8	526.6
Shares in Group companies	1,246.5	1,246.5	1,707.4	1,377.0	1,377.0	1,978.8
Other real estate shares	14.3	14.3	14.6	15.2	15.2	16.5
Loans to Group companies	623.3	623.3	623.3	723.8	723.8	723.8
Loans to real estate companies	86.2	86.2	86.2	83.8	83.8	83.8
<b>Investments in Group companies</b>						
Shares and participations	4.3	4.3	4.3	4.3	4.3	4.3
<b>Investments in associates</b>						
Shares and participations	131.7	131.7	137.7	90.7	90.7	102.6
<b>Other investments</b>						
Shares and participations	21,991.9	21,991.9	30,710.3	19,246.5	19,246.5	27,763.3
Money-market instruments	6,530.4	6,530.4	6,758.6	6,532.3	6,532.3	7,020.7
Loans guaranteed by mortgages	289.4	289.4	289.4	314.9	314.9	314.9
Other loan receivables	1,160.7	1,160.7	1,162.5	1,068.8	1,068.8	1,070.3
	<b>32,433.0</b>	<b>32,448.7</b>	<b>41,977.6</b>	29,854.9	29,871.0	39,605.5
<b>The remaining acquisition cost of money-market instruments includes:</b>						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income		-33.7		-40.6		
<b>Book value includes</b>						
Revaluations entered as income		15.7			16.2	
Valuation difference (difference between fair value and book value)			9,528.9			9,734.5
Non-hedging derivatives		-87.0	10.1		-146.0	-117.6
Valuation difference (difference between fair value and book value)			97.1			28.4

## 11. Investments at fair value and valuation differences, Group

31 Dec, € million	Remaining acquisition cost 2016	Book value 2016	Fair value 2016	Remaining acquisition cost 2015	Book value 2015	Fair value 2015
Real estate investments						
Real estate	2,224.7	2,240.4	2,878.7	2,476.9	2,493.1	3,295.0
Other real estate shares	14.3	14.3	14.6	15.2	15.2	16.5
Investments in Group companies						
Shares and participations	0.6	0.6	0.9	0.5	0.5	0.9
Investments in associates						
Shares and participations	137.8	137.8	137.7	84.9	84.9	102.6
Other investments						
Shares and participations	22,003.8	22,003.8	30,722.2	19,262.6	19,262.6	27,779.5
Money-market instruments	6,530.4	6,530.4	6,758.6	6,532.3	6,532.3	7,020.7
Loans guaranteed by mortgages	289.4	289.4	289.4	314.9	314.9	314.9
Other loan receivables	1,160.7	1,160.7	1,162.5	1,068.8	1,068.8	1,070.3
	<b>32,361.7</b>	<b>32,377.4</b>	<b>41,964.5</b>	29,756.0	29,772.2	39,600.4
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-33.7			-40.6		
Book value includes						
Revaluations entered as income		15.7			16.2	
Valuation difference (difference between fair value and book value)			9,587.1			9,828.2
Non-hedging derivatives		-87.0	10.1		-146.0	-117.6
Valuation difference (difference between fair value and book value)			97.1			28.4

## 12. Investments in Group companies and associates, Parent Company

31 Dec 2016, € million

<b>Shares and participations in Group companies</b>	
Acquisition cost, 1 Jan	<b>4.3</b>
Acquisition cost, 31 Dec	<b>4.3</b>
<b>Shares and participations in associates</b>	
Acquisition cost, 1 Jan	<b>90.7</b>
Increase	<b>49.0</b>
Decrease	<b>-8.0</b>
Acquisition cost, 31 Dec	<b>131.7</b>

### Shares and participations in Group companies

31 Dec 2016	Domicile	Shares	Votes	<b>Book value € million</b>
Tieto Esy Oy	Helsinki	14.4%	50.1%	<b>0.9</b>
Osakevarma Oy	Helsinki	100.0%	100.0%	<b>3.3</b>
				<b>4.3</b>
Housing associations and real estate companies				<b>1,246.5</b>

### Shares and participations in associates

31 Dec 2016	Domicile	Shares	Votes	<b>Book value € million</b>
Aros Bostad III AB	Stockholm	35.1%	35.1%	<b>0.0</b>
CMCV Kungenskurva HoldCo AB	Stockholm	45.0%	45.0%	<b>9.9</b>
NV Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	<b>0.0</b>
Serena Properties AB	Stockholm	43.0%	43.0%	<b>8.2</b>
Technopolis Plc	Oulu	24.0%	24.0%	<b>113.5</b>
VT Kiinteistösjointus Oy	Helsinki	40.0%	40.0%	<b>0.0</b>
				<b>131.7</b>
Housing associations and real estate companies				<b>10.2</b>

## 13. Investments in Group companies and associates, Group

31 Dec 2016, € million

<b>Shares and participations in Group companies</b>	
Acquisition cost, 1 Jan	0.5
Increase	0.1
Decrease	0.0
Acquisition cost, 31 Dec	0.6
<b>Shares and participations in associates</b>	
Acquisition cost, 1 Jan	84.9
Increase	57.2
Decrease	-4.3
Acquisition cost, 31 Dec	137.8

### Shares and participations in Group companies

31 Dec 2016	Domicile	Shares	Votes	Book value € million
Tieto Esy Ltd	Helsinki	14.4 %	50.1 %	0.6
				0.6

### Shares and participations in associates

31 Dec 2016	Domicile	Shares	Votes	Book value € million
Aros Bostad III AB	Stockholm	35.1%	35.1%	0.0
CMCV Kungenskurva HoldCo AB	Stockholm	45.0%	45.0%	10.0
NV Kiinteistösijoitus Oy	Helsinki	45.0%	45.0%	0.0
Serena Properties AB	Stockholm	43.0%	43.0%	8.4
Technopolis Plc	Oulu	23.9%	23.9%	119.5
VT Kiinteistösijoitus Oy	Helsinki	40.0%	40.0%	0.0
				137.8
Housing associations and real estate companies				16.7

## 14. Changes in investments in real estate

31 Dec 2016, € million	Parent Company Real estate and real estate shares	Parent Company Loans to Group companies	Group Real estate and real estate shares
Acquisition cost, 1 Jan	2,310.4	807.6	3,830.7
Increase	93.5	27.0	116.6
Decrease	-171.0	-125.1	-494.8
Acquisition cost, 31 Dec	2,232.8	709.6	3,452.5
Accumulated depreciation, 1 Jan	-198.4		-1,048.9
Accumulated depreciation from items sold	12.6		175.2
Depreciation for the financial year	-26.5		-86.4
Accumulated depreciation, 31 Dec	-212.2		-960.1
Impairments, 1 Jan	-322.1		-289.7
Impairments on items sold	112.4		208.4
Impairments for the financial year	-201.1		-185.4
Reversed impairment	5.2		13.2
Impairments, 31 Dec	-405.5		-253.4
Revaluations, 1 Jan	16.2		16.2
Revaluations on items sold	-0.4		-0.4
Revaluations, 31 Dec	15.7		15.7
Book value, 31 Dec	1,630.8	709.6	2,254.7

## 15. Real estate investments in own use

31 Dec 2016, € million	Parent Company	Group
Remaining acquisition cost	75.8	75.8
Book value	75.8	75.8
Fair value	89.5	89.5

## 16. Parent Company's other investments, shares and participations

31 Dec 2016	Shares %	Book value € million	Market value € million
<b>Listed equities</b>			
<b>Finnish</b>			
Affecto Plc	1.4	0.9	0.9
Ahlstrom Corporation	3.3	22.1	22.9
Aktia Pankki Plc	1.8	6.7	11.4
Alma Media Corporation	6.5	23.0	26.8
Amer Sports Corporation	3.7	54.3	112.3
Aspo Plc	4.6	6.0	11.8
Atria Plc	1.9	6.0	6.0
Bittium Corporation	3.8	7.7	7.7
CapMan Plc	4.0	4.6	4.6
Cargotec Corporation	0.8	12.2	21.4
Caverion Corporation	1.5	4.3	14.8
Componenta Corporation	9.9	3.0	3.0
Comptel Corporation	4.7	8.2	12.2
Consti Yhtiöt Oy	2.4	1.8	2.8
Cramo Plc	0.6	3.4	6.4
Detection Technology, Inc.	3.8	2.7	7.2
Digja Plc	4.7	2.0	3.0
DNA Plc	0.2	2.9	2.9
Elisa Corporation	4.0	84.9	206.7
Etteplan Oyj	4.0	3.3	5.5
Finnair Plc	2.6	13.5	13.5
Fiskars Corporation	3.0	24.9	43.5
Fortum Corporation	0.5	62.1	62.1
F-Secure Corporation	5.2	17.7	28.3
Glaston Corporation	6.6	5.2	5.2
HKScan Corporation	2.2	3.8	3.8
Huhtamaki Group	2.2	73.9	83.1
Kemira Oyj	5.3	98.7	98.7
Kesko Corporation	1.1	16.7	53.6
Kesla Oyj	4.4	0.5	0.5
Konecranes Plc	1.9	21.5	40.2
KONE Corporation	0.9	107.2	194.2
Kotipizza Oyj	3.2	1.0	2.2
Lassila & Tikanoja Plc	0.9	3.9	6.7
Lemminkäinen Corporation	4.7	8.4	22.1
Marimekko Corporation	4.8	3.4	3.7
Metso Corporation	2.9	117.8	117.8
Metsä Board Corporation	4.9	41.1	117.1

31 Dec 2016	Shares %	Book value € million	Market value € million
Munksjö Oyj	1.6	3.2	12.8
Neste Corporation	0.7	24.4	64.9
Nixu Corporation	4.1	1.2	1.6
Nokian Tyres Plc	2.8	61.8	133.6
Nokia Corporation	1.1	286.1	286.1
Olvi Plc	4.0	17.6	23.1
Oriola-KD Corporation	4.2	12.9	32.2
Orion Corporation	0.5	20.3	30.3
Outokumpu Oyj	2.1	37.9	73.0
Outotec Oyj	7.0	63.7	63.7
Pihlajalinna Oyj	2.7	5.9	10.1
PKC Group Oyj	2.4	4.4	9.1
Ponsse Plc	1.4	1.6	9.3
Pöyry Plc	4.7	9.2	9.2
Qt Group Plc	4.7	2.2	5.4
Raisio Plc	4.3	25.3	25.3
Ramirent Plc	2.2	17.3	17.3
Raute Plc	1.2	0.6	0.9
Restamax Plc	1.6	1.2	1.6
Robit Plc	4.8	4.3	5.9
Sampo Plc	6.4	283.7	1,517.6
Sanoma Corporation	0.1	0.7	1.7
Siili Solutions Plc	2.0	1.9	2.1
Solteq Oyj	7.0	1.8	2.0
Sponda Plc	8.6	93.1	127.4
SRV Group Plc	0.9	3.2	3.9
SSH Communications Security Corporation	1.9	1.3	1.3
Stockmann Plc	8.5	42.6	43.1
Stora Enso Oyj	2.0	162.6	162.6
Suominen Corporation	8.7	10.1	18.6
Talenom Oyj	2.1	1.0	1.0
Teleste Corporation	2.7	4.6	4.6
Tieto Corporation	0.5	6.8	9.7
Tikkurila Oyj	5.7	37.4	47.0
Tokmanni Group Corporation	4.5	18.4	22.8
Tulikivi Corporation	4.7	0.6	0.6
UPM-Kymmene Corporation	1.1	72.3	142.1
Uponor Corporation	5.3	37.4	63.8
Vaisala Corporation	0.9	2.9	5.3
Valmet Corporation	3.4	42.5	70.7
Verkkokauppa.com Oyj	4.6	8.6	15.1
Vincit Group Plc	3.3	1.9	2.2
Wulff Group Plc	6.8	0.6	0.6

31 Dec 2016	Shares %	Book value € million	Market value € million
Wärtsilä Corporation	5.2	144.7	438.5
YIT Corporation	9.4	91.1	91.1
Other		0.8	2.9
<b>Finnish equities, total</b>		<b>2,554.9</b>	<b>5,000.0</b>
<b>Other countries</b>			
<b>Austria</b>			
Erste Group Bank AG	0.0	3.1	3.7
Palfinger AG	0.5	5.2	5.7
<b>Australia</b>			
Coca-Cola Amatil Ltd	0.1	3.4	3.4
GPT Group	0.1	5.0	5.1
Mirvac Group	0.1	4.3	4.4
Telstra Corp Ltd	0.0	6.9	6.9
<b>Belgium</b>			
Ageas SA/NV	0.0	1.5	1.8
Anheuser-Busch InBev NV	0.0	30.1	30.1
KBC Groep NV	0.0	1.6	1.9
UCB SA	0.0	3.0	3.0
<b>Canada</b>			
Bank of Montreal	0.0	10.9	12.7
Bank of Nova Scotia	0.0	7.7	8.5
BCE Inc	0.0	3.8	3.8
Canadian National Railway Co	0.0	6.1	6.7
Canadian Pacific Railway Ltd	0.0	3.2	3.3
Rogers Communications Inc	0.0	3.4	3.4
Royal Bank of Canada	0.0	9.0	10.2
TELUS Corporation	0.0	6.6	6.7
Toronto-Dominion Bank	0.0	8.3	9.7
<b>Cayman Islands</b>			
CK Hutchison Holdings Ltd	0.0	4.8	4.8
<b>Denmark</b>			
AP Moeller - Maersk A/S	0.0	6.0	7.6
Carlsberg A/S	0.0	2.5	2.5
Christian Hansen Holding A/S	0.0	1.1	1.1
Danske Bank A/S	0.0	9.5	11.0
DONG Energy A/S	0.0	2.1	2.4
DSV A/S	0.0	1.4	1.7
FLSmidth & Co A/S	0.1	1.9	2.0
Genmab A/S	0.1	6.4	7.1
GN Store Nord A/S	0.2	4.6	4.9
H Lundbeck A/S	0.1	4.9	5.8
ISS A/S	0.0	1.0	1.0

31 Dec 2016	Shares %	Book value € million	Market value € million
Nets A/S	0.1	2.9	2.9
Novo Nordisk A/S	0.0	24.9	25.6
Novozymes A/S	0.0	1.6	1.6
Pandora A/S	0.3	40.1	44.6
Royal Unibrew A/S	0.3	5.2	5.5
Topdanmark A/S	0.4	18.9	19.8
Vestas Wind Systems A/S	0.2	19.5	20.4
William Demant Holding A/S	0.0	1.7	1.7
<b>Faeroe</b>			
Bakkafrost P/F	0.1	0.9	1.1
<b>France</b>			
Air Liquide SA	0.0	3.8	4.1
Arkema SA	0.0	1.3	2.0
AXA SA	0.0	11.1	13.8
BNP Paribas	0.0	10.4	13.5
Bouygues SA	0.1	6.2	7.0
Cap Gemini SA	0.1	6.3	6.4
Carrefour SA	0.1	12.6	12.6
Cie de St-Gobain	0.0	5.0	9.8
Cie Generale des Etablissements Michelin	0.0	3.1	3.8
Credit Agricole SA	0.0	2.9	4.9
Danone	0.0	6.0	6.0
Eiffage SA	0.0	1.3	1.7
Europcar Group SA	0.4	5.8	5.8
Faurecia	0.0	0.9	1.1
Fonciere Des Regions	0.1	8.2	8.2
Gecina SA	0.0	3.5	3.5
ICADE	0.1	5.1	5.1
Klepierre	0.1	6.0	6.0
LVMH Moet Hennessy Vuitton SA	0.0	15.2	18.1
Orange	0.0	7.1	7.2
Orpea	0.6	23.3	25.3
Pernod-Ricard SA	0.0	8.7	8.8
Peugeot SA	0.0	1.9	2.5
Renault SA	0.0	3.7	4.3
Sanofi	0.0	31.5	33.8
Schneider Electric SA	0.0	13.0	14.0
Societe Generale	0.0	4.7	6.7
Suez Environnement Co	0.2	11.6	11.6
Tarkett SA	0.4	6.5	7.5
Teleperformance SA	0.1	3.5	5.7
Ubisoft Entertainment SA	0.2	3.7	8.5
Unibail-Rodamco SE	0.0	7.7	7.7

31 Dec 2016	Shares %	Book value € million	Market value € million
Valeo SA	0.0	2.0	2.8
Vallourec SA	0.1	3.3	3.3
Vinci SA	0.0	13.8	16.0
Worldline SA	0.2	4.5	5.4
<b>Germany</b>			
Aixtron SE	0.9	5.5	5.5
Allianz SE	0.0	9.2	11.4
Alstria Office REIT-AG	0.8	10.9	14.5
BASF SE	0.0	7.3	9.0
Bayer AG	0.0	11.2	11.2
Bayerische Motoren Werke AG	0.0	4.9	5.5
Bilfinger Berger SE	0.1	1.7	1.8
Brenntag AG	0.0	0.7	0.9
Continental AG	0.0	4.3	4.3
CTS Eventim AG & Co KGaA	0.1	4.0	4.0
Daimler AG	0.0	27.6	29.6
Deutsche Euroshop AG	0.5	11.0	11.0
Deutsche Post AG	0.0	4.3	4.8
Deutsche Telekom AG	0.0	5.9	6.5
Evonik Industries AG	0.0	5.7	5.7
Fraport AG Frankfurt Airport Services Worldwide	0.0	1.2	1.4
Fresenius Medical Care AG & Co KGaA	0.0	3.7	4.0
GEA Group AG	0.0	3.0	3.3
Hannover Rueckversicherung AG	0.0	0.9	1.4
HeidelbergCement AG	0.0	2.7	3.7
Hugo Boss AG	0.4	16.2	16.8
Jenoptic AG	0.5	4.3	5.1
Linde AG	0.0	3.2	3.4
Merck KGaA	0.1	8.7	8.9
MTU Aero Engines Holding AG	0.0	0.7	1.0
Münchener Rückversicherungs AG	0.1	16.8	17.9
Norma Group SE	0.9	11.6	11.6
Osram Licht AG	0.2	7.5	7.6
Porsche Automobil Holding SE	0.0	1.7	1.7
Rheinmetall AG	0.0	0.9	1.0
RIB Software AG	1.5	8.0	8.7
SAP SE	0.0	6.5	7.4
Siemens AG	0.0	25.8	30.2
Stada Arzneimittel AG	0.2	4.7	4.9
Symrise AG	0.0	1.2	1.3
ThyssenKrupp AG	0.0	0.5	0.6
Volkswagen AG	0.0	2.9	3.1

31 Dec 2016

Shares  
%      Book  
value  
€ million      Market  
value  
€ million

**Ireland**

CRH PLC	0.0	4.8	7.3
DCC PCL	0.1	6.6	6.8
Eaton Corporation PLC	0.0	4.2	4.6
Governor & Co of the Bank of Ireland	0.0	0.8	0.8
Ingersoll-Rand PLC	0.0	2.5	2.9
Kingspan Group PLC	0.0	0.6	1.0
Medtronic PLC	0.0	6.8	6.8
Ryanair Holdings PLC	0.0	3.9	4.4
Smurfit Kappa Group PLC	0.0	0.9	1.0

**Italy**

Anima Holding SpA	0.5	6.7	8.0
Assicurazioni Generali SpA	0.0	4.1	4.1
Atlantia SpA	0.0	7.4	7.4
Autogrill SpA	0.6	12.2	13.9
Banca Popolare dell'Emilia Romagna SC	0.4	7.7	9.4
Banca Popolare di Milano Scarl	0.9	14.9	14.9
Brembo SpA	0.3	9.6	10.6
Buzzi Unicem SpA	0.4	11.4	16.1
Davide Campari-Milano SpA	0.1	5.1	5.1
DiaSorin SpA	0.2	4.9	5.0
Enel SpA	0.0	3.3	3.5
ENI SpA	0.0	8.1	9.3
Hera SpA	0.4	13.0	13.3
Intesa Sanpaolo SpA	0.0	0.8	1.0
Luxottica Group SpA	0.0	7.0	7.7
Moncler SpA	0.4	14.9	15.9
Piaggio C. SpA	0.4	2.2	2.2
Prysmian SpA	0.1	5.0	6.2
Snam Rete Gas SpA	0.0	3.2	3.2
Terna Rete Elettrica Nazionale SpA	0.1	7.4	7.4

**Japan**

Daikin Industries Ltd	0.0	3.9	3.9
FANUC Corp	0.0	4.8	4.8
ITOCHU Corp	0.0	3.1	3.3
Keyence Corp	0.0	2.0	2.1
Komatsu Ltd	0.0	4.1	4.3
Kubota Corp	0.0	2.6	2.6
Makita Corp	0.0	1.0	1.0
Mitsubishi Corporation	0.0	4.9	4.9
Mitsubishi Electric Corp	0.0	4.1	4.4
Mitsui & Co Ltd	0.0	3.4	3.6
Nidec Corp	0.0	3.3	3.3

31 Dec 2016	Shares %	Book value € million	Market value € million
Recruit Holdings Co Ltd	0.0	2.7	2.8
SMC Corporation	0.0	3.2	3.2
Toyota Motor Corp	0.0	6.6	6.6
<b>Jersey C.I.</b>			
Delphi Automotive PLC	0.0	3.6	3.7
Experian PLC	0.0	5.0	5.9
IWG Plc	0.1	1.7	1.7
Shire PLC	0.1	27.9	28.4
WPP PLC	0.0	7.9	8.3
<b>Liberia</b>			
Royal Caribbean Cruises Ltd	0.0	8.1	9.6
<b>Luxembourg</b>			
eDreams Odigeo SL	0.3	1.0	1.0
Eurofins Scientific	0.1	4.0	4.0
SES SA	0.0	3.4	3.4
Subsea 7 SA	0.2	5.3	6.6
<b>Netherlands</b>			
Akzo Nobel NV	0.1	10.8	11.3
ASM International NV	0.3	6.6	7.7
ASML Holding NV	0.0	4.7	5.3
CNH Industrial NV	0.0	3.7	3.7
Fiat Chrysler Automobiles NV	0.0	2.1	2.9
Heineken NV	0.0	10.0	10.0
IMCD Group NV	0.5	8.5	9.5
ING Groep NV	0.0	11.3	12.8
Koninklijke Ahold NV	0.1	16.0	16.0
Koninklijke Boskalis Westminster NV	0.0	1.0	1.3
Koninklijke KPN NV	0.1	8.1	8.1
Koninklijke Vopak NV	0.1	2.7	2.7
NN Group NV	0.1	7.3	8.5
PostNL NV	0.4	6.2	6.4
Qiagen NV	0.1	4.0	4.0
Randstad Holding NV	0.0	0.8	0.8
Unilever NV	0.0	22.2	22.3
<b>Norway</b>			
Aker BP ASA	0.1	5.5	6.0
Aker Solutions ASA	0.2	2.7	2.7
Atea ASA	0.3	3.0	3.0
DNB ASA	0.1	10.2	12.7
DNO International ASA	0.8	8.3	8.4
Gjensidige Forsikring ASA	0.0	1.5	1.5
Leroey Seafood Group ASA	0.1	2.6	3.0
Marine Harvest ASA	0.1	9.7	11.1

31 Dec 2016	Shares %	Book value € million	Market value € million
Norsk Hydro ASA	0.1	4.5	4.5
Norwegian Air Shuttle ASA	1.8	20.5	20.5
Orkla ASA	0.6	51.3	54.7
Petroleum Geo-Services ASA	0.6	5.0	6.4
Protector Forsikring ASA	1.0	2.6	6.6
Schibsted ASA	0.2	11.1	11.9
Statoil ASA	0.0	16.1	20.0
Storebrand ASA	3.2	51.7	71.7
Telenor ASA	0.0	7.1	7.1
TGS Nopec Geophysical Co ASA	0.2	4.2	4.2
XXL ASA	0.0	0.6	0.6
Yara International ASA	0.1	6.3	7.9
<b>Portugal</b>			
Altri SGPS SA	0.1	0.8	0.9
EDP - Energias de Portugal SA	0.1	5.4	5.4
<b>Spain</b>			
Abertis Infraestructuras SA	0.1	5.9	5.9
Acciona SA	0.1	4.4	4.5
ACS Actividades de Construccion y Servicios SA	0.0	1.2	1.7
Banco Bilbao Vizcaya Argentaria SA	0.1	23.7	26.3
Banco Santander SA	0.0	6.8	9.9
Distribuidora Internacional de Alimentacion SA	0.5	14.2	14.2
Enagas SA	0.2	9.3	9.3
Ferrovial SA	0.1	10.7	11.3
Gas Natural SDG SA	0.1	9.8	9.8
Grifols SA	0.1	3.7	3.8
Iberdrola SA	0.0	11.5	11.8
Inditex SA	0.0	5.8	5.8
Red Electrica Corp SA	0.1	9.6	9.6
Telepizza Group SA	1.6	7.4	7.4
<b>Sweden</b>			
AarhusKarlshamn AB	0.1	0.7	1.6
AF AB	0.2	1.2	2.8
Alfa Laval AB	0.0	1.4	1.4
Assa Abloy AB	0.1	14.1	20.4
Atlas Copco AB	0.2	53.0	63.9
Atrium Ljungberg AB	5.4	69.1	106.6
Bilia AB	0.2	1.9	2.4
Boliden AB	0.1	3.3	5.3
Com Hem Holding AB	0.1	0.6	0.9
Electrolux AB	0.3	21.3	22.6
Elekta AB	0.8	22.6	26.2
Fastighets AB Balder	0.5	14.8	15.4

31 Dec 2016	Shares %	Book value € million	Market value € million
Getinge AB	0.1	3.2	3.2
Gränges AB	0.3	1.2	1.8
Gunnebo AB	0.2	0.5	0.5
Hennes & Mauritz AB	0.1	56.0	56.0
Hexagon AB	0.3	31.9	33.8
Hexpol AB	0.2	3.7	5.7
Hufvudstaden AB	0.6	10.0	19.3
Husqvarna AB	0.2	5.1	5.3
Intrum Justitia AB	0.2	2.3	3.4
Investment AB Kinnevik	0.1	6.9	6.9
Investor AB	0.1	13.0	17.9
Inwido AB	1.4	7.0	8.0
Lindab International AB	0.1	0.8	0.8
Loomis AB	0.1	2.0	2.0
Lundin Petroleum AB	0.1	4.4	6.2
Modern Times Group AB	0.2	2.8	2.8
NCC AB	0.0	0.7	0.9
Nobia AB	0.1	1.3	2.1
Nordea Bank AB	0.7	223.1	317.9
Peab AB	0.1	0.7	1.1
Resurs Holding AB	0.3	4.1	4.2
Sandvik AB	0.1	17.4	20.1
Securitas AB	0.1	4.2	5.2
Skandinaviska Enskilda Banken AB	0.2	27.4	34.1
Skanska AB	0.2	13.6	15.8
SKF AB	0.2	10.6	12.3
Svenska Cellulosa AB	0.1	13.9	16.6
Svenska Handelsbanken AB	0.1	17.3	20.0
Swedbank AB	0.1	23.2	30.1
Swedish Orphan Biovitrum AB	0.2	4.5	5.9
Tele2 AB	0.4	15.7	16.0
Telefonaktiebolaget LM Ericsson	0.2	25.9	25.9
TeliaSonera AB	0.2	26.9	26.9
Tobii AB	0.1	0.6	0.6
Trelleborg AB	0.1	3.5	4.5
Volvo AB	0.1	15.7	16.3
<b>Switzerland</b>			
ABB Ltd	0.0	13.5	14.9
Adecco SA	0.0	2.9	3.5
Aryzta AG	0.9	31.6	33.4
Clariant AG	0.0	1.2	1.2
Credit Suisse Group AG	0.0	3.4	3.4
DKSH Holding AG	0.0	1.0	1.0

31 Dec 2016	Shares %	Book value € million	Market value € million
Geberit AG	0.0	2.9	3.9
Givaudan SA	0.0	1.6	1.7
Julius Baer Group Ltd	0.0	2.9	3.3
Kuehne + Nagel International AG	0.0	1.5	1.5
LafargeHolcim Ltd	0.0	5.1	6.3
Nestle SA	0.0	14.9	15.0
Novartis AG	0.0	23.8	24.2
Roche Holding AG	0.0	10.4	10.8
Schindler Holding AG	0.0	1.1	1.3
SGS SA	0.0	2.6	2.9
Sika AG	0.0	1.4	2.5
Swisscom AG	0.0	4.3	4.3
Swiss Life Holding AG	0.0	1.0	1.7
Swiss Re AG	0.0	4.8	6.5
Syngenta AG	0.0	9.1	9.6
UBS Group AG	0.0	8.4	8.4
Zurich Financial Services AG	0.0	6.7	7.5
<b>United Kingdom</b>			
Admiral Group PLC	0.0	1.9	2.0
Ashtead Group PLC	0.0	1.6	1.8
Associated British Foods PLC	0.0	9.6	9.6
AstraZeneca PLC	0.0	7.2	7.5
Aviva PLC	0.0	4.6	4.6
Balfour Beatty PLC	0.0	0.6	0.6
Barclays PLC	0.0	3.2	3.2
Berendsen PLC	0.2	4.0	4.0
British Land Co PLC	0.0	2.7	2.9
Bunzl PLC	0.0	2.2	2.2
Capita PLC	0.0	1.2	1.2
Croda International PLC	0.2	7.8	7.9
Diageo PLC	0.0	7.0	7.0
easyJet PLC	0.1	5.8	5.8
Essentra PLC	0.1	0.8	0.8
GKN PLC	0.0	0.8	0.8
GlaxoSmithKline PLC	0.0	12.6	12.8
Halma PLC	0.1	5.5	5.6
Hammerson PLC	0.1	3.6	3.6
Hikma Pharmaceuticals PLC	0.1	4.3	4.4
Howden Joinery Group PLC	0.3	8.7	8.7
HSBC Holdings PLC	0.0	13.0	13.0
IMI PLC	0.1	2.2	2.2
Inchcape PLC	0.3	9.9	10.4
Intertek Group PLC	0.1	4.1	4.7

31 Dec 2016	Shares %	Book value € million	Market value € million
Intu properties PLC	0.0	1.6	1.6
Johnson Matthey PLC	0.0	1.2	1.2
Ladbrokes PLC	0.1	2.0	2.0
Lloyds Banking Group PLC	0.0	10.2	10.2
Michael Page International PLC	0.1	1.2	1.2
Old Mutual PLC	0.0	2.5	2.5
Prudential PLC	0.0	9.3	10.4
Reckitt Benckiser Group PLC	0.0	9.6	9.6
Rentokil Initial PLC	0.0	0.7	0.9
Rolls-Royce Group PLC	0.0	0.6	0.6
Royal Mail PLC	0.0	0.7	0.7
RSA Insurance Group PLC	0.0	1.2	1.4
Smith & Nephew PLC	0.0	2.8	2.8
Smiths Group PLC	0.0	1.1	1.2
Spectris PCL	0.1	1.9	2.1
Standard Life PLC	0.0	1.3	1.3
Travis Perkins PLC	0.1	2.2	2.3
United Utilities Group PLC	0.1	5.9	5.9
Vodafone Group PLC	0.0	26.7	26.7
WH Smith PLC	0.6	12.1	12.3
Worldpay Group PLC	0.1	6.0	6.0
<b>United States</b>			
3M Company	0.0	14.3	15.7
Acacia Communications Inc	0.4	8.5	8.5
Akamai Technologies Inc	0.1	8.1	9.2
Amazon.com Inc	0.0	13.5	13.5
Amgen Inc	0.0	13.7	13.9
Antero Resources Corp	0.1	6.9	6.9
Apple Inc	0.0	21.1	23.1
Applied Materials Inc	0.0	5.6	6.4
Autodesk Inc	0.1	11.0	14.0
Autoliv Inc	0.4	33.9	38.0
Baxter International Inc	0.0	6.3	6.3
Biogen Inc	0.0	5.4	5.4
Bristol-Myers Squibb Co	0.0	21.6	22.2
Caterpillar Inc	0.0	7.3	8.2
Chipotle Mexican Grill Inc	0.1	7.2	7.2
Coca-Cola Co	0.0	7.0	7.1
Colgate-Palmolive Co	0.0	8.1	8.1
Comcast Corp	0.0	4.8	5.2
Coty Inc	0.1	7.0	7.0
CSX Corp	0.0	4.4	5.2
Cummins Inc	0.0	3.1	3.4

31 Dec 2016	Shares %	Book value € million	Market value € million
CVS Health Corp	0.0	4.9	4.9
DANAHER CORP	0.0	2.1	2.1
Deere & Co	0.0	1.6	2.0
Dollar General Corp	0.1	9.8	10.9
Ebix Inc	1.2	21.0	21.6
Edwards Lifesciences Corp	0.1	8.6	8.9
Electronic Arts Inc	0.1	14.9	16.4
Eli Lilly and Company	0.0	13.6	14.0
Emerson Electric Co	0.0	4.7	5.3
Facebook Inc	0.0	17.0	17.5
FedEx Corp	0.0	6.5	7.1
General Electric Co	0.0	24.8	27.9
Gilead Sciences Inc	0.0	13.6	13.6
Google Inc	0.0	40.0	42.2
HCA Holdings Inc	0.0	8.2	8.4
Home Depot Inc	0.0	5.9	6.4
Illinois Tool Works Inc	0.0	5.1	5.6
Intel Corp	0.0	11.8	12.9
Intuitive Surgical Inc	0.1	12.0	12.0
Johnson & Johnson	0.0	21.9	21.9
L Brands Inc	0.0	4.7	4.7
Macy's Inc	0.1	5.1	5.6
Match Group Inc	1.1	7.6	8.1
McDonald's Corp	0.0	9.0	9.8
Mead Johnson Nutrition Co	0.0	4.0	4.0
MICROSOFT CORP	0.0	25.8	29.5
Mondelez International Inc	0.0	8.0	8.4
Newell Brands Inc	0.0	6.4	6.4
NIKE Inc	0.0	10.0	10.1
Norfolk Southern Corp	0.0	4.2	4.9
PACCAR Inc	0.0	2.9	3.4
Palo Alto Networks Inc	0.0	2.4	2.4
Parker-Hannifin Corp	0.0	2.3	2.7
Pepsico Inc	0.0	8.8	8.9
Pfizer Inc	0.0	21.2	21.6
Priceline Group Inc	0.0	5.6	5.6
Procter & Gamble Co	0.0	9.3	9.6
Roper Technologies Inc	0.0	2.6	2.8
Salesforce.com Inc	0.0	18.8	18.8
Splunk Inc	0.2	9.7	9.7
Square Inc	0.7	12.0	14.2
Starbucks Corporation	0.0	8.8	9.5
TABLEAU SOFTWARE INC	0.3	7.2	7.2

31 Dec 2016	Shares %	Book value € million	Market value € million
TJX Companies Inc	0.0	5.0	5.3
Under Armour Inc	0.1	4.8	4.8
Union Pacific Corp	0.0	11.3	13.1
UnitedHealth Group Inc	0.0	22.5	22.8
United Parcel Service Inc	0.0	14.6	15.9
United Technologies Corporation	0.0	12.4	13.9
Visa Inc	0.0	35.2	37.1
Walt Disney Co	0.0	6.9	6.9
Waste Management Inc	0.0	4.0	4.6
Whole Foods Market Inc	0.1	4.9	5.3
Yelp Inc	0.4	10.1	10.9
Zoetis Inc	0.1	15.2	15.2
Other		1.5	19.5
<b>Foreign equities, total</b>		<b>3,573.6</b>	<b>4,037.8</b>
<b>Listed equities, total</b>		<b>6,128.6</b>	<b>9,037.8</b>
<b>Unlisted equities</b>			
<b>Finnish</b>			
Ahlström Capital Oy	3.7	8.4	27.0
Havator Group Oy	9.2	5.4	5.4
Kaleva Mutual Insurance Company	30.0	2.6	2.6
Kiitosimeon Oy	15.3	2.2	2.2
Logicor Oy	19.5	78.7	78.7
Staffpoint Holding Oy	13.9	2.2	2.2
Terveystalo Oy	4.9	15.0	23.6
Tornator Oy	13.1	10.5	78.9
VO Group Plc	17.0	42.5	276.3
Other		1.0	1.0
<b>Finnish equities, total</b>		<b>168.5</b>	<b>497.9</b>
<b>Other countries</b>			
<b>Netherlands</b>			
BenCo Insurance Holding B.V.	3.6	0.7	1.8
<b>Sweden</b>			
Ambea Finland Group AB	3.0	10.9	10.9
Zenterio AB	4.0	2.4	2.4
Other		0.7	0.7
<b>Foreign equities, total</b>		<b>14.6</b>	<b>15.8</b>
<b>Unlisted equities, total</b>		<b>183.1</b>	<b>513.7</b>

31 Dec 2016	Book value € million	Fair value € million
<b>Hedge funds</b>		
Aleutian Fund Ltd	84.5	118.3
Aviator Capital Mid-Life Offshore Feeder Fund L.P.	28.5	28.8
Bayview Liquid Credit Strategies Domestic L.P.	23.2	26.7
Bayview MSR Opportunity Offshore L.P.	89.1	109.2
Bayview Opportunity Offshore II a L.P.	1.3	4.6
Bayview Opportunity Offshore III a L.P.	23.3	46.6
Bayview Opportunity Offshore IV a L.P.	316.4	457.6
Bayview Opportunity Offshore L.P.	1.1	6.5
Blackstone First Avenue Offshore Fund B Ltd	222.1	238.9
Blackstone First Avenue Offshore Fund C Ltd	71.8	78.6
Blackstone First Avenue Offshore Fund Ltd	102.8	191.6
Blackstone Strategic Opportunity Offshore Fund Ltd	75.9	114.7
BlueMountain Equity Alternatives Fund Ltd	76.5	144.3
Brevan Howard Asia Fund Limited	63.8	68.6
Capula Global Relative Value Fund Ltd	90.5	145.6
Capula Tail Risk Fund Limited	54.3	54.3
Carlson Black Diamond Thematic Ltd	69.1	106.3
CarVal Credit Value Fund B II L.P.	85.9	140.3
CarVal Global Value Fund L.P.	14.8	46.4
Chenavari European Deleveraging Opportunities Fund II L.P.	11.5	12.2
Corvex Offshore II Ltd	36.7	44.0
CS Iris V Fund Limited	23.8	42.5
Cumulus Fund	37.3	37.3
CVI Credit Value Fund B III L.P.	103.7	125.5
D.E.Shaw Composite International Fund	1.5	3.0
Dialectic Antithesis Offshore Ltd	39.1	39.1
Dialectic Antithesis Opportunities Fund II L.P.	20.8	20.8
Double Black Diamond Ltd	154.9	307.5
Eisenstat Capital Partners Offshore Fund Ltd	46.5	66.7
EJF Debt Opportunities Offshore Fund Ltd	140.8	223.5
EJF Financial Services Fund L.P.	25.8	49.1
EJF Sidecar Fund, LLC - Series (D)	13.1	16.5

31 Dec 2016	Book value € million	Fair value € million
EJF Speciality Finance Opportunities Offshore Fund L.P.	41.4	50.2
Element Capital Feeder Fund Ltd	43.5	235.0
Elliot International Ltd	110.8	310.3
Fir Tree International Value Fund Ltd	13.3	26.6
Fir Tree Special Opportunities Fund VII L.P.	70.5	76.8
Five Mile Capital Partners II L.P.	9.6	15.5
Five Mile Capital Partners LLC	1.5	1.5
Glenview Capital Partners Ltd	23.8	41.4
Golden Tree Credit Opportunities Ltd	14.0	69.4
Golden Tree Distressed Debt Fund (Cayman) Ltd	44.8	112.3
Golden Tree Distressed Fund 2014 (Cayman) L.P.	42.6	46.9
Golden Tree Offshore Fund II Ltd	83.9	144.7
Golden Tree Offshore Fund Ltd	3.1	6.9
GSA Quantitative Futures Master Fund Limited	30.0	46.0
GSA Trend Fund Limited	21.9	23.1
H/2 Credit Partners Ltd	54.0	95.9
H/2 Special Opportunities III L.P.	148.0	182.1
H/2 Special Opportunities II L.P.	29.5	60.2
H/2 Special Opportunities IV L.P.	16.1	16.3
H/2 Special Opportunities L.P.	1.7	5.0
HBK Merger Strategies	156.9	170.8
HBK Multi-Strategy Offshore Fund Ltd	157.0	283.1
Hitchwood Capital Fund Ltd	20.4	20.4
King Street Capital Ltd	35.7	71.3
Kuttura Fund L.P.	40.2	69.9
Magnetar PRA Fund Ltd	67.2	75.0
Mortality Fund I	16.1	34.7
NWI Emerging Market Currency Fund	36.7	52.5
OxAM Quant Fund (International) Limited	44.3	50.2
OZ Asia Overseas Fund Ltd	1.3	1.3
OZ Europe Overseas Fund II Ltd	0.6	0.6
OZ Overseas Fund Ltd	0.8	1.7
Pentwater Event Fund Ltd	52.7	78.8
Pharo Macro Fund Ltd	47.2	70.6
Pine River Liquid Rates Fund Ltd	109.3	168.2
Reservoir Capital Overseas Partners II L.P.	6.4	10.2
Roystone Capital Offshore Fund Ltd.	20.1	20.1
Seveti Fund B, L.P.	224.9	336.5

31 Dec 2016	Book value € million	Fair value € million
Soroban Opportunities Cayman Fund Ltd	33.3	47.3
Spinnaker Global Emerging Markets Fund Ltd	54.1	90.6
Systematica BlueMatrix Limited	36.7	53.2
Systematica BlueTrend Fund Limited	34.5	44.4
The Canoynd Value Realization Fund Ltd	4.0	13.5
Third Point Offshore Fund Ltd	58.2	86.5
Tricadia Credit Strategies Ltd	67.4	88.6
Two Sigma Absolute Return Cayman Fund Ltd	46.5	72.1
Whippoorwill Distressed Opportunity Fund Ltd	3.1	6.0
Zais Financial Corp	1.0	1.0
Zais Opportunity Fund Ltd	29.4	95.0
Zebedee Focus Fund Limited A	27.1	29.0
Zebedee Focus Fund Limited B	27.1	29.4
Zebedee Growth Fund Limited	4.4	4.4
ZP Offshore Utility Fund Ltd	42.7	54.1
Other	230.7	400.1
<b>Hedge funds, total</b>	<b>4,692.8</b>	<b>7,312.7</b>
<b>Real estate funds</b>		
Alinda Infrastructure Parallel Fund II L.P.	60.2	104.8
Alinda Infrastructure Parallel Fund I L.P.	30.6	53.9
Ares European Real Estate Fund II Euro L.P.	3.1	3.1
Ares European Real Estate Fund III Euro L.P.	10.8	10.8
Aros Bostad III AB	2.9	2.9
Aros Bostadskapital 10 AB	2.8	2.8
Aros Bostadskapital 11 AB	3.3	3.3
Aros Bostadskapital 12 AB	5.3	5.3
Aros Bostadskapital 8 AB	0.9	0.9
Aros Bostadskapital 9 AB	2.4	2.5
AXA European Real Estate Opportunity Fund II L.P.	5.0	10.7
Benson Elliot Real Estate Partners IV L.P.	19.6	19.6
BlackRock Asia Property Fund III L.P.	6.2	10.5
Blackstone Real Estate Partners Europe III L.P.	33.5	44.3
Blackstone Real Estate Partners International II L.P.	11.7	11.7
CapMan Hotels RE Ky	6.2	10.5
CapMan Nordic Real Estate FCP-SIF	23.0	31.8

31 Dec 2016	Book value € million	Fair value € million
CapMan Real Estate I Ky	6.1	6.1
CapMan RE II Ky	2.4	2.8
Clearbell Property Partners II L.P.	20.4	24.2
Colony Investors VII, L.P.	6.9	6.9
Colony Parallell Investors VIII, L.P.	14.1	14.1
Curzon Capital Partners IV L.P.	30.0	30.1
ECE European Prime Shopping Centre II A, SCSp SIF	15.2	18.3
EPI Russia I Ky	8.7	8.7
EQT Infrastructure II No. 2 L.P.	25.9	25.9
EQT Infrastructure No. 1 L.P.	9.4	9.4
ICECAPITAL Housing Fund III Ky	18.1	20.6
ICECAPITAL Housing Fund IV Ky	0.9	0.9
ICECAPITAL Saint Petersburg Residential Fund I Ky	0.9	0.9
Lumiere Holdings L.P.	58.5	63.6
Macquarie European Infrastructure Fund III L.P.	91.7	220.6
Macquarie European Infrastructure Fund II L.P.	86.0	129.4
Moorfield Audley Real Estate Fund B L.P.	28.7	28.7
NV Property Fund I Ky	53.6	57.4
Prologis Targeted European Logistics Fund, FCP-FIS	74.1	74.1
Retail Centres V (Sweden) Limited Partnership	61.3	70.6
Riverside Co-invest Partners L.P.	4.9	4.9
Serena Properties AB	21.2	23.1
TT Holdings SCSp	64.5	64.5
VVT Property Fund I Ky	26.3	29.7
Other	0.6	0.7
<b>Real estate funds, total</b>	<b>957.9</b>	<b>1,265.5</b>
<b>Fixed-income funds</b>		
GS Growth & Emerging markets Debt Local I USD Fund	255.5	256.5
H/2 Targeted Return Strategies II Ltd	660.4	747.7
Inari Fund	234.9	392.5
iShares Euro HY Corp Bond ETF	107.6	108.5
iShares iBoxx Corporate ETF	366.2	386.0
iShares iBoxx USD HY Corp ETF	140.8	147.8
Ivalo Fund, L.P.	346.9	625.0
Koitere Fund L.P.	312.4	373.9
Mandatum Life Nordic High Yield ABS	45.3	45.3

31 Dec 2016	Book value € million	Fair value € million
OHA Finlandia Credit Fund, L.P.	419.6	511.0
Pareto Kreditt B	43.3	43.3
Seveti Fund A, L.P.	481.1	744.8
Vanguard Intermediate-Term Corporate Bond ETF	104.6	105.7
Wellington Emerging Local Debt USD Class G Accumulating	237.7	238.3
<b>Fixed-income funds, total</b>	<b>3,756.4</b>	<b>4,726.3</b>
<b>Equity funds</b>		
Aberdeen Global Latin American Equity Fund	36.9	36.9
Blackrock Asian Growth Leader Fund X2 USD	58.0	69.9
DB X-trackers MSCI GCC Select index UCITS ETF	20.1	20.3
East Capital Financials Investors AB	2.5	2.5
Fidelity Asian Special Situations Fund SS A ACC USD	64.1	78.4
FTIF Templeton Asian Growth Fund I USD Share Class	47.7	54.0
FTIF Templeton Asian Smaller Companies Fund USD Share Class	25.8	37.8
Henderson Horizon Pan European Smaller Companies Fund	12.8	26.8
Hermes Global Emerging Markets Fund Class F USD	52.8	62.3
Ishares Core Nikkei 225 ETF	230.1	248.3
iShares MSCI Australia UCITS ETF	49.6	53.0
iShares MSCI Canada ETF	350.0	375.2
iShares MSCI India ETF	80.3	80.5
ISHARES MSCI INDONESIA ETF	18.1	20.9
iShares MSCI Mexico Capped ETF	141.4	141.8
iShares Russell 2000 ETF	57.0	76.5
Ishares S&P 500 Value ETF	98.8	110.6
Macquarie Asia New Stars Fund USD	56.3	64.0
Mandatum European Small & Mid Cap Equity Fund	5.0	5.2
NOMURA ETF - NIKKEI 225	319.1	325.1
Nomura ETF Topix	39.3	43.2
Nordea 1 Emerging Stars Fund	112.8	112.8
Open Door Capital Group China Healthcare Partnership Master	0.8	0.8
Powershares QQQ Nasdaq 100 ETF	6.2	7.6
RAM Emerging Markets Equities classe R	88.8	107.8

31 Dec 2016	Book value € million	Fair value € million
SPDR S&P 500 ETF TRUST	646.1	832.7
SSgA Enhanced Emerging Markets Equity Fund	229.7	272.5
Taaleri Rhein Value Equity A	15.4	23.2
Threadneedle Pan European Smaller Companies Fund	20.0	32.9
UBS Global Emerging Markets Opportunity Fund Class I-B USD	71.7	84.6
Vanguard Emerging Markets Stock Index Fund	391.2	427.0
Vanguard Institutional Index Fund Plus shares	400.7	1,042.9
Vanguard Japan Stock Index Fund	89.2	125.0
Vanguard Pacific ex Japan Index Fund	54.2	64.8
Vanguard S&P 500 ETF	326.4	367.7
William Blair US Small Mid Cap Growth Fund	41.9	77.6
<b>Equity funds, total</b>	<b>4,260.9</b>	<b>5,513.3</b>
<b>Private equity funds</b>		
1901 (Offshore) Partners I L.P.	17.4	22.3
Abingworth Bioventures III B L.P.	0.9	0.9
AC Cleantech Growth Fund I KY	9.5	9.5
Alpha Private Equity Fund 5 - JABBAH CI L.P.	8.0	9.4
American Global Logistics Co-Investment Blocker Corp.	8.9	9.5
Apollo Investment Fund VII Euro Holdings, L.P.	23.3	24.3
Apollo Overseas Partners (Delaware) VIII, L.P.	48.2	57.4
Armada Mezzanine Fund III Ky	0.6	2.4
Atos Medical Co-Invest SCSp	15.0	15.0
Auda Asia II L.P.	15.3	21.6
Auda Secondary II Feeder Fund L.P.	6.6	6.6
BDCM Offshore Opportunity Fund IV Ltd	23.0	23.0
Behrman Capital IV L.P.	26.5	31.7
Blackstone Capital Partners IV L.P.	11.2	11.2
Blackstone Capital Partners VII L.P.	0.5	0.5
Blackstone Capital Partners VI L.P.	96.0	135.1
Blackstone Capital Partners V L.P.	23.9	23.9
Blackstone V Co-Investors L.P.	6.4	12.4
BlueRun Ventures, L.P.	5.6	8.1
Calypso International S.à.r.l.	1.9	1.9
CapMan Buyout IX Fund A L.P.	15.6	15.6

31 Dec 2016	Book value € million	Fair value € million
CapMan Buyout X Fund A L.P.	22.9	24.1
CapMan Russia Fund L.P.	6.8	6.8
CapMan Technology Fund 2007 L.P.	1.9	1.9
CapVest Equity Partners III L.P.	7.6	8.1
CapVest Equity Partners II L.P.	10.0	10.7
CDH Fund V L.P.	24.4	31.0
CHAMP IV Funds	11.0	11.0
Crown Co-Investor L.P.	16.6	41.9
CVC European Equity Partners IV (C) L.P.	3.7	3.7
Dasan III, Inc.	18.2	32.3
Elbrus	25.5	26.2
Elbrus Capital Fund I L.P.	35.0	35.0
EQT Kiwi Co-Investment L.P.	14.9	15.5
EQT VII No 1 Limited Partnership	21.3	21.3
EQT VI No 1 Limited Partnership	46.6	61.6
EQT V No 1 Limited Partnership	11.4	11.4
Ethypharm Co-Invest FPCI	12.8	12.8
GC Athena Co-Investment L.P.	16.4	19.5
Genstar Capital Partners VII L.P.	24.1	36.4
Green Equity Investors IV L.P.	1.1	1.6
Green Equity Investors V L.P.	16.1	30.2
Hamilton Lane Co-Investment Feeder Fund III L.P.	49.3	52.4
Hamilton Lane Co-Investment Fund II L.P.	31.6	70.1
Hamilton Lane Co-Investment Fund L.P.	22.8	22.8
Hamilton Lane Parallel Investors L.P.	60.6	72.5
IK VIII Fund No.3 L.P.	6.8	6.8
IK VII L.P.	44.5	51.3
Industri Kapital 2004 Limited Partnership I	1.5	1.5
Industri Kapital 2007 Limited Partnership III	7.3	8.2
IT Co-Investment Holdings, Inc.	4.5	9.3
Kelso Hammer Co-Investment L.P.	15.2	20.9
Kelso Investment Associates IX L.P.	30.4	36.8
Kelso Investment Associates VIII, L.P.	46.7	56.9
Kelso Investment Associates VII, L.P.	1.2	1.2
Kelso Sirius Co-Investment L.P.	4.5	6.6
K-P Co-Investment L.P.	19.0	19.0
MB Equity Fund IV Ky	11.5	21.5
MBK Partners Fund III, L.P.	44.4	55.3
MBK Partners Fund II, L.P.	20.2	58.7

31 Dec 2016	Book value € million	Fair value € million
MBK Partners, L.P.	10.2	14.5
MCP Co Invest L.P.	8.5	14.7
Mezzanine Management Fund IV A L.P.	3.7	3.7
MHR Institutional Partners IV L.P.	16.1	16.1
MML Capital Partners Fund VI L.P.	12.7	12.7
MML Capital Partners Fund V L.P.	14.5	21.5
Moelis Capital Partners Opportunity Fund I-B L.P.	11.6	15.3
Moelis Capital Partners Opportunity Fund I L.P.	21.2	57.1
Navis Asia Fund VII, L.P.	34.5	44.2
New Mountain Partners IV L.P.	50.6	62.3
NexPhase Capital Fund III, L.P.	15.3	15.3
NM Z Topco, L.L.C.	9.1	17.0
Nokia Venture Partners II L.P.	2.2	2.2
Nordic Mezzanine Fund III L.P.	6.5	11.0
Onex Partners III L.P.	45.1	77.3
Onex Partners II L.P.	7.1	7.1
Onex Partners IV L.P.	54.8	55.6
OSYS Holdings, LLC	6.3	8.1
PAI Europe VI-1 L.P.	28.9	28.9
Permira Europe III L.P.2	1.5	1.5
Permira Europe IV L.P.2	10.3	12.3
Platinum Equity Capital Partners III L.P.	35.6	46.3
Platinum Equity Capital Partners II, L.P.	19.5	43.5
Platinum Equity Capital Partners IV L.P.	10.4	10.7
Power Fund III Ky	2.3	2.3
Power Fund II Ky	3.2	3.2
Primavera Capital Fund II L.P.	20.2	20.2
Quadriga Capital Private Equity Fund III L.P.	7.9	7.9
Saw Mill Capital Partners, L.P.	9.5	25.4
Selected Mezzanine Funds I Ky	2.1	3.2
Selected Private Equity Funds I Ky	2.7	5.8
Sponsor Fund III Ky	4.1	4.1
Sponsor Fund IV Ky	6.2	6.5
Strategic Value Special Situations Feeder Fund III L.P.	53.7	69.9
TA XII-B L.P.	8.7	9.2
TCW Crescent Mezzanine Partners IV B L.P.	1.8	1.8
TCW Crescent Mezzanine Partners V L.P.	8.5	13.5
The Fifth Cinven Fund (No. 1) Limited Partnership	37.7	45.3

31 Dec 2016	Book value € million	Fair value € million
The Fourth Cinven Fund (No. 4) Limited Partnership	5.8	5.8
TPG Asia VI L.P.	40.0	50.5
TPG Growth III (B) L.P.	10.0	10.5
TPG Wireman Co-Invest, L.P.	18.8	19.0
Venari Co-Investment LLC	10.4	10.4
Vista Equity Partners Fund VI-A L.P.	24.2	24.9
VSS Communications Parallel Partners IV, L.P.	3.0	3.0
Warburg Pincus China, L.P.	3.5	3.5
Warburg Pincus Energy L.P.	28.0	28.0
Warburg Pincus Private Equity IX, L.P.	1.5	12.7
Warburg Pincus Private Equity XII-E, L.P.	17.0	17.0
Warburg Pincus Private Equity XI L.P.	75.0	114.7
Warburg Pincus Private Equity X, L.P.	32.4	71.7
Other	3.2	21.9
<b>Private equity funds, total</b>	<b>2,012.3</b>	<b>2,667.9</b>
<b>Funds, total</b>	<b>15,680.3</b>	<b>21,485.7</b>
<b>Parent Company, total</b>	<b>21,991.9</b>	<b>31,037.2</b>

31 Dec 2016	Book value € million	Fair value € million
<b>The Group's shareholding deviates from the Parent Company's as follows:</b>		
Kaleva Mutual Insurance Company guarantee capital	3.3	3.3
Ruohoparkki Oy	3.3	3.3
Vaasan Toripysäköinti Oy	2.3	2.3
Other	3.0	3.0
<b>Group, total</b>	<b>22,003.8</b>	<b>31,049.1</b>

## 17. Changes in tangible and intangible assets, Parent Company

31 Dec 2016, € million	Intangible assets Other intangible assets	Tangible assets Equipment	Tangible assets Other tangible assets	Total
Acquisition cost, 1 Jan	26.7	6.3	0.9	33.8
Completely depreciated in the previous year	-1.9	-0.2	0.0	-2.1
Increase	0.0	0.7	0.0	0.7
Decrease	0.0	0.0	0.0	0.0
Acquisition cost, 31 Dec	24.7	6.8	0.9	32.4
Accumulated depreciation, 1 Jan	-18.9	-4.1	0.0	-22.9
Completely depreciated in the previous year	1.9	0.2	0.0	2.1
Depreciation for the financial year	-6.8	-0.8	0.0	-7.6
Accumulated depreciation, 31 Dec	-23.7	-4.7	0.0	-28.4
Book value 31 Dec 2016	1.0	2.1	0.9	4.0
Book value 31 Dec 2015	7.8	2.2	0.9	10.9

Group figures are the same as those of the Parent Company.

## 18. Loan receivables itemised by guarantee

31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Bank guarantee	96.5	140.4	96.5	140.4
Guarantee insurance	122.3	157.2	122.3	157.2
Other guarantee	941.9	771.2	941.9	771.2
Remaining acquisition cost, total	1,160.7	1,068.8	1,160.7	1,068.8

## 19. Total pension loan receivables itemised by balance sheet item

31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Loans guaranteed by mortgages	241.1	274.1	241.1	274.1
Other loan receivables	191.7	267.1	191.7	267.1
Remaining acquisition cost, total	432.9	541.2	432.9	541.2

## 20. Loans to related parties

31 Dec, € million	Parent Company 2016	Parent Company 2015
Loans to Group companies	623.3	723.8

The loan period is usually at most 15 years, and the interest rate is mainly tied to a fixed interest rate or technical interest rate.

## 21. Derivatives

331 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Other receivables				
Advance payments for option contracts	9.5	71.3	9.5	71.3
Other liabilities				
Advance payments for option contracts	7.2	25.7	7.2	25.7
Value adjustments of derivatives	87.0	146.0	87.0	146.0

## 22. Liabilities to Group companies

31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Other liabilities	0.4	0.6	0.4	0.6

## 23. Technical provisions

31 Dec, € million	Parent Company 2016	Parent Company 2015	Group 2016	Group 2015
Provision for unearned premiums				
Future pensions	<b>16,243.9</b>	15,345.7	<b>16,243.9</b>	15,345.7
Provision for future bonuses	<b>-578.3</b>	-1,082.5	<b>-578.3</b>	-1,082.5
Provision for current bonuses	<b>122.0</b>	115.4	<b>122.0</b>	115.4
Equity-linked provision for current and future bonuses	<b>324.0</b>	1,401.9	<b>324.0</b>	1,401.9
Total provision for unearned premiums	<b>16,111.6</b>	15,780.5	<b>16,111.6</b>	15,780.5
Provision for claims outstanding				
Current pensions	<b>16,322.3</b>	14,882.2	<b>16,322.3</b>	14,882.2
Equalisation provision	<b>1,067.4</b>	1,202.9	<b>1,067.4</b>	1,202.9
Total provision for claims outstanding	<b>17,389.6</b>	16,085.1	<b>17,389.6</b>	16,085.1
Total technical provisions	<b>33,501.3</b>	31,865.6	<b>33,501.3</b>	31,865.6

## 24. Solvency capital, Parent Company

31 Dec, € million	2016	2015
Capital and reserves	<b>118.9</b>	113.6
Interest on guarantee capital proposed for distribution	<b>-0.7</b>	-0.8
Valuation difference between fair values on assets and book values of balance sheet items	<b>9,626.0</b>	9,762.9
Provision for future bonuses	<b>-578.3</b>	-1,082.5
Equalisation provision <sup>1</sup>	<b>1,034.5</b>	1,170.7
Intangible assets	<b>-1.0</b>	-7.8
	<b>10,199.5</b>	9,956.1
<sup>1</sup> In 2015, the equalisation provision no longer includes the equalisation provision of EUR 32.3 million pursuant to TEL-L		
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17	<b>1,818.2</b>	1,782.8

## 25. Liabilities, Parent Company

31 Dec, € million	2016	2015
Guarantees given on own behalf		
Assets pledged as security for derivatives <sup>1</sup>	<b>510.6</b>	36.3
Guarantees received		
Assets pledged as security for derivatives <sup>2</sup>	<b>0.3</b>	277.8

<sup>1</sup> Given cash guarantees required for the clarification of derivative contracts to the value of EUR 510.6 million are included in the cash at bank and in hand balance sheet item.

<sup>2</sup> Received cash guarantees required for the clarification of derivative contracts to the value of EUR 0.3 million are included in the Other liabilities balance sheet item.

## 26. Capital and reserves

31 Dec, € million	Parent Company 2016	Group 2016
Guarantee capital	<b>11.9</b>	<b>11.9</b>
Other reserves, 1 Jan	<b>94.1</b>	<b>94.1</b>
Profit brought forward from 2015	<b>6.2</b>	<b>6.2</b>
Other reserves, 31 Dec	<b>100.3</b>	<b>100.3</b>
Profit/loss brought forward	<b>7.5</b>	<b>-84.1</b>
Transfer to contingency fund	<b>-6.2</b>	<b>-6.2</b>
Distributed interest on guarantee capital	<b>-0.8</b>	<b>-0.8</b>
Transfer to the Board of Director's expence account	<b>-0.1</b>	<b>-0.1</b>
	<b>0.5</b>	<b>-91.1</b>
Profit/loss for the financial year	<b>6.2</b>	<b>37.6</b>
Total capital and reserves	<b>118.9</b>	<b>58.7</b>

## 27. Capital and reserves after proposed profit distribution

31 Dec, € million	Parent Company 2016
Holders of guarantee capital	
Guarantee capital	<b>11.9</b>
Proposed distribution to holders of guarantee capital	<b>0.7</b>
Policyholders	<b>106.4</b>
Total	<b>118.9</b>

## 28. Distributable profits

31 Dec, € million	Parent Company 2016	
Profit for the financial year		6.2
Other capital and reserves		
Other reserves	100.3	
Profit brought forward	0.5	100.8
Total distributable profits		107.0

## 29. Guarantee capital

31 Dec 2016, € million	Number	Guarantee capital
Mandatum Life Insurance Company Ltd.	14	2,4
Sampo Plc	57	9,6
	71	11,9

## 30. Guarantees and liabilities, Parent Company

31 Dec, € million	2016	2015
<b>Contingent liabilities and liabilities not included in the balance sheet</b>		
<b>Derivatives</b>		
<b>Derivatives for hedging purposes</b>		
<b>Currency derivatives</b>		
Forward contracts		
Underlying instrument, absolute value	321.6	1,705.1
Underlying instrument, risk-adjusted value	-321.6	-1,637.8
Fair value	-7.4	-4.5
Currency swap contracts		
Underlying instrument, absolute value	19,996.6	19,151.1
Underlying instrument, risk-adjusted value	-17,461.0	-18,751.8
Fair value	-366.3	194.6

31 Dec, € million

2016

2015

	2016	2015
<b>Other derivatives</b>		
<b>Interest rate derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	5,355.0	976.8
Underlying instrument, risk-adjusted value	4,407.7	-880.4
Fair value	0.1	-0.6
Option contracts		
Bought		
Underlying instrument, absolute value	200.0	0.0
Underlying instrument, risk-adjusted value	62.6	0.0
Fair value	0.8	0.0
Credit risk derivatives		
Underlying instrument, absolute value	0.7	445.9
Underlying instrument, risk-adjusted value	0.7	445.9
Fair value	0.1	1.3
Interest rate swap contracts		
Underlying instrument, absolute value	3,432.6	1,813.8
Underlying instrument, risk-adjusted value	1,532.6	-1,813.8
Fair value	3.5	-41.5
<b>Currency derivatives</b>		
Option contracts		
Bought		
Underlying instrument, absolute value	469.0	98.3
Underlying instrument, risk-adjusted value	-28.6	32.6
Fair value	2.7	1.1
Sold		
Underlying instrument, absolute value	1,220.1	396.7
Underlying instrument, risk-adjusted value	35.3	-10.6
Fair value	-3.6	-0.7
Forward and futures contracts		
Underlying instrument, absolute value	1,834.7	1,774.9
Underlying instrument, risk-adjusted value	330.6	1,075.5
Fair value	-2.5	-24.9
Currency swap contracts		
Underlying instrument, absolute value	582.0	25.5
Underlying instrument, risk-adjusted value	143.8	25.5
Fair value	1.9	0.5

31 Dec, € million

2016

2015

	2016	2015
<b>Equity derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	466.2	636.3
Underlying instrument, risk-adjusted value	147.0	557.4
Fair value	1.2	5.5
Option contracts		
Bought		
Underlying instrument, absolute value	524.7	2,692.3
Underlying instrument, risk-adjusted value	55.5	509.8
Fair value	6.8	-34.8
Sold		
Underlying instrument, absolute value	98.6	260.7
Underlying instrument, risk-adjusted value	0.3	43.0
Fair value	0.5	6.1
<b>Other derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	741.0	68.4
Underlying instrument, risk-adjusted value	41.7	30.3
Fair value	-1.5	-31.3
Option contracts		
Bought		
Underlying instrument, absolute value	0.0	66.9
Underlying instrument, risk-adjusted value	0.0	13.6
Fair value	0.0	-1.3
Sold		
Underlying instrument, absolute value	0.0	66.9
Underlying instrument, risk-adjusted value	0.0	-30.9
Fair value	0.0	1.9
Commodity swaps		
Underlying instrument, absolute value	94.9	321.5
Underlying instrument, risk-adjusted value	94.9	321.5
Fair value	0.0	1.0
<b>Total</b>		
<b>Underlying instrument, absolute value</b>	<b>35,337.5</b>	30,500.9
<b>Underlying instrument, risk-adjusted value</b>	<b>-10,958.7</b>	-20,070.0
<b>Fair value</b>	<b>-363.7</b>	72.5

The fair values of quoted derivatives have been calculated using the price quoted on the stock exchange. The fair values of other derivatives are based on calculations of market quotes or on estimates of the fair values presented by outside parties. Most of the derivative contracts will mature in 2017.

## 31. Guarantees and liabilities, Parent Company

31 Dec, € million	2016	2015
<b>Investment commitments</b>		
Private equity funds	2,168.0	1,998.6
Other funds	1,127.4	1,160.7
<b>Pension liabilities</b>		
Pension commitments (recognised as debt)	5.8	1.7
The supplementary pension insurance TEL-L discontinued at the end of 2016. Varma and those covered by the pension system have agreed on lump-sum compensation, which will be paid in 2017.		
<b>Leasing and renting liabilities</b>		
Expiring next year	0.6	0.5
Expiring later	0.6	0.6
<b>Other liabilities</b>		
Varma Mutual Pension Insurance Company belongs to a value-added tax liability group together with Veritas Pension Insurance, Tieto Esy Oy and real estate companies owned by the aforementioned companies.		
Group members are collectively responsible for the value-added tax payable by the group.	2.1	6.0
Obligation to verify VAT allowances of real estate investments	58.2	78.7
<b>Loaned securities</b>		
Bonds		
Nominal value	1,667.9	1,436.3
Remaining acquisition cost	1,690.2	1,408.0
Fair value	1,681.3	1,463.7

Loaned securities are included in the balance sheet. The counterparty to the lending operations is the custodian bank, Northern Trust Co. London, with which borrowers post collateral. The collateral of the loans are securities. The loans can be cancelled at any time.

## Varma's balance sheet and income statement at fair values

The financial statements of an earnings-related pension company are prepared in accordance with sound accounting principles, valid laws and the regulations and guidelines of the Financial Supervisory Authority. IFRS standards do not as such concern earnings-related pension insurance companies.

The statutory earnings-related pension scheme is partially fund-based. The technical provisions appearing in the balance sheet of an earnings-related pension insurance company amount to about a quarter of the capital value of the pensions accumulated by the closing date. Furthermore, statutory pension insurance has a guarantee scheme, according to which the earnings-related pension insurance scheme is jointly responsible for securing the benefits of the insured, should a pension institution become insolvent.

Technical provisions also include a substantial provision for future bonuses, which provides a buffer against fluctuations in results and strengthens company solvency, a provision for current bonuses which is reserved for the payment of client bonuses, and an equity-linked provision for current and future bonuses, which provides protection against fluctuations in the value of pension companies' shares. The main components of the solvency capital, measuring the company's solvency, are the capital and reserves, provision for future bonuses, equalisation provision and valuation differences of investments.

The operating expenses of the company are listed under a number of entries in the income statement and key figures. The effect of fair values on the company's investments and their results are presented in the notes to the financial statements. Earnings-related pension companies need not present deferred tax liabilities as long as the calculation bases

set by the Finnish Ministry of Social Affairs and Health that confirm the financial year's profit in the income statement are in force. As a result of this, an earnings-related pension insurance company cannot make full use of the tax-free component of the dividend income or earlier tax credits connected with dividends. In an earnings-related pension insurance company, the significance of the consolidated financial statements is mainly technical.

In the notes to the financial statements the investment returns at fair values are compared to the interest credited on technical provisions, and the operating expenses by function (excluding operating expenses related to investments, claims costs related to the maintenance of workability, and statutory charges) are compared to the loading income included in insurance contributions. The combined result from investment operations, loading profit and underwriting result corresponds to the profit in the income statement at fair values.

The financial statements, drawn up in compliance with valid regulations, include a note to the balance sheet, which presents asset items at fair values, and a note to the income statement, which presents the items of the income statement summarised and re-grouped. The total result presented in the income statement drawn up at fair values substantially deviates from the result for the financial year in the income statement, drawn up in accordance with calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health.

The total result of the parent company Varma stood at EUR 457 (-161) million and the balance sheet total was EUR 43,460 (41,958) million.

## Balance sheet at fair value, Parent Company

31 Dec, € million	2016	2015	2014	2013
<b>ASSETS</b>				
Investments	42,852	41,293	40,039	37,718
Receivables	604	654	545	566
Equipment	4	11	18	26
	<b>43,460</b>	41,958	40,601	38,310
<b>LIABILITIES</b>				
Capital and reserves	118	113	107	101
Valuation differences	9,625	9,755	8,213	6,619
Equalisation provision	1,034	1,171	1,180	1,118
Provision for future bonuses	-578	-1,083	753	1,301
Total solvency capital	<b>10,199</b>	9,956	10,252	9,140
Provision for current bonuses (for client bonuses)	122	115	117	106
Equity-linked provision for current and future bonuses	324	1,402	1,007	720
Actual technical provision	<b>32,599</b>	30,260	29,013	28,154
Total	<b>32,923</b>	31,662	30,020	28,874
Other liabilities	215	225	212	190
	<b>43,460</b>	41,958	40,601	38,310

## Income statement at fair value, Parent Company

31 Dec, € million	2016	2015	2014	2013
Premiums written	4,675	4,576	4,344	4,258
Claims paid	-5,005	-4,835	-4,661	-4,446
Change in technical provisions	-1,063	-1,463	-1,040	-1,289
Net investment income	1,982	1,713	2,729	3,177
Total operating expenses	-138	-145	-142	-143
Other result	14	-3	0	6
Taxes	-8	-8	-7	-6
<b>Total result</b> <sup>1</sup>	<b>457</b>	-164	1,223	1,558

<sup>1</sup> Result at fair value before change in provision for current and future bonuses and equalisation provision.

# Key figures and analyses

## Summary

31 Dec, € million	2016	2015	2014	2013	2012
Premiums written, € million	<b>4,675.1</b>	4,576.4	4,343.6	4,258.0	4,230.7
Pensions paid and other payments made, € million	<b>5,004.7</b>	4,834.6	4,660.7	4,445.5	4,167.5
Net investment income at fair value, € million	<b>1,952.7</b>	1,681.8	2,699.0	3,154.2	2,484.2
Return on invested capital, %	<b>4.7</b>	4.2	7.1	9.0	7.7
Turnover, € million	<b>6,793.2</b>	4,748.5	5,480.0	6,228.3	5,120.7
Total operating expenses, € million	<b>137.9</b>	144.6	142.0	142.7	148.7
of turnover, %	<b>2.0</b>	3.0	2.6	2.3	2.9
Operating expenses covered by the expense loading included in insurance contributions	<b>100.6</b>	103.7	99.1	101.3	110.3
of TyEL and YEL payroll, %	<b>0.5</b>	0.5	0.5	0.5	0.6
Total result, € million	<b>456.9</b>	-163.6	1,223.0	1,558.5	1,201.4
Technical provisions, € million	<b>33,501.3</b>	31,865.6	32,069.7	31,399.1	29,766.6
Solvency capital, € million	<b>10,199.5</b>	9,956.1	10,252.5	9,139.7	7,716.3
of technical provisions, %	<b>30.9</b>	31.4	34.0	31.6	28.0
in relation to solvency limit	<b>1.9</b>	1.9	2.2	2.2	2.4
Equalisation provision, € million	<b>1,067.4</b>	1,202.9	1,180.0	1,118.1	1,107.6
Pension assets, € million	<b>43,127.2</b>	41,628.5	40,297.5	38,040.2	35,198.4
Transfer to client bonuses of TyEL payroll, %	<b>0.64</b>	0.63	0.66	0.59	0.44
TyEL payroll, € million	<b>18,834.8</b>	18,367.4	17,826.9	17,813.4	17,706.1
YEL payroll, € million	<b>830.6</b>	870.8	894.4	901.7	909.9
TyEL policies	<b>26,120</b>	27,150	27,200	26,900	27,600
TyEL insured persons	<b>493,890</b>	486,960	488,200	491,400	498,500
YEL policies	<b>36,000</b>	37,380	38,940	39,810	41,280
Pensioners	<b>340,100</b>	337,100	334,500	333,700	331,400

## Performance analysis

31 Dec, € million	2016	2015	2014	2013	2012
<b>Sources of profit</b>					
Technical underwriting result <sup>1</sup>	-37.8	22.9	64.1	14.5	-9.2
Investment surplus at fair value	441.5	-220.0	1,125.6	1,506.0	1,181.2
+ Net investment income at fair value	1,952.7	1,681.9	2,699.0	3,154.2	2,484.2
- Return requirement on technical provisions	-1,511.2	-1,901.9	-1,573.4	-1,648.3	-1,303.0
Loading profit	39.0	36.1	33.4	32.0	21.2
Other result	14.3	-2.6	-0.1	5.9	8.2
<b>Total result</b>	<b>456.9</b>	-163.6	1,223.0	1,558.5	1,201.4
<b>Appropriation of profit</b>					
Change in solvency	335.3	-278.6	1,106.0	1,453.5	1,123.4
Change in equalisation provision included in the solvency capital	-38.5	22.9	61.9	10.5	-12.6
Change in provision for future bonuses	504.4	-1,843.6	-548.6	228.4	-483.4
Change in difference between fair value and book value	-136.9	1,535.1	1,586.8	1,209.3	1,615.0
Change in accumulated appropriations	0.0	0.0	0.0	0.0	0.0
Profit for the financial year	6.2	7.1	5.9	5.2	4.3
Change in the equalisation provision <sup>2</sup>	0.7	0.0	0.0	0.0	0.0
Transfer to client bonuses	121.0	115.0	117.0	105.0	78.0
<b>Total</b>	<b>456.9</b>	-163.6	1,223.0	1,558.5	1,201.4

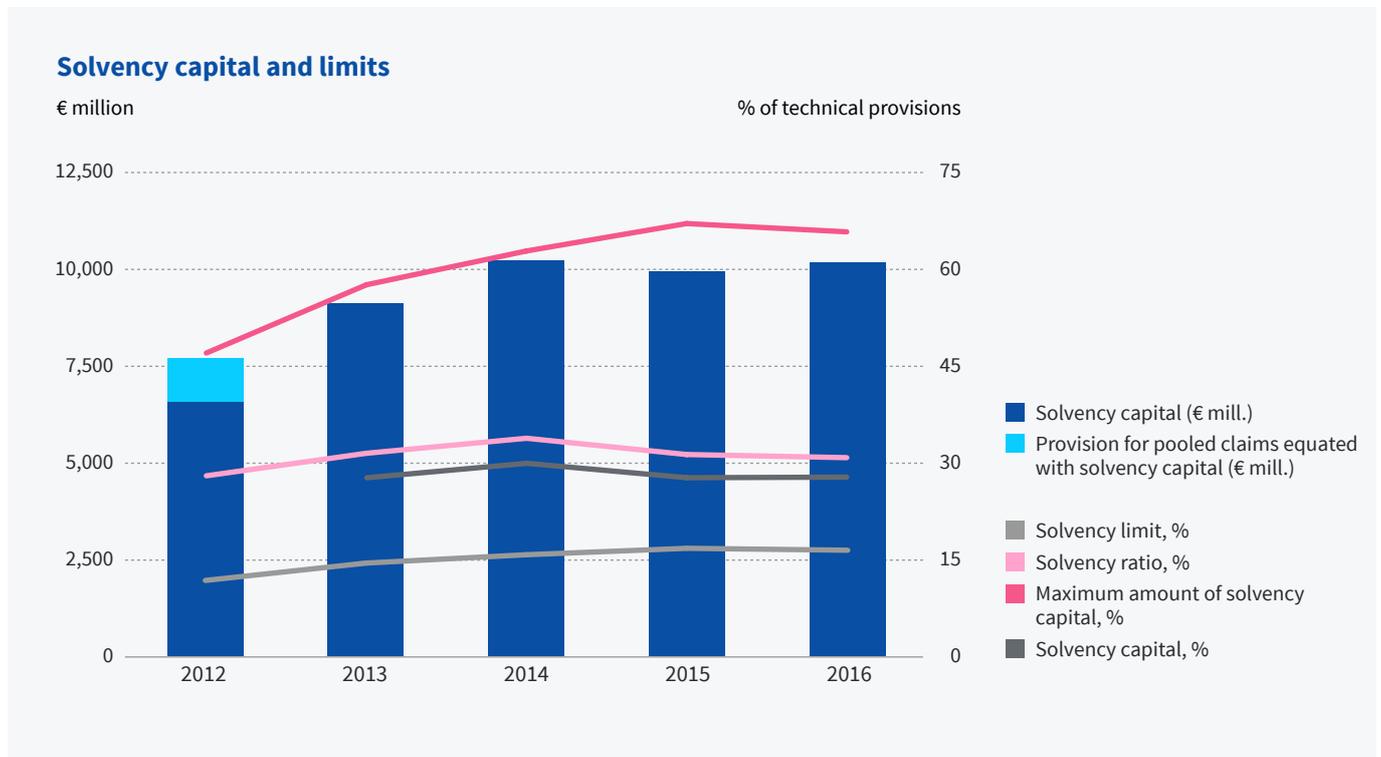
<sup>1</sup> EUR 97.8 million transferred to old-age pension liabilities

<sup>2</sup> Change in equalisation provision in accordance with supplementary pension insurance under TEL

# Solvency

Solvency capital and limits (as a percentage of the technical provisions used in calculating the solvency limit)

	2016	2015	2014	2013	2012
Solvency limit	16.5	16.8	15.8	14.5	11.8
Maximum amount of solvency capital	66.1	67.4	63.1	57.8	47.1
Solvency capital	27.8	27.7	30.1	27.7	
Solvency capital (solvency ratio)	30.9	31.4	34.0	31.6	28.0



## Investment allocation at fair value

	Market value 2016 € mill.		Market value 2015 € mill.		Risk position 2016 € mill.		Risk position 2015 % <sup>10)</sup>	Risk position 2014 % <sup>10)</sup>	Risk position 2013 % <sup>10)</sup>	Risk position 2012 % <sup>10)</sup>
		%		%		% <sup>10)</sup>				
<b>Fixed-income investments</b>	<b>13,695.1</b>	<b>32.0</b>	13,429.5	32.5	<b>18,066.0</b>	<b>42.2</b>	29.7	32.1	31.1	31.0
Loan receivables	<b>1,432.0</b>	<b>3.3</b>	1,360.7	3.3	<b>1,432.0</b>	<b>3.3</b>	3.3	3.9	5.4	7.1
Bonds	<b>11,435.1</b>	<b>26.7</b>	10,313.0	25.0	<b>12,779.8</b>	<b>29.8</b>	21.2	26.5	13.2	27.3
Other money-market instruments and deposits	<b>828.0</b>	<b>1.9</b>	1,755.8	4.3	<b>3,854.2</b>	<b>9.0</b>	5.2	1.7	14.2	-3.4
<b>Equity investments</b>	<b>18,332.5</b>	<b>42.8</b>	17,349.3	42.0	<b>18,526.8</b>	<b>43.2</b>	44.7	40.8	39.1	34.1
Listed equities	<b>14,598.9</b>	<b>34.1</b>	13,822.6	33.5	<b>14,793.1</b>	<b>34.5</b>	36.2	32.2	30.7	24.9
Private equities	<b>2,793.7</b>	<b>6.5</b>	2,617.5	6.3	<b>2,793.7</b>	<b>6.5</b>	6.3	6.1	5.8	7.0
Unlisted equities	<b>940.0</b>	<b>2.2</b>	909.3	2.2	<b>940.0</b>	<b>2.2</b>	2.2	2.5	2.7	2.2
<b>Real estate investments</b>	<b>3,642.9</b>	<b>8.5</b>	3,906.2	9.5	<b>3,642.9</b>	<b>8.5</b>	9.5	9.6	11.4	13.0
Direct real estates	<b>2,897.2</b>	<b>6.8</b>	3,313.2	8.0	<b>2,897.2</b>	<b>6.8</b>	8.0	8.4	9.9	11.5
Real estate funds	<b>745.7</b>	<b>1.7</b>	592.9	1.4	<b>745.7</b>	<b>1.7</b>	1.4	1.2	1.5	1.5
<b>Other investments</b>	<b>7,181.7</b>	<b>16.8</b>	6,608.4	16.0	<b>7,319.7</b>	<b>17.1</b>	16.9	17.7	16.3	16.4
Hedge funds	<b>7,184.3</b>	<b>16.8</b>	6,662.8	16.1	<b>7,184.3</b>	<b>16.8</b>	16.1	16.8	12.9	11.0
Commodities	<b>-1.1</b>	<b>0.0</b>	-30.5	-0.1	<b>136.9</b>	<b>0.3</b>	0.9	0.9	0.5	0.8
Other investments	<b>-1.5</b>	<b>0.0</b>	-23.9	-0.1	<b>-1.5</b>	<b>0.0</b>	-0.1	0.0	2.9	4.6
<b>Investments</b>	<b>42,852.2</b>	<b>100.0</b>	41,293.3	100.0	<b>47,555.5</b>	<b>111.0</b>	100.8	100.2	95.0	94.4
Impact of derivatives					<b>-4,703.3</b>	<b>-11.0</b>	-0.8	-0.2	5.0	5.6
<b>Investment allocation at fair value</b>	<b>42,852.2</b>	<b>100.0</b>	41,293.3	100.0	<b>42,852.2</b>	<b>100.0</b>	100.0	100.0	100.0	100.0
<b>Modified duration of the bond portfolio</b>		<b>3.4</b>								

## Investment return breakdown and result

Return on invested capital, €/%	Net return on invested capital, market value 2016 € million	Invested capital 2016 € million	Return on invested capital 2016 %	Return on invested capital 2015 %	Return on invested capital 2014 %	Return on invested capital 2013 %	Return on invested capital 2012 %
<b>Fixed-income investments</b>	<b>624.6</b>	<b>14,905.8</b>	<b>4.2</b>	-0.4	5.8	0.8	4.4
Loan receivables	57.9	1,362.5	4.2	2.4	2.6	3.3	3.2
Bonds	578.1	10,870.4	5.3	-0.9	7.1	0.8	5.5
Other money-market instruments and deposits	-11.4	2,672.9	-0.4	0.5	0.5	-0.4	0.7
<b>Equity investments</b>	<b>1,048.9</b>	<b>16,272.1</b>	<b>6.4</b>	8.8	9.1	21.8	14.5
Listed equities	591.0	13,019.6	4.5	8.0	7.4	23.7	14.9
Private equities	281.2	2,505.8	11.2	7.8	13.5	12.1	13.0
Unlisted equities	176.7	746.7	23.7	21.2	19.7	26.7	15.5
<b>Real estate investments</b>	<b>-35.7</b>	<b>3,786.1</b>	<b>-0.9</b>	3.3	3.8	3.1	4.5
Direct real estates	-80.1	3,131.5	-2.6	2.3	3.2	2.0	4.6
Real estate funds	44.4	654.6	6.8	9.9	8.0	11.6	3.1
<b>Other investments</b>	<b>342.9</b>	<b>6,523.2</b>	<b>5.3</b>	3.5	8.4	4.5	6.0
Hedge funds	367.8	6,548.3	5.6	3.9	7.8	8.8	6.8
Commodities	-23.7	-15.4					
Other investments	-1.1	-9.7					
<b>Investments</b>	<b>1,980.7</b>	<b>41,487.2</b>	<b>4.8</b>	4.3	7.2	9.1	7.7
Unallocated income, costs and operating expenses from investment activities	-28.1	14.7					
<b>Net investment income at fair value</b>	<b>1,952.7</b>	<b>41,501.9</b>	<b>4.7</b>	4.2	7.1	9.0	7.7

## Loading profit

€ million	2016	2015	2014	2013	2012
Expense loading components included in contributions	<b>132.6</b>	132.0	126.2	126.6	125.4
Components available to cover operating expenses arising from compensation decisions	<b>6.7</b>	6.8	5.5	5.8	5.8
Other income	<b>0.3</b>	0.9	0.9	0.9	0.4
Total loading income	<b>139.6</b>	139.8	132.6	133.3	131.5
Operating expenses covered by loading income <sup>1</sup>	<b>-100.6</b>	-103.7	-99.1	-101.3	-110.3
Total operating expenses	<b>-100.6</b>	-103.7	-99.1	-101.3	-110.3
<b>Loading profit</b>	<b>39.0</b>	36.1	33.4	32.0	21.2
Operating expenses in relation to loading income, %	<b>72</b>	74	75	76	84

<sup>1</sup> Excluding operating expenses related to investments and maintenance of workability and statutory charges.

## Workability maintenance expenses

31 Dec, € million	2016	2015	2014	2013	2012
Premiums written; the administrative cost component of the disability risk	<b>5.7</b>	5.6	5.4	5.4	5.4
Claims incurred; workability maintenance expenses	<b>5.7</b>	6.1	6.5	6.5	6.5
Expenses arising from the management of the disability risk, entered under operating expenses and covered by the expense loading <sup>2</sup>	<b>8.2</b>	11.1	7.9	7.5	9.0
Expenses covered by the administrative cost component of workability maintenance/The administrative cost component of the disability risk, %	<b>99.7</b>	109.5	120.5	121.0	121.9

<sup>2</sup> As of 2016, does not include personnel expenses related to the management of the disability risk of the company's own personnel

## Technical underwriting result

31 Dec, € million	2016	2015	2014	2013	2012
Premium income from underwriting business under the company's own account	<b>655.0</b>	691.7	690.6	616.4	695.7
Interest rate on the technical provisions of the underwriting business under the company's own account	<b>812.1</b>	806.8	769.3	748.9	714.7
Underwriting income	<b>1,467.1</b>	1,498.4	1,459.9	1,365.3	1,410.4
Pensions paid out of funds	<b>1,087.4</b>	1,023.5	968.6	919.2	878.6
Contribution losses	<b>18.5</b>	16.3	16.4	18.2	15.2
Change in the technical provisions of the underwriting business under the company's own account	<b>399.0</b>	435.7	410.8	413.4	525.8
Total claims incurred	<b>1,504.9</b>	1,475.5	1,395.8	1,350.8	1,419.6
<b>Technical underwriting result</b>	<b>-37.8</b>	22.9	64.1	14.5	-9.2

# Risk management

## Risk management as an element of internal control

Internal control is a process that aims to ensure:

- the achievement of the goals and objectives set,
- economical and efficient use of resources,
- sufficient management of operations-related risks,
- reliability and correctness of financial and other management information,
- compliance with laws and regulations,
- compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices,
- the safeguarding of operations, information and assets, and
- the existence of sufficient and appropriately organised manual and IT systems in support of operations.

Risk management is an element of internal control and involves the identification, assessment, limitation and control of risks arising from and closely connected with the company's business operations. Internal control is a management tool that helps the company to function efficiently, economically and reliably.

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative targets for its core functions. Varma's risk management plan takes into account what the Board of Directors decides on the content and organisation of internal control, on implementation of the internal control sectors and principles and on the joint guidelines for the internal control of the Group.

The Board of Directors follows a charter, which defines its core tasks and operating principles. As part of the company's internal control function, the Board deals with such matters as the company's strategy, basic strategies connected with organisational development and management, risks, financial reporting, budgets, investments, pension insurance business, action plans, and key development projects.

## Risk management – organisation, responsibilities, supervision and reporting

The Supervisory Board's task is to supervise the administration of Varma, which is entrusted to the Board of Directors and the President and CEO.

The Board of Directors annually outlines risk management principles (including the risk management plan) and a contingency plan that cover all operations and assesses whether the company's internal control is appropriately arranged. The Board of Directors' Audit Committee supervises financial and other reporting and the status of internal control, e.g. by tracking the work in progress of internal and external auditing and by reviewing a variety of audit reports. The President and CEO monitors the company's risks in accordance with the risk management principles, and the principles laid down in investment and contingency plans approved by the Board of Directors.

The Executive Group monitors the company's internal control and risk management processes and maintains and develops guidelines for risk management and contingency planning.

Risks are reported to the Board of Directors quarterly and, if the risks have changed significantly, without delay.

The company's supervisory auditors and the person in charge of the internal audit take part in the meetings of the Audit Committee.

Managers are responsible for organising internal control, risk management, the legal compliance function and good governance in their areas. This ensures that internal control is fully integrated into company operations. The detailed plans and guidelines of each business function supplement the plans and principles approved by the Board of Directors. Risk-taking limits and the indicators used are laid down and monitored separately by each function. Each function is responsible for implementing action plans and budgets, and for operating efficiency, the supervision of outsourced operations and preparing for unsettled conditions. Information Management provides the expertise for the development, maintenance, project management, infrastructure and risk management of systems that are the responsibility of the business functions. The targets, responsibilities and means of information security management are defined in the information security policy approved by the IT Executive Group. Information Management maintains a separate recovery plan relating to IT disruption.

The function responsible for preparing and implementing investment decisions (Investment Operations) and the supervisory and reporting function (Financial Administration and Actuaries) have been separated. The decision-making

powers and the maximum limits for investments are presented as separate risk limits in the investment plan. The risk control function, which is independent of the Investment Operations, is responsible for monitoring investment risks in accordance with the limits set by the Board of Directors, including a financial-theory- and risk-theory-based assessment of investment risks and the reporting of results. Financial Administration is involved in reviewing the changes in the investment plan and in the implementation process of new investment products, and controls mainly through random inspections the solvency classification of investments and instrument pricing.

The Chief Financial Officer is responsible for the independent monitoring of investment positions and risks. Financial Administration reports monthly to the Board of Directors on observations relating to investment risk management. Major observations are reported to the management without delay.

According to the Act on Insurance Companies, the company's responsible actuary must prepare, for the purpose of arranging risk management and investment operations, a statement for the company's Board of Directors on the requirements posed by the nature of and return requirement on technical provisions and maintaining the company's solvency and liquidity, and on the appropriateness of the company's underwriting risk management, taking into account the nature and scope of the company's operations. Pursuant to the Finnish Employee Pension Insurance Companies Act, the company's actuary must provide a written statement on whether the drafted investment plan meets the requirements posed by the nature of technical provisions on the company's investment operations.

Investment risks and the impacts their realisation would have on Varma's risk-bearing capacity are monitored in a monthly report by the officer responsible for investment risk management in the Actuaries function. The Actuaries function also reports to the Board of Directors on Varma's risk level in relation to the risk level of the earnings-related pension system.

The Investment Operations' management is responsible for arranging the handling of the investment portfolio and operative investment risk management. The risk management function of Investment Operations monitors the trends in the portfolio position vis-à-vis the risk limits defined in the investment plan and the basic allocation, and reports on them on a daily basis. Adherence to decision-making powers and allocation and investment assignments are monitored by the Investment Operations on a daily basis.

The Financial Administration coordinates the identification and management of operational and other risks in different functions. It also prepares a summary of the risk assessments drawn up by the functions. The Chief Financial Officer is in charge of monitoring operational risks.

The compliance officer reports to the Board of Directors on compliance with the insider guidelines. In order to manage the risks relating to malpractice, Varma emphasises the continuous observing of ethical operating principles and applies different control methods for protection against malpractice risks. Each function bears responsibility for managing risks relating to malpractice. Varma has specific guidelines in place to prevent money laundering and the financing of terrorism.

Varma complies with the Finnish Corporate Governance Code for listed companies where applicable.

## Goals and general risk management principles

Risk management aims to secure the rights of pensioners and policyholders. Risks relating to the company's operations are identified, assessed, limited and supervised, taking a long-term perspective. Risk management ensures that if risks are realised, they will not cause significant financial losses, or endanger Varma's customer service and other services, the continuity of operations, the attainment of the company's business targets, or affect trust in the company. Varma applies efficient and reliable processes both internally and when co-operating with its partners.

In order to ensure efficient risk management, the company relies on, among other things, the careful preparation of decisions, use of experts, risk insurance, detailed job descriptions, approval routines, decentralisation of functions and tasks, physical controls, IT protections and controls, personnel training, planning process, maintenance of different backup arrangements, distribution of necessary information and limiting access to confidential information to those who need it. As tasks, power of decision and responsibility are divided, no one person is allowed to deal with a single matter throughout the handling chain, whereupon potentially dangerous combinations have been separated. Actions are subject to independent supervision and approval mechanisms. Personnel are not allowed to participate in the preparation of or decision-making on a matter concerning themselves, their family or friends. IT systems are assigned owners from the line organisation, and the functioning of the IT systems is monitored by the business functions and the IT Executive Group.

When agreeing on the terms of outsourcing, Varma's responsibility for the outsourced functions, e.g. for conforming to regulations, continuous and disturbance-free business operations and contingency planning, are taken into account. The function in charge of outsourcing must take into consideration clear contracts and processes, supervision of the outsourced activities and risks relating to the outsourcing.

Varma also observes good insurance principles and treats all policyholders in a fair manner. All business transactions with

policyholders are on market terms. Particular attention is paid to transactions covering the financing of a policyholder's operations, real estate and other transactions, and leases.

The Corporate Governance Report drawn up by the Board and the Salary and Remuneration Statement are published on Varma's website.

## Business risks

The company's core processes comprise insuring entrepreneurs and employees, maintaining workability, securing pensions and retiring. Essential risks are related to investments, information management, the networked operation of the pension system, and to adjusting the control system and operating models to changes in the operating environment and legislation.

Varma's most important operational requirement is to manage all pension benefits and insurance transactions correctly and on time. Financially the most important risks are those concerning investment operations.

The pension system may also be affected by risks connected with its structure and functioning, and the national economy. These are discussed in more detail in the section Other risks.

Varma has one head office, a simple group structure, statutory products, a small number of staff relative to its turnover, and a low number of transactions relative to its investment volume. Varma analyses its risks from bottom to top and from top to bottom so that it can ensure that all company risks are comprehensively covered from different perspectives.

## Insurance risks

The Finnish earnings-related pension system functions on a partially funded basis with respect to the Employees Pensions Act (TyEL). Around one fifth of the pensions paid each year is previously funded, while the remaining part is a pooled component, which is covered by annually collected insurance contributions. The funded parts of the pension are the responsibility of individual pension institutions, while the pooled components are the joint responsibility of all the pension institutions.

The provision for pooled claims contained in the technical provision acts as a buffer for jointly managed insurance business. The amount of the provision for pooled claims in the entire earnings-related pension system is estimated to correspond to nearly 90% of the following year's PAYG pension expenditure, but a relatively rapid decline is foreseen. The clearing system eliminates the effects caused by the varying development of the number and age structure of employees insured by different pension insurance institutions. Thus the

cost of the pooled components presents no risk for the individual pension institution.

Basic pensions under the Self-employed Persons Pensions Act YEL are financed in full by the insurance contributions collected annually in accordance with the pay-as-you-go system and by the State's contribution and do not present a risk for the individual pension institution.

The level of earnings-related pension cover is based on a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy that applies to all earnings-related pension insurance institutions. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. Under the TyEL act, the calculation bases must be secure and, should the base for technical provisions prove insufficient for all earnings-related pension insurance institutions, the technical provisions can be supplemented with a clearing system. An example of this is the adjustment of the mortality model which will increase old-age pension liabilities at the end of 2016.

The risks of Varma's insurance business are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility. Because common calculation bases can be changed annually, and the clearing system acts as a buffer for all insurance risks concerning earnings-related pension insurance institutions, the risk for the individual pension institution lies in its deviation from the average of the pension system.

Until the end of 2016, the equalisation provision, which contains a risk-theory-based lower and upper limit, helped the companies to prepare for fluctuations in their annual insurance business results. The greatest fluctuation in the insurance business relates to disability pensions, the trend in which is the most difficult to forecast. Varma's equalisation provision under TyEL was approximately EUR 1,034 million at the end of 2016, which is about 5.5% of the total payroll of the insured. The corresponding risk components included in TyEL contributions totalled approximately 3.5% of the total payroll in 2016.

As of 2017, the equalisation provision has been incorporated in other solvency capital and is no longer monitored as a separate item. Insurance risks are carried by the provision for future bonuses, which is a component of the solvency capital, and they are also taken into account in the calculation of the solvency limit.

All supplementary pension insurances under YEL ended years ago, and pension liabilities related to these were transferred to the joint liability system on 1 January 2014. Supplementary pension insurances under TEL ended on 31 December 2016, and the pension liabilities were transferred to the joint liability system on 1 January 2017.

Technical provisions are calculated per person and insurance during the spring following the financial year in an annual

calculation, after employers have provided the required earnings data. The Finnish Centre for Pensions carries out the clearing in the autumn following the financial year, at which time the remaining components of the technical provisions can be calculated. The calculation of the technical provisions in the Financial Statements is based on estimates.

According to the calculation, the structure of Varma's technical provisions on 31 December 2016 was as follows:

	€ million	%
<b>TyEL basic insurance</b>		
Provision for unearned premiums		
Future pension liabilities	16,078	48.0
Provision for future bonuses	-578	-1.7
Provision for current bonuses	122	0.4
Equity-linked provision for current and future bonuses	324	1.0
Total provision for unearned premiums	15,946	47.6
Provision for claims outstanding		
Current pension liabilities	15,997	47.8
Equalisation provision	1,034	3.1
Total provision for claims outstanding	17,032	50.8
TyEL basic pension insurance, total	32,978	98.4
TEL compliant supplementary pension insurance, total	503	1.5
YEL basic pension insurance, total	19	0.1
YEL compliant supplementary pension insurance, total	1	0.0
<b>Total technical provisions</b>	<b>33,501</b>	<b>100.0</b>
	<b>€ million</b>	<b>Of payroll, %</b>
<b>TyEL equalisation provision, 31 Dec 2016</b>		
Old-age pension component	-9	0.0
Disability pension component	874	4.6
Contribution loss component	170	0.9
<b>Total</b>	<b>1,034</b>	<b>5.5</b>
Lower limit for the equalisation provision	283	
Upper limit for the equalisation provision	1,434	

Neither the age structure of the employees insured by Varma nor the employers' size or lines of business deviate significantly from the average for all earnings-related pension institutions, and the company's equalisation provision is somewhat higher than the average. Thus Varma carries little risk relating to an atypical insurance portfolio.

Risk management in insurance business applies insurance technique analyses. Insurance risks are analysed using, for example, a risk assumption analysis (mortality, disability intensity), financial statements and business result analyses (insurance technique, distribution of responsibility) and, e.g., by compiling statistics on contribution losses and disability pension expenditure. In drawing up the financial statements, in particular the estimate of the insured's payroll may deviate

from the final sum. This is reflected in the company's premium income and in the amount of technical provisions, but has little effect on the company's result.

The risks involved in technical provisions and the assets covering technical provisions, i.e. insurance and investment risks, are provided for by the solvency capital. The amount of solvency capital is monitored in relation to the technical provisions and to the solvency limit calculated on the basis of investment allocation. The calculation of the solvency limit also takes into account the insurance risk. Thus, solvency capital provides the company with a buffer especially for years in which the return on the assets covering the technical provisions is below the interest credited on technical provisions. The calculation of the solvency limit will be renewed as of 1 January 2017. All investment and insurance risks will be taken into account in the calculation more comprehensively than before. At the same time, the separate regulation on the assets covering the technical provisions will be abolished.

A part of the interest credited on technical provisions (10% until 31 December 2016, 15% in 2017, and 20% from 1 January 2018) is determined retroactively and is based on the pension insurance companies' actual equity returns. An equity-linked provision for current and future bonuses, which is between -20% and +1% of the technical provisions, helps insurance companies to carry the risks involved. If a pension institution's equity returns differ from the average, it must employ its solvency capital to carry the risks that this involves. When the average equity return is calculated, the weight of the largest pension institutions is limited to 20%.

The following table presents the allocation of investments and certain other items according to solvency group at year-end.

	€ million	%
Money-market instruments	1,904	4.4
Bonds and loan receivables	11,016	25.4
Real estate	7,386	17.0
Equities	19,674	45.4
Other investments	3,341	7.7
	43,322	100.0

## Investment Risks

*Market risk* is the fluctuation of the value of investments. The greatest market risk relates to equities. Other market risks are the interest rate risk, foreign currency risk, and the value change risk of real estate. Interest rate risk can be realised as a price risk, or as a reinvestment risk.

*Inflation risk* means the decrease of the real value or return of assets.

*Credit risk* refers to a danger of loss caused by the inability of the counterparty to honour its commitment.

*Liquidity risk* means the realisation of cash flow at a different amount than expected. A risk is also constituted by investments that cannot be converted into cash at all or can only be converted at a major loss. In the management of liquidity, commitments must also be taken into account.

*Concentration risk* refers to the increase in market, credit and liquidity risks as a result of insufficient diversification of the portfolio.

*The model risk* is constituted by the risks involved in risk measurement. In measurement it is necessary to make assumptions and simplifications concerning calculation methods and data, which may deviate from reality. There may also be risks related to the valuation of investments, and some of the investments' values are available with a delay.

Investment risk management is also governed by calculation assumptions and the regulations concerning technical provisions and solvency, which were amended on 1 January 2017. As of 2017, the calculation of solvency limit is more based on risk factors, and the separate regulations on the assets covering the technical provisions were abolished. This change is not expected to have any major influence on Varma's risk-bearing capacity.

Management of investment risks involves the determination of acceptable risk levels for different investment categories within the framework approved by the Board of Directors, continuous risk measurement using selected methods, comparison with acceptable levels, and reporting. Risk management also involves adaptation of the investment portfolio so that a correct risk/return ratio can be maintained. The nature of technical provisions and their return requirement are also taken into account when the time span and liquidity of investments are considered.

The investment plan approved by the Board of Directors defines, among other things, the following:

- the general security goals set for investments,
- the general principles for investment allocation,
- the return, diversification and liquidity goals of investments,
- the criteria for using derivative contracts, and
- the principles for arranging currency risk hedging.

At least once a year, the Board of Directors assesses the status and outlook of Varma's operating environment, the investment risks in terms of changes in value, expected returns, security, and the principles of foreign currency policy, and the company's short-term and long-term risk-bearing capacity and the development of the company's solvency.

The basic allocation of the investment portfolio laid down in the investment plan approved by the Board of Directors also determines the basic level for the total portfolio risk. The investment portfolio may differ from the target allocation within the allocation limits specifically defined in the investment plan.

Varma aims to maximise the expected return at the selected total risk level, which means that investments will have optimum profitability to the extent allowed by the company's risk-bearing capacity. Active risk targets have been laid down for different asset classes and items within which Varma is making active investment decisions to produce returns above

the market index. The portfolio's realised market risks, active risks and returns generated by active investments are regularly monitored and reported in Investment Operations.

Furthermore, in making investment decisions, Varma takes into account the corporate responsibility principles and the ownership policy in which, among other factors, high-quality governance and the operational transparency of domestic and foreign companies are important selection criteria.

Varma's investment portfolio's structure by asset class and returns by asset class for 2016 are presented in the Notes to the Financial Statements.

Geographical allocation of investments in listed equities:

	<b>Risk position 31 Dec 2016 € million</b>	<b>%</b>	Risk position 31 Dec 2015 € million	<b>%</b>
American equities	<b>3,715</b>	<b>25.1</b>	3,521	23.6
European equities	<b>2,915</b>	<b>19.7</b>	3,815	25.5
Other areas	<b>2,762</b>	<b>18.7</b>	1,978	13.5
Finnish equities	<b>5,400</b>	<b>36.5</b>	5,624	37.6
Listed equities	<b>14,793</b>	<b>100.0</b>	14,938	100.0

Direct investments in real estate according to purpose of use:

	<b>Risk position 31 Dec 2016 € million</b>	<b>%</b>	Risk position 31 Dec 2015 € million	<b>%</b>
Residential premises	<b>753</b>	<b>26.0</b>	690	20.8
Business premises	<b>570</b>	<b>19.7</b>	848	25.6
Other premises	<b>406</b>	<b>14.0</b>	406	12.2
Industrial and warehouse premises	<b>150</b>	<b>5.2</b>	207	6.3
Office premises	<b>1,019</b>	<b>35.2</b>	1,163	35.1
Direct real estate investments	<b>2,897</b>	<b>100.0</b>	3,313	100.0

The vacancy rate of business premises was 6.2% (7.2%).

Bonds according to credit rating:

	<b>Market value (excl. derivatives) 31 Dec 2016 € million</b>	<b>%</b>	Market value (excl. derivatives) 31 Dec 2015 € million	<b>%</b>
AAA	721	6.3	2,245	21.7
AA	1,782	15.6	363	3.5
A	1,094	9.6	1,089	10.5
BBB or lower	6,153	53.8	4,405	42.5
Not rated	1,679	14.7	2,256	21.8
	<b>11,429</b>	<b>100.0</b>	10,357	100.0

Loans itemised by guarantee are presented in the Notes to the Financial Statements under Loan receivables.

The market risk of investments, mainly equities, constitutes the biggest risk relating to the return and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at EUR 1,633 million (EUR 1,842 million) at year-end 2016. The figure indicates the greatest possible fall in the market value of the company's investment portfolio in ordinary market conditions over a period of one month at a probability of 97.5%. The CVaR (Conditional Value at Risk) figure refers to expected losses exceeding VaR, and this figure amounted to EUR 1,948 (2,197) million.

The total risk relating to investments is adjusted to the company's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum risk level is measured such that even after a 25% drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital (1/3 of the solvency limit) by at least the amount of the VaR and is, in any case, always at least at the solvency limit.

The different maximum limits of investments are presented as separate risk limits in the investment plan. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes.

Varma's foreign-currency-denominated investments amount to EUR 25,306 million, accounting for 59% of all investments. The investments' currency risk is partly hedged using currency derivatives. The open currency position amounted to EUR 8,004 million on 31 December 2016.

Investment risks can be abated and eliminated, for example,

- by diversifying investments by asset class and items,
- by analysing the investment portfolio and items,
- by avoiding risk concentrations,
- by limiting the amount of unlisted securities,
- through a securing guarantee policy,

- through careful valuation practices,
- by integrating assets and liabilities,
- by using derivatives,
- by applying adequate and on-time supervision and monitoring arrangements, and
- by minimising counterparty risks.

The risk limits and decision-making powers laid down in the investment plan are monitored by the Investment Operations both before and after assignments. In addition to analyses of investment markets, Varma monitors matters such as investment duration, classification and liquidity. In real estate investments, Varma pays special attention to technical and location risks, among others.

New investment instruments with return and risk profiles that are significantly different from the instruments contained in Varma's present portfolio are examined by the Investment Committee and are also presented to the Board of Directors before any investments are made.

At Varma, the function responsible for preparing and implementing investment decisions and the supervisory and reporting function have been separated.

On 1 January 2017, the calculation of the solvency limit was amended, and the separate regulations on the assets covering the technical provisions were abolished. The new regulations take different investment risks into account more comprehensively than before. In future, risks, such as concentration risks, which were previously taken into account in the regulations on the assets covering the technical provisions, will have a direct impact on the amount of solvency limit. Thus, investment diversification continues to be essential also in terms of solvency. In the calculation of the solvency limit, investments are classified into 18 risk categories, and the investments are then subjected to statutory stress tests while taking into account the correlation between risk categories. The new solvency limit as a concept differs from the previous one and the two cannot be directly compared with one another. The real impact of the amendment on risk-bearing

capacity can be examined computationally in a situation where solvency capital would be equal to the solvency limit. For Varma, the solvency limit increased on 1 January 2017 by around 22%, of which the real impact on the risk-bearing capacity was about 10 percentage points. Under the regulations, euro-denominated derivative limits and the permitted maximum loss must be determined. Varma's largest

individual corporate risk position is its equity ownership in Sampo Plc, the market value of which was EUR 1,528 million on the closing date.

The table below shows how falls in equity prices and real estate values and increases in interest rates would affect return and solvency in the financial statements.

	Value 1 Jan 2017	Effect Share prices -30%	Effect Interest rates +1 pp	Effect Real estate value -10%
Solvency capital, € million	10,199	5,630	9,615	9,836
% of technical provisions in relation to solvency limit	130.9 1.5 times	117.8 1.1 times	129.1 1.5 times	129.8 1.5 times
Return on investments, %	4.7	-9.9	3.2	3.8

The table's figures have been calculated according to the solvency capital legislation that took effect on 1 January 2017. Thus, the figures on solvency are unaudited.

The Board of Directors decides on the principles concerning the use of derivative contracts and the principles for the solvency classification of investments. The Board monitors the up-to-dateness and application of the principles for solvency classification, and the use of derivative contracts and their impact on the solvency limit.

## Operational risks

Operational risks entail

- a danger of loss,
- a threat to the continuity of operations, or
- a diminishing of trust in the company, caused either by the company's internal processes or by unanticipated external events.

Operational risks are related to processes and methods, information systems, possible malpractice, property damage and staff competence.

The company makes every effort to eliminate any defects in its supervision systems that would permit unintentional or intentional errors or misuse concerning such matters as insurance or claims handling, investments, reporting, payment transactions, register details, data processing, division of work, partners' operations, or documentation.

Operational risks are charted on a regular basis. The potential impacts and likelihood of identified risks are assessed on a risk-specific basis, and the risks are linked to strategic aims and processes. Identified risks are compiled in a risk chart in which risks are classified on the basis of an overall evaluation

and in accordance with their potential to threaten Varma's success and the goals approved by the Board of Directors. Overall consideration of the impacts of the risks and deciding on measures take place in accordance with Varma's standard planning and decision-making system. A continuity plan is drawn up for functions that may involve substantial risks. The preparation of the plan is at the discretion of the line management.

## Other risks

The earnings-related pension system is based on insuring work carried out in Finland. Finland's economy has taken a cautious upward turn. So far, growth has been driven by the domestic market, and export demand remains muted. The improved price competitiveness of exports is expected to boost employment and economic growth, but the benefits will be reaped after a delay. The deficit in public finances is still substantial, and it will be highlighted in the coming years, as the ageing of the population will increase pension and care expenditure. Economic growth, although stronger, is still not sufficient to balance public finances.

The purpose of the pension reform is to lengthen careers and strengthen the financial and social sustainability of the earnings-related pension system. The pension reform will also help close the sustainability gap in public finances. Despite the pension reform, the challenging investment environment and the weaker-than-expected development of the economy and employment increase the risk of a deterioration in the earnings-related pension system's financing balance in the medium and long term. In order to control the risks, Varma co-operates closely with its stakeholders and other players in the field and is developing its processes so that it can react to any changes in the earnings-related pension system on time.

## Varma's preparation for unsettled and exceptional circumstances

Earnings-related pension institutions are under statutory obligation to ensure their tasks can be handled with minimum disruption, even under exceptional circumstances. According to the National Security Strategy, the pension and book entry systems, among others, are functions that must be secured.

Principal threat types and their concomitant special circumstances related to pension payments and funding include serious perturbations in the infrastructure required by the networked operating model, citizens' health and income security, and society's economic capacity. Due to the distributed management of pension cover, there is a lot of co-operation within the earnings-related pension system. This increases mutual dependency and vulnerability. The internationalisation of information technology services and bank services creates challenges for contingency operations.

Contingency operations secure critical activities in exceptional circumstances and in serious disturbances within normal circumstances. Also in exceptional circumstances or when threatened by them, Varma will fulfil its statutory and contractual obligations as comprehensively and for as long as possible. In co-operation with other operators, banks, authorities, and the emergency supply organisation, priority will be given to securing services connected with citizens' income security.

Varma has a recovery plan for situations where IT is disrupted and a contingency plan approved by the Board of Directors, which is supplemented by detailed plans prepared by different functions. A contingency unit, which the managers of core functions belong to, coordinates the activities in possible contingencies.

The contingency unit is responsible for preparing the contingency plan, for preparing for unsettled situations, for preparing and maintaining other plans (such as the recovery plan and the security and rescue plan) and instructions based on it, for managing unsettled situations, for contingency actions, for building, maintaining and testing contingency systems, and for taking into account the experiences gained from drills organised within the sector in the company's operations. The members of the contingency unit, in their own area of responsibility, take care of emergency planning, construction and testing of contingency systems, providing timely information and securing information storage.

Significant risks in exceptional circumstances include

- 1) the payment of pensions is jeopardised,
- 2) the financing of pensions and liquidity management become more difficult,
- 3) the implementation of processes during exceptional circumstances does not happen quickly enough,
- 4) bank systems, investment trading systems or other societal infrastructures fail to work,
- 5) the earnings-related pension systems, telecommunication lines or co-ordination within the sector fail to work
- 6) our own IT applications or networks fail to work, stoppage of services provision,
- 7) counterparty risks and the invalidity of contracts under exceptional circumstances, and
- 8) risks related to the availability of data at the onset of a crisis.

Varma participates in operational exercises together with other pension insurance institutions, insurance companies, banks and financial operators.

## Internal audit

Internal audit operates in accordance with the principles defined in the professional standards of internal audit. It comprises independent and objective assessment, assurance and consulting activities whose purpose is to support the organisation in achieving its goals by producing assessments and development proposals concerning the status of risk management and other internal controls. The organisational status, tasks, responsibilities and powers of the internal audit are laid down in the instructions approved by the Board of Directors. The areas to be audited are set out in an annual audit plan, which is approved by the Board of Directors after it has been discussed by the Executive Group and the Audit Committee. The audit observations are reported to the company management, the Audit Committee and the Board of Directors. The internal audit is organised under the supervision of the CEO.

## Supervision by authorities

In addition to laws and decrees, Varma's operations are governed by the instructions and regulations of the Financial Supervisory Authority. Varma provides the Financial Supervisory Authority with information and reports on a regular basis or as required. The supervising authority carries out appropriate inspections related to administration, solvency, investment operations and operational risks, among other things.

## Distribution of profit

Distributable profits as presented in the notes to the financial statements	107,008,516.23 euros
The Board of Directors proposes that the profit for the year be distributed as follows:	6,245,548.10 euros
to be transferred to the contingency fund (optional reserve)	5,500,000.00 euros
to be paid as interest on guarantee capital	656,773.85 euros
to be carried over on the Profit and Loss Account	88,774.25 euros

Helsinki, 15 February 2017

Jari Paasikivi, Chairman of the Board

Antti Palola

Kai Telanne

Riku Aalto

Mikael Aro

Johanna Ikäheimo

Ari Kaperi

Casimir Lindholm

Jyri Luomakoski

Petri Niemisvirta

Ilkka Oksala

Pekka Piispanen

Risto Murto, President & CEO

# Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Varma Mutual Pension Insurance Company

## Report on the Audit of Financial Statements

### Opinion

We have audited the financial statements of Varma Mutual Pension Insurance Company (business identity code 0533297-9) for the year ended 31 December, 2016. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Other Reporting Requirements

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

### Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Finnish Insurance Companies Act. We support that the members of the Supervisory Board and the Board of Directors and the Managing Director be discharged from liability for the financial period audited by us.

Helsinki 1 March 2017

Petri Kettunen  
Authorised Public  
Accountant, KHT

Paula Pasanen  
Authorised Public  
Accountant, KHT