

Varma's Interim Report

1 January–31 March 2020

29 April 2020



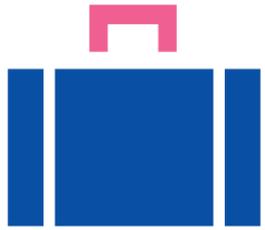
Return and solvency development

	Q1/2020	12 months
Investment return (MWR)	-10.0%	-4.1%

	Q1/2020	Q4/2019	Q1/2019
Solvency capital (€ mill.)	7,870	11,646	10,616
Solvency capital / solvency limit	1.6	1.8	1.7
Solvency ratio (%)	121.6	130.8	129.4
Investments at fair value (€ mill.)	43,597	48,709	45,796



Key figures



Market value
of investments, €
43.6 bn



Solvency capital, €
7.9 bn

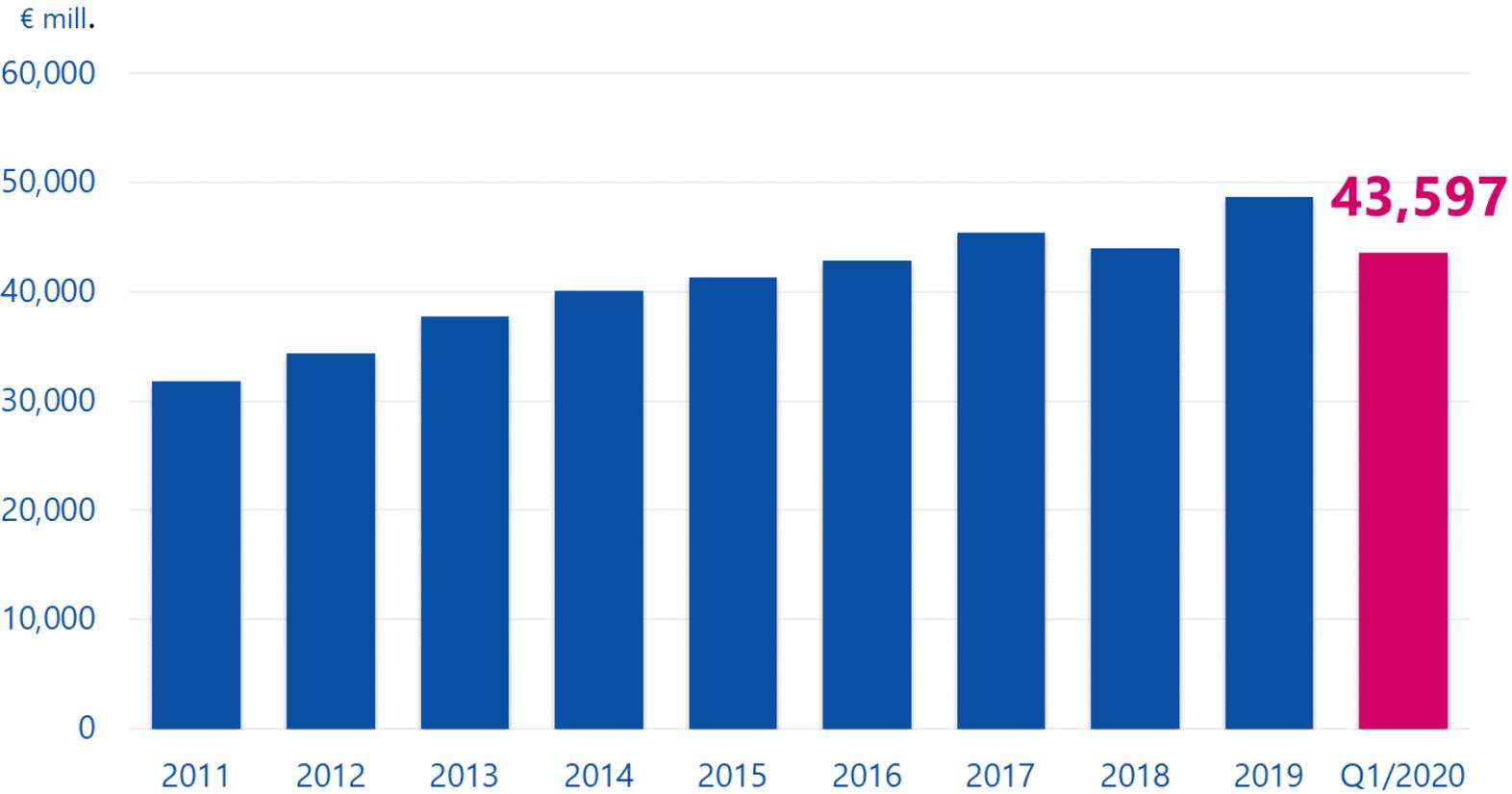


Return on investments
-10.0%

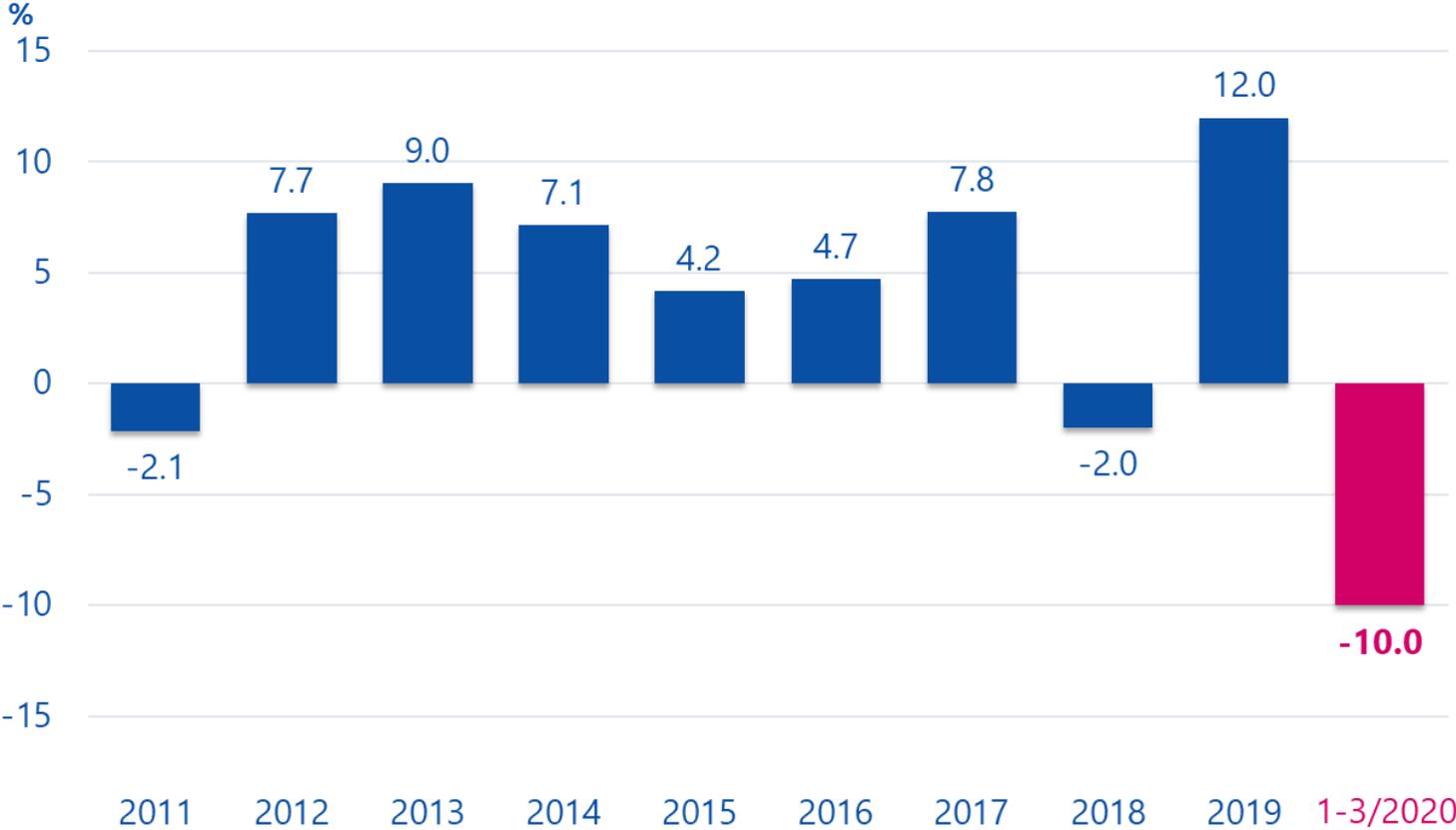
A person with long hair, wearing a dark turtleneck, an orange vest, and light blue jeans, is sitting on a rocky cliffside. They are looking out over a vast, rugged landscape of layered rock formations under a bright sky. The text "Investments and solvency" is overlaid in white on the person's torso.

Investments and solvency

Market value of investments EUR 43.6 bn



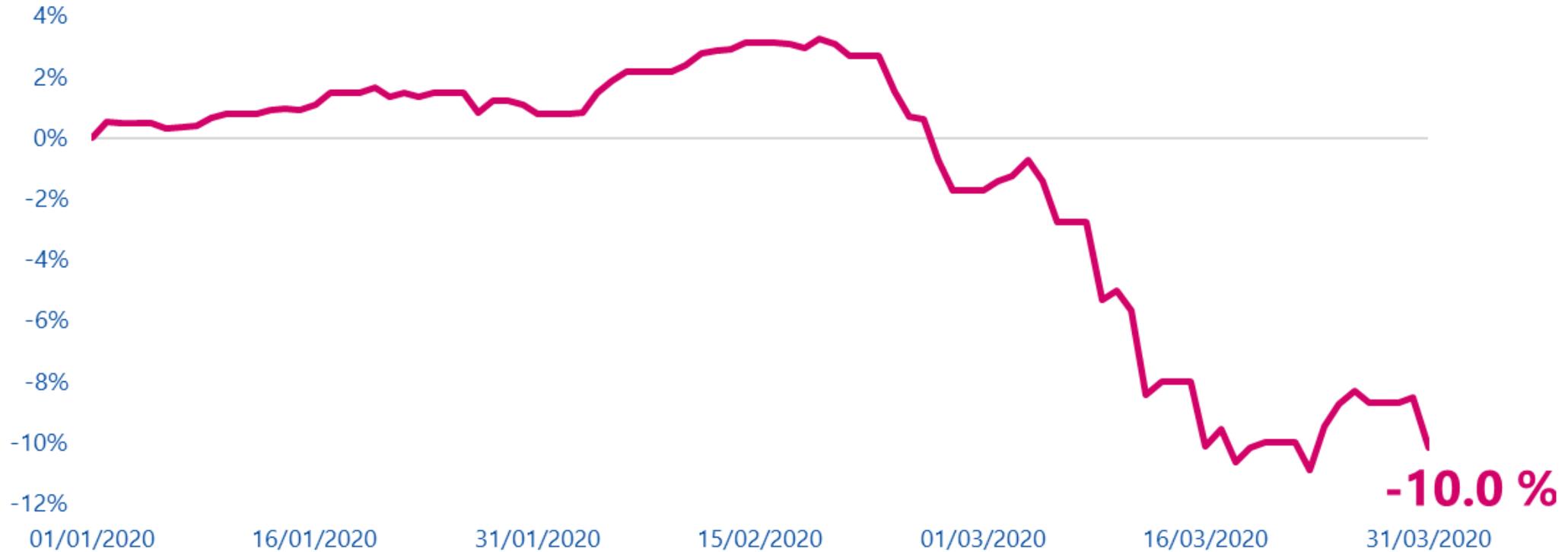
Return on investments 2011–Q1/2020



In March, the equity markets fell rapidly as the coronavirus pandemic expanded into a global crisis. By reducing equity weights, Varma lowered its risk level to secure solvency in all conditions.

The average nominal return on investments over ten years is approx. 4.3%, calculated in accordance with the recommendations issued by TELA. In 1-3/2019 return on investment was 5.1%.

Varma's investments in the first quarter of 2020



Return development since 2010: cumulative return 58.7%, i.e. €17.3 bn



Investments classified according to risk

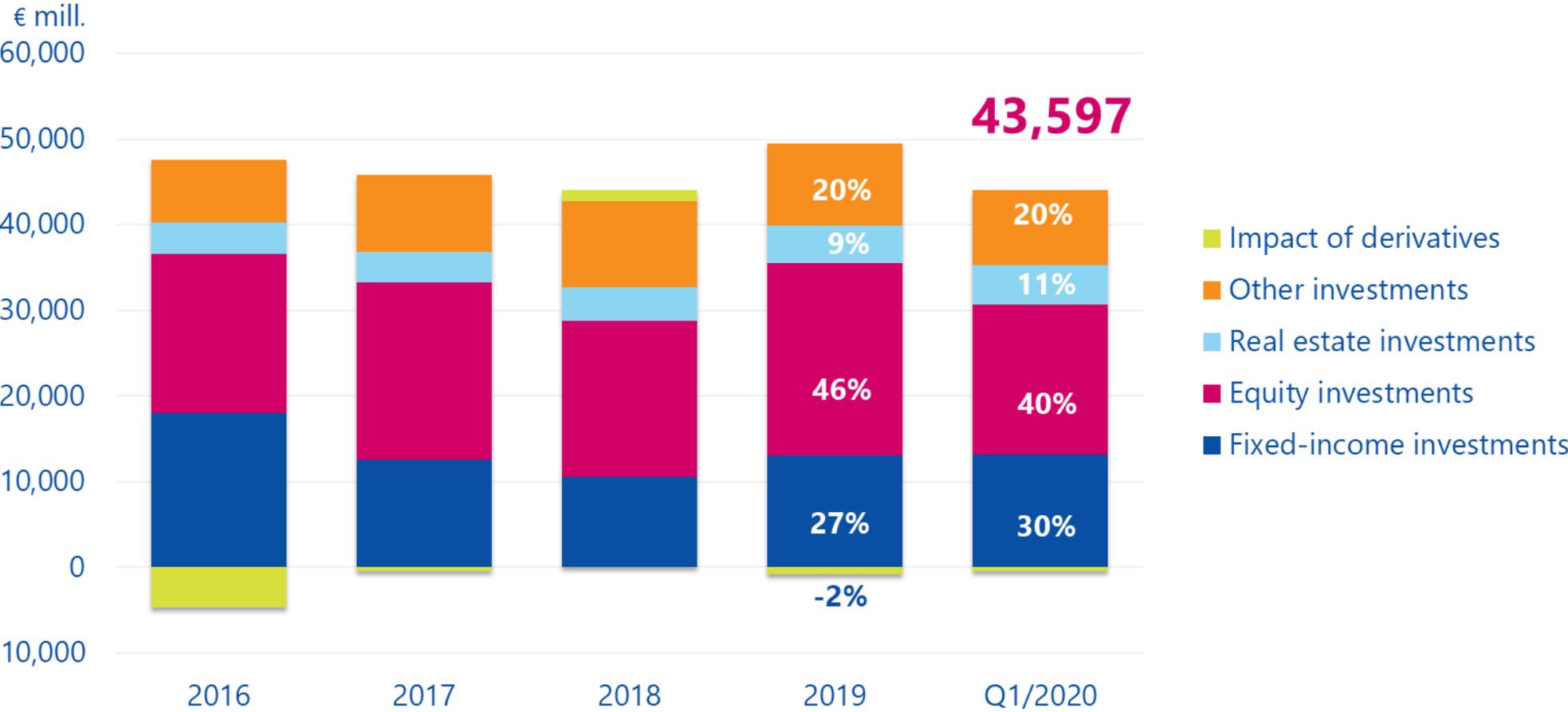
	31 Mar 2020				31 Mar 2019				31 Dec 2019				Change from		1-3/2020	1-3/2019	1-12/2019	24 m
	Market value				Market value				Market value				1 Jan 2020		Return	Return	Return	Vola- tility
	Market Value		Risk position		Market Value		Risk position		Market Value		Risk position		Risk position		MWR	MWR	MWR	
	€ mill.	%	%	%	%													
Fixed-income investments ¹	12,874	30	13,164	30	13,330	29	10,756	23	12,957	27	13,052	27	112	0	-3.6	1.9	4.5	
Loan receivables	2,299	5	2,299	5	1,890	4	1,890	4	2,315	5	2,315	5	-16	0	0.9	1.1	4.0	
Bonds	7,562	17	8,053	18	10,321	23	9,134	20	9,563	20	10,693	22	-2,640	-6	-5.4	2.1	5.1	5.2
Public bonds	2,872	7	3,464	8	3,910	9	2,723	6	3,577	7	4,707	10	-1,243	-3	-0.6	1.1	2.6	
Other bonds	4,691	11	4,589	11	6,411	14	6,411	14	5,986	12	5,986	12	-1,397	-3	-8.3	2.8	6.6	
Other money-market instruments and deposits	3,012	7	2,812	6	1,118	2	-268	-1	1,079	2	44	0	2,768	6	0.2	1.2	0.4	
Equity investments	17,410	40	17,501	40	19,801	43	19,868	43	22,486	46	22,457	46	-4,956	-11	-14.6	10.0	22.8	
Listed equities	11,566	27	11,657	27	15,225	33	15,292	33	17,252	35	17,223	35	-5,567	-13	-21.1	13.1	25.4	17.9
Private equity	5,550	13	5,550	13	4,329	9	4,329	9	4,945	10	4,945	10	605	1	5.6	1.0	15.1	
Unlisted equities	294	1	294	1	247	1	247	1	289	1	289	1	5	0	1.6	-1.8	16.9	
Real estate investments	4,611	11	4,611	11	3,946	9	3,946	9	4,413	9	4,413	9	198	0	1.3	0.7	4.1	
Direct real estates	2,808	6	2,808	6	2,939	6	2,939	6	2,792	6	2,792	6	16	0	1.1	0.9	3.9	
Real estate funds	1,804	4	1,804	4	1,007	2	1,007	2	1,622	3	1,622	3	182	0	1.5	0.1	4.7	
Other investments	8,702	20	8,705	20	8,720	19	10,043	22	8,853	18	9,548	20	-843	-2	-13.9	1.9	4.5	
Hedge funds	8,741	20	8,741	20	8,725	19	8,725	19	8,857	18	8,857	18	-117	0	-12.7	2.0	5.0	9.4
Commodities	0	0	3	0	-3	0	-17	0					3	0				
Other investments	-38	0	-38	0	-2	0	1,335	3	-5	0	691	1	-729	-2				
Total investments	43,597	100	43,982	101	45,796	100	44,613	97	48,709	100	49,471	102	-5,489	-13	-10.0	5.1	12.0	8.2
Impact of derivatives			-385	-1			1,183	3			-762	-2	377	1				
Investment allocation at fair value	43,597	100	43,597	100	45,796	100	45,796	100	48,709	100	48,709	100	-5,112	-12				

The modified duration for all the bonds is 4.4.

The open currency position is 21.4% of the market value of the investments.

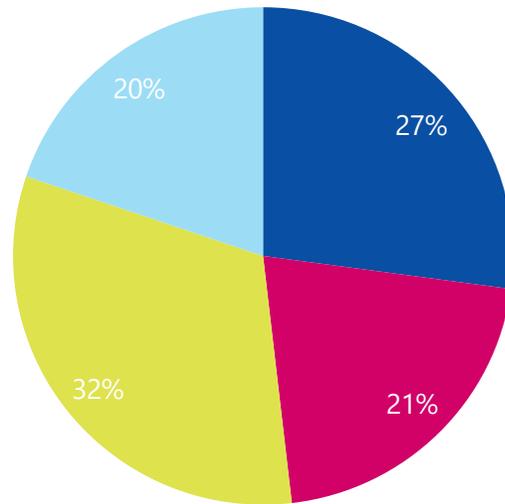
¹ Includes accrued interest

Distribution of Varma's investments



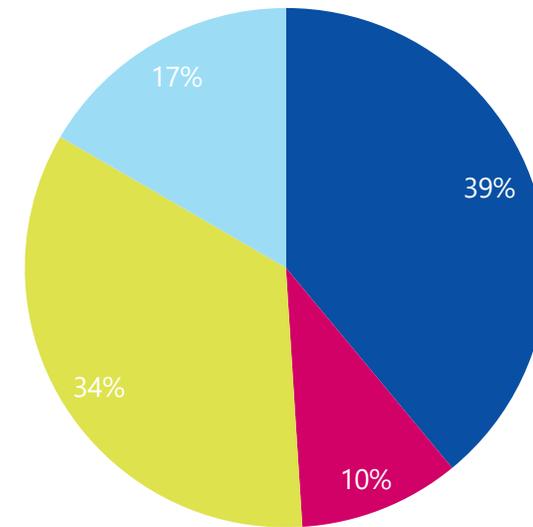
Geographical distribution of investments

Investments



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

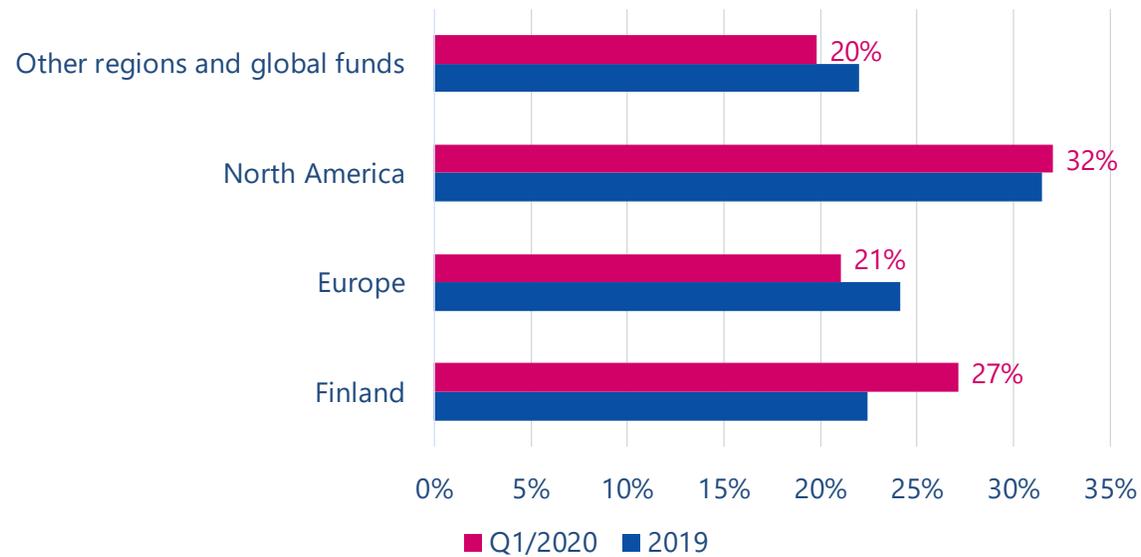
Listed equities



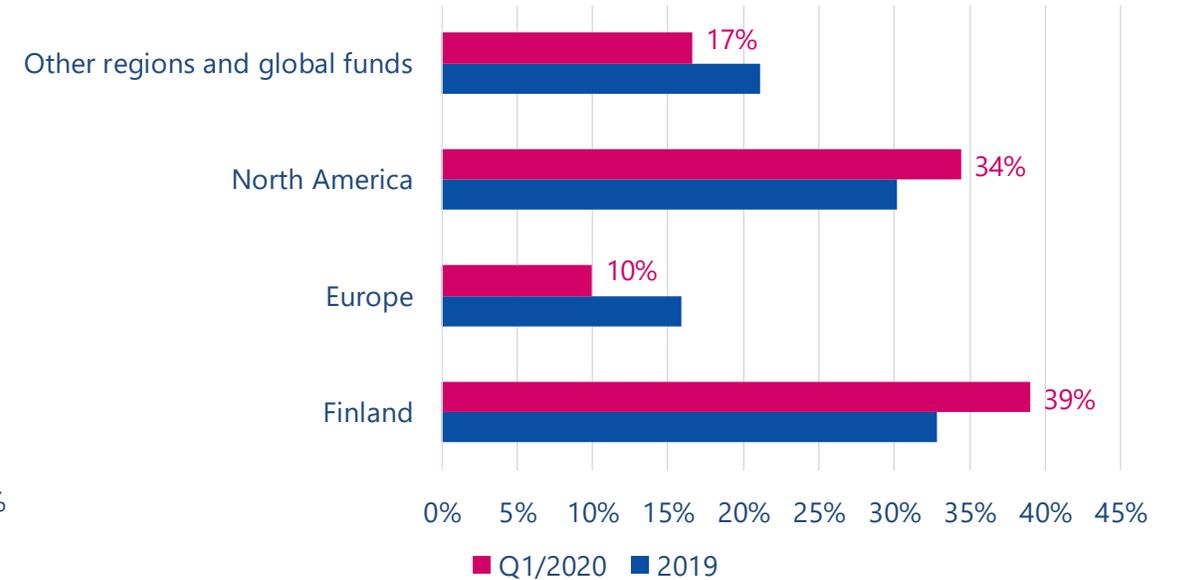
■ Finland ■ Europe ■ North America ■ Other regions and global funds

Geographical changes in investments

Investments

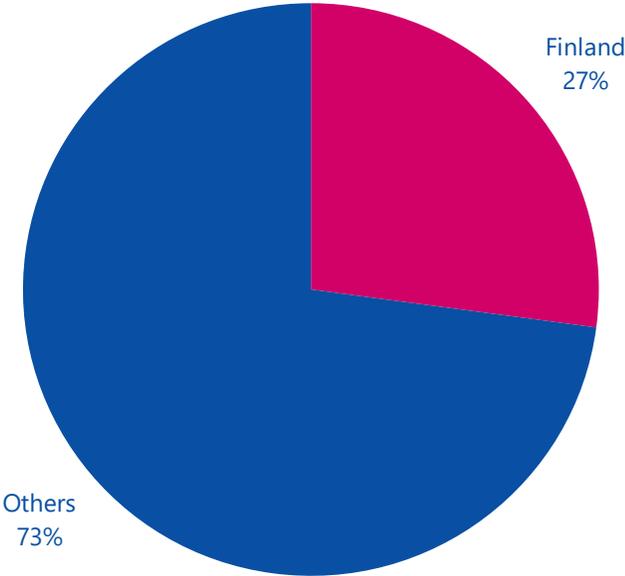


Listed equities

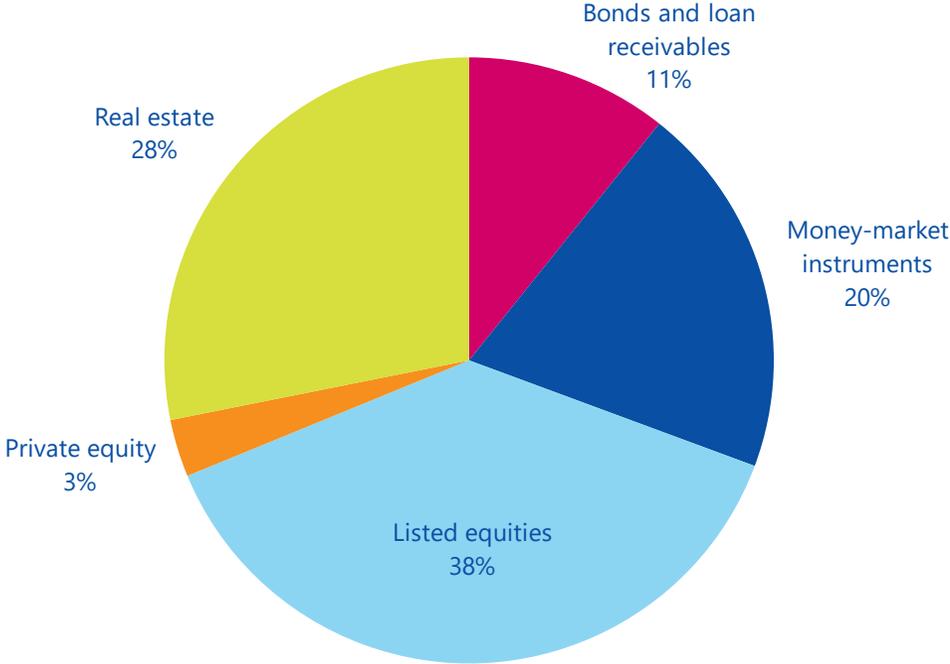


Investments in Finland 27%, €11.9 billion

Investments in Finland



Distribution of Finnish investments



Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
3/2020	-10.0	-19.1	-22.6	-19.6	0.4	-6.2
2019	12.0	20.4	26.8	31.5	6.7	6.3
2018	-2.0	-3.9	-10.8	-4.4	1.0	-1.3
Average nominal return						
5 years	2.0	3.0	-1.5	6.7	1.7	0.7
10 years	4.3	7.1	4.9	10.5	4.1	3.1
Since 1999 *	5.0	7.4	3.3	5.6	4.4	3.8
Average real return						
5 years	1.3	2.3	-2.2	6.0	1.1	0.0
10 years	3.0	5.8	3.6	9.2	2.8	1.9
Since 1999 *	3.4	5.8	1.8	4.0	2.9	2.3

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

Finnish equities = OMX Helsinki Cap Index

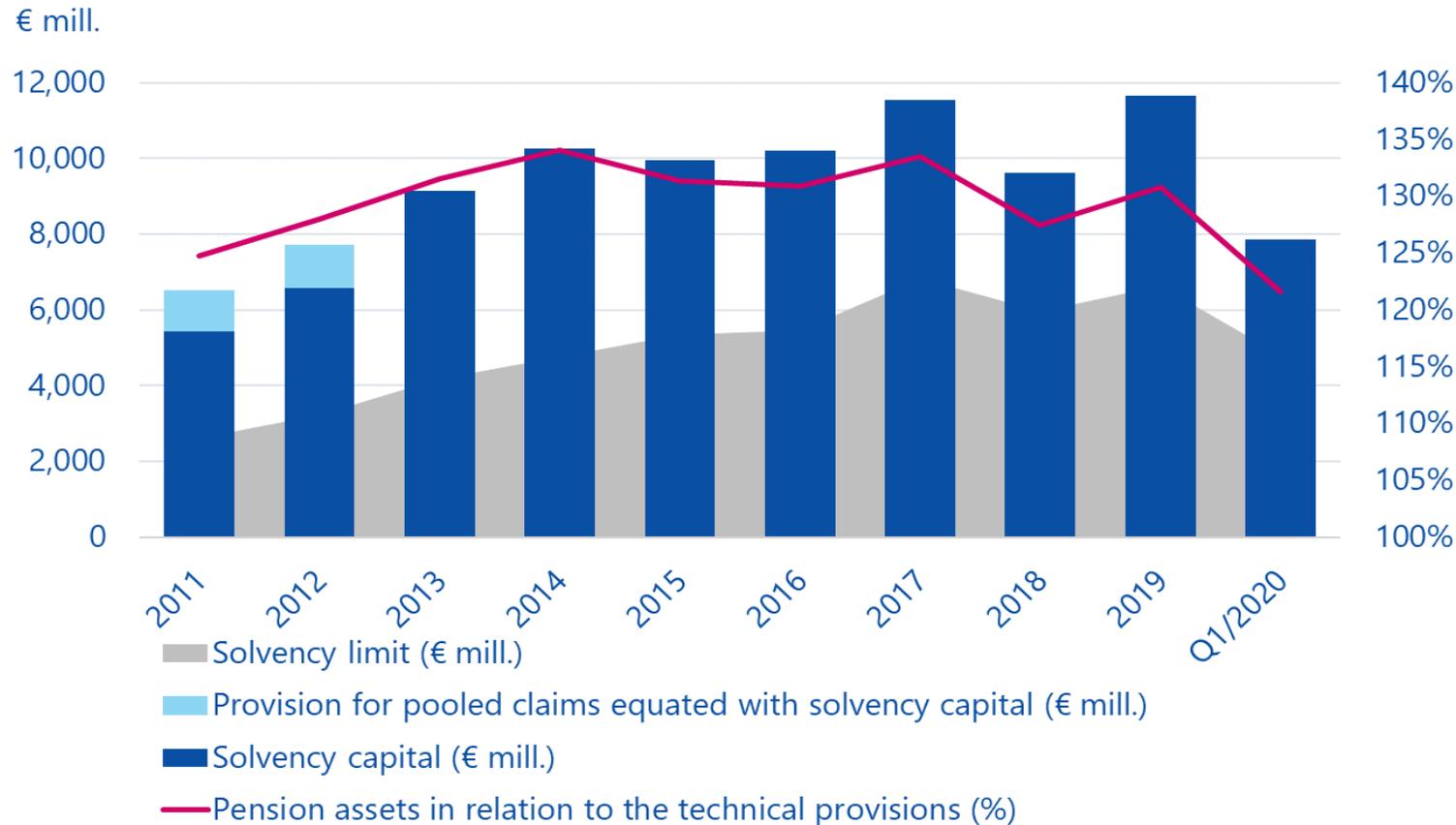
Euro government bonds = IBOXX Eurozone EUR (Total Return)

European equities = Stoxx 600 Total Return Index EUR

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

US equities = S&P500 Total Return Index

Solvency remained at a good level



- Solvency capital amounted to EUR **7.9** billion.
- Solvency capital was at a secure level, i.e. at **1.6** times the solvency limit.
- Solvency ratio was **121.6%**
- Solvency remained at a good level, and the risk buffers used to secure the pension system were effective.



Insurance and pensions





Insured employees and entrepreneurs

533,000

Pensioners

343,000

Pensions paid

€1.5 bn

Current pension topics

- New pension decisions totalled 6,005 (–4%) by the end of March.
- Partial early old-age pension continues to be popular – nearly the same amount of applicants as the previous year, 722 applications.
- The share of online pension applications was 56% (51%).
- The average time it took to process a pension application was 25 days, old-age pensions were processed faster, in an average of six days.
- The share of pension decisions making use of extensive automated systems increased by dozens of per cent.



VARMA

Disability and rehabilitation applications

-3.0%

Disability pension applications

The number of disability pension applications declined slightly. A total of 3,351 applications were received.

-3.1%

Rehabilitation applications

The number of rehabilitation applications was 625.

77%

People returning to work

More than three quarters of those who receive a positive rehabilitation decision return to working life. The most common form of rehabilitation is a work trial carried out at one's own workplace.

A woman with brown hair, wearing a white short-sleeved collared shirt, is laughing heartily while looking towards a man. The man is seen from the back, wearing a blue shirt. In the background, there is a large, vibrant green plant with large, heart-shaped leaves. The scene is brightly lit, suggesting an indoor office or meeting environment.

Current topics at Varma

Coronavirus timeline

Varma's measures to help client companies get through the toughest months.

Weeks of 24 February – 9 March

Week of 16 March

Week of 23 March

Week of 30 March

Week of 6 April

Week of 13 April

**Finnish
Gov't/
THL**

26.2 HUS: First case of the COVID-19 coronavirus
3.3 THL: Change in the coronavirus situation
12.3: Events with more than 500 people prohibited

16.3: Finland declares state of emergency, enacts the Emergency Powers Act

17.3: Restrictions on border traffic begin, travel bans
18.3: Schools are closed
21.3: First COVID-19 death

27.3: Lockdown of the Uusimaa region begins
3.4: Restaurants shut down

Varma

20.3: All Varma employees working from home
20.3: Varma allows flexibility in business rents to entrepreneurs facing special difficulties
20.3: Deferred payment of insurance contributions for TyEL and YEL customers

31.3: Varma freezes rent payments for 2 months for restaurant tenants

1.4: Terms of payment for pension loans to Varma's customers changed

8.4: Reduction of employers' contributions as of 1 May



16 April Uusimaa lockdown lifted

VARMA

Impacts of the coronavirus pandemic on Varma's customers



Entrepreneurs and especially larger employers have applied for an extension to their payment terms

- It is possible to get a three-month deferral on the payment of earnings-related pension contributions, with no penalty interest charged.
- Eight per cent of Varma's TyEL insurance customers and 14 per cent of YEL insurance customers are making use of the payment period flexibility.
- The applications for an extended term of payment highlight companies operating in the Uusimaa region and the hotel and restaurant industry, employment services as well as speciality shops.
- Large employers are making use of the deferred payment period to a relatively greater extent than small employer companies.



High number of changes to YEL confirmed income made by entrepreneurs

- In March 2020, there was double the amount of changes to confirmed income compared to March of last year.
- Of the changes made to confirmed income since the beginning of March, approximately 60% were reductions and 40% were increases.
- By changing their confirmed income, entrepreneurs sought flexibility in light of changes in their work situation due to the coronavirus crisis.
- The confirmed income set by the entrepreneur is used as the basis for calculating pension and social security benefits as well as YEL contributions.



Impact of the coronavirus on insurance matters

- In March and April, customers contacted Varma's insurance services two to three times more than normal.
- There have been thousands of customer enquiries a day.
- The enquiries have concerned especially the possibility for entrepreneurs and employers to apply for an extended term of payment in their TyEL and YEL insurance contribution invoices. Customers can apply for an extended term of payment in Varma's eServices, with no queuing.



Sustainability



Working for future generations

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

Mitigating climate change

Promoting workability and a good working life

Ethical business and open communication

Responsibility for Varma employees

VARMA

Residential apartment buildings forgo district heating – geothermal heating among one of the options

Varma will switch to using heat pumps as the heating source for a large part of the properties in its housing stock.

Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma's total housing stock will decrease by approx. 48% by 2023. In some apartment buildings, geothermal heating will entirely replace district heating.

Climate goal: fossil-free heating and electricity in properties by 2030 and 2025, respectively.

A young man with dark hair, wearing a dark green zip-up jacket, is smiling and looking upwards and to the right. He is pushing a light-colored metal cart loaded with several large, flat, rectangular boxes. The background is a warehouse with high ceilings, metal shelving units filled with cardboard boxes, and industrial lighting fixtures. The overall atmosphere is bright and professional.

Current economic issues



Current issues

- The decline in the investment markets is so far not exceptional in terms of how low it fell.
- The restrictions and economic uncertainty that followed the coronavirus epidemic have been a bigger crisis in people's day-to-day lives and the real economy than in the financial markets. The decline in the real economy this year will be profound.
- In terms of economic recovery, the main factor will be how fast governments can lift the restrictions.
- Central banks' stimulus measures have been rapid and massive, which has slowed the expansion of the economic crisis into a financial crisis.

