

A young woman with long brown hair is walking towards the camera on a bright pink path. She is wearing a bright pink knit beanie, a white turtleneck scarf, a black quilted puffer vest over a grey long-sleeved top, and light blue jeans. She has a large, multi-colored scarf (pink, white, yellow) draped around her neck. The background is a dark asphalt surface with some scattered leaves and a black metal fence in the distance.

Varma's Interim Report 1 January–31 March 2021

VARMA

Q1/2021

KEY FIGURES

In January–March 2021, Varma recorded its best quarterly investment result ever. In January–March, the return on Varma’s investments was 6.0 percent, i.e. EUR 3.0 billion, and the total value of investments grew to EUR 52.9 billion.

Return on investments

6.0%

Value of investments

€52.9 bn

Solvency

€13.5 bn

Efficiency

65%

Premiums written

€1.3 bn

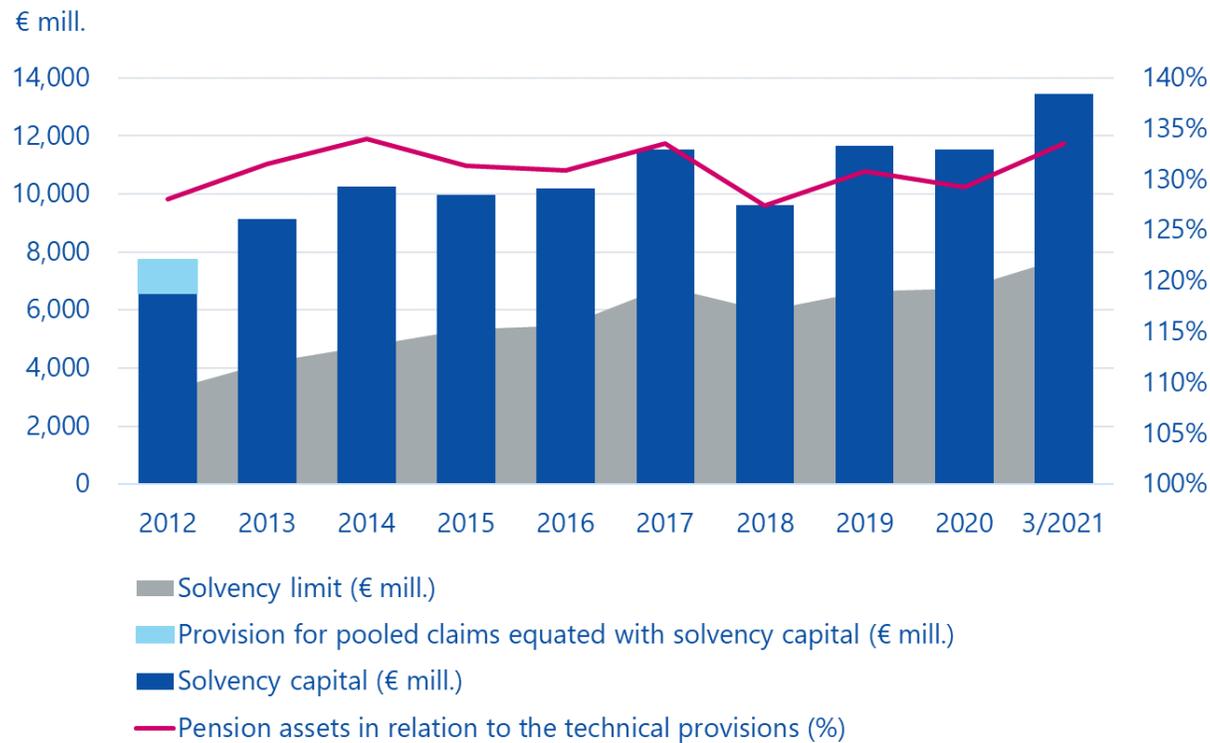
Pensions paid

€1.5 bn

Development of investment returns and solvency

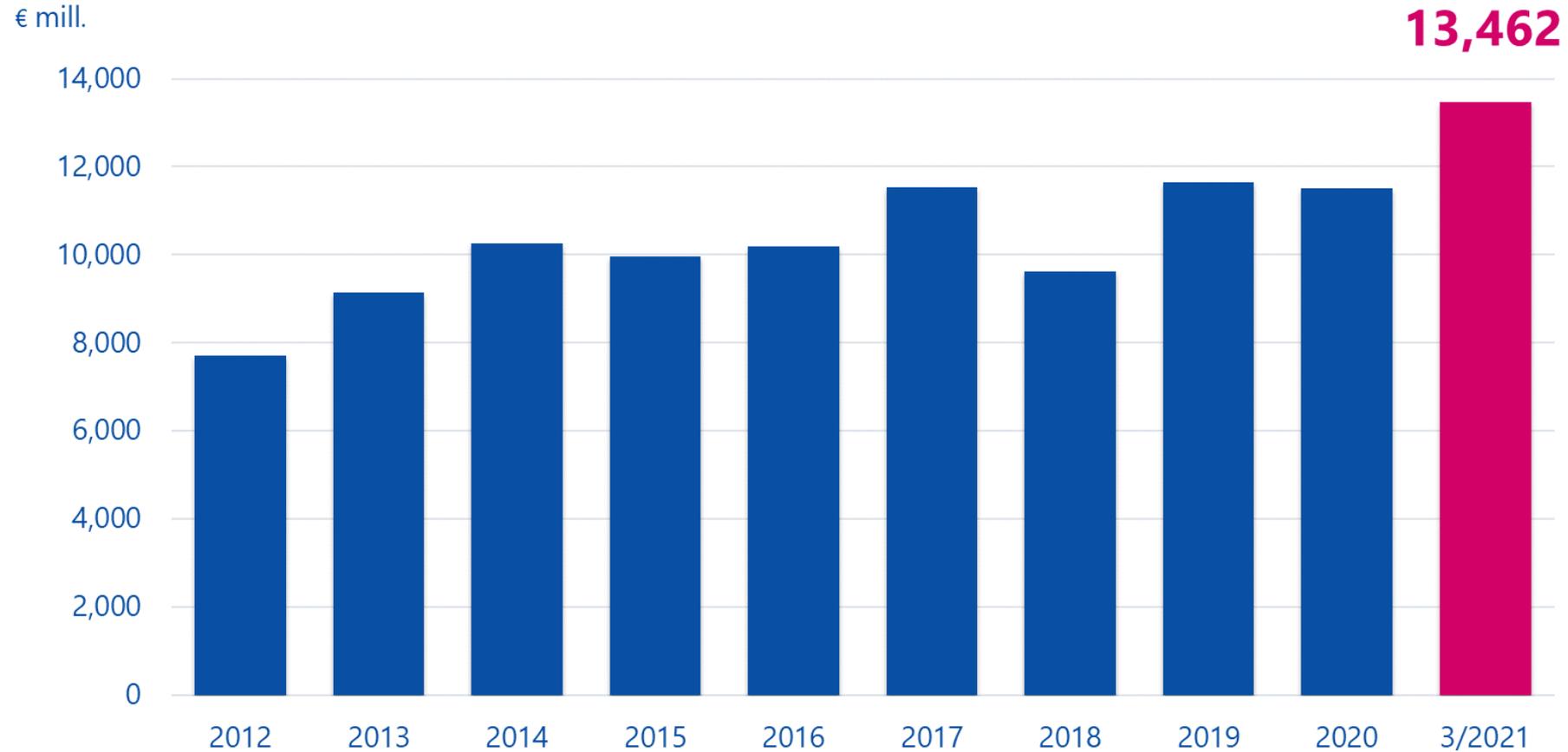
	1-3/2021	1-3/2020	12 months
Investment return (MWR)	6.0%	-10.0%	21.1%
	3/2021	3/2020	12/2020
Solvency capital (€ mill.)	13,462	7,870	11,517
Solvency capital / solvency limit	1.7	1.6	1.7
Solvency ratio (%)	133.5	121.6	129.3
Investments at fair value (€ mill.)	52,923	43,597	50,157

Solvency grew thanks to strong investment returns



- Varma's solvency capital strengthened by **EUR 1.9 billion** to **EUR 13.5 billion** since the start of the year, thanks to good investment returns.
- Solvency capital was **1.7 times** the solvency limit.
- Varma's solvency capital, which serves as a risk buffer for investment operations, provides protection against volatility in investment market returns.
- The solvency ratio was **133.5 percent**.

Solvency capital increased to EUR 13.5 billion



The pandemic's impacts on Varma and customers



First coronavirus cases in disability pension applications – applications are expected to increase

In the first quarter, Varma processed six disability pension applications in which the long-term effects of the coronavirus were indicated as the main reason for disability. One of these applicants was granted permanent disability pension. Many more applications from people infected with the virus are expected in the future.



The pandemic hindered the operations of SMEs especially in the restaurant and accommodation industries

The pandemic has made the operations of Varma's small and mid-sized client companies, in particular, more difficult. Companies operating especially in the restaurant, entertainment and accommodation industries have had to resort to furloughs and layoffs, and the restrictions have caused repayment struggles.



The pandemic has not been reflected in the confirmed income of the self-employed; industry-specific differences exist in the TyEL payroll

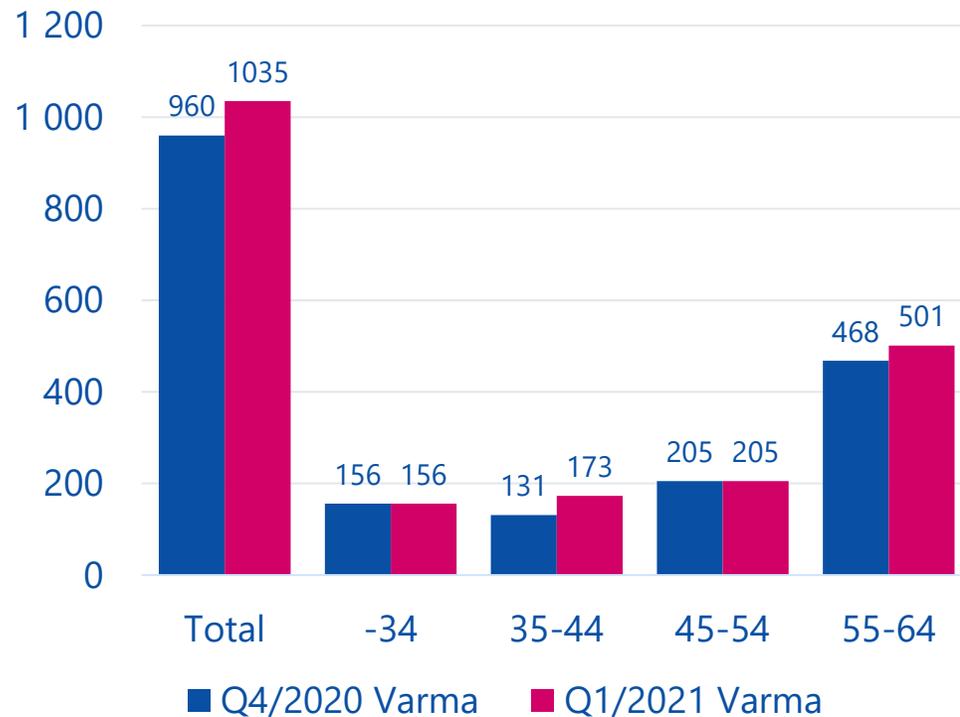
The Covid-19 pandemic has not affected the development of entrepreneurs' YEL confirmed income or the number of insured. The TyEL payroll of Varma's client base also developed well in the first quarter of 2021, albeit with major differences between different industries.



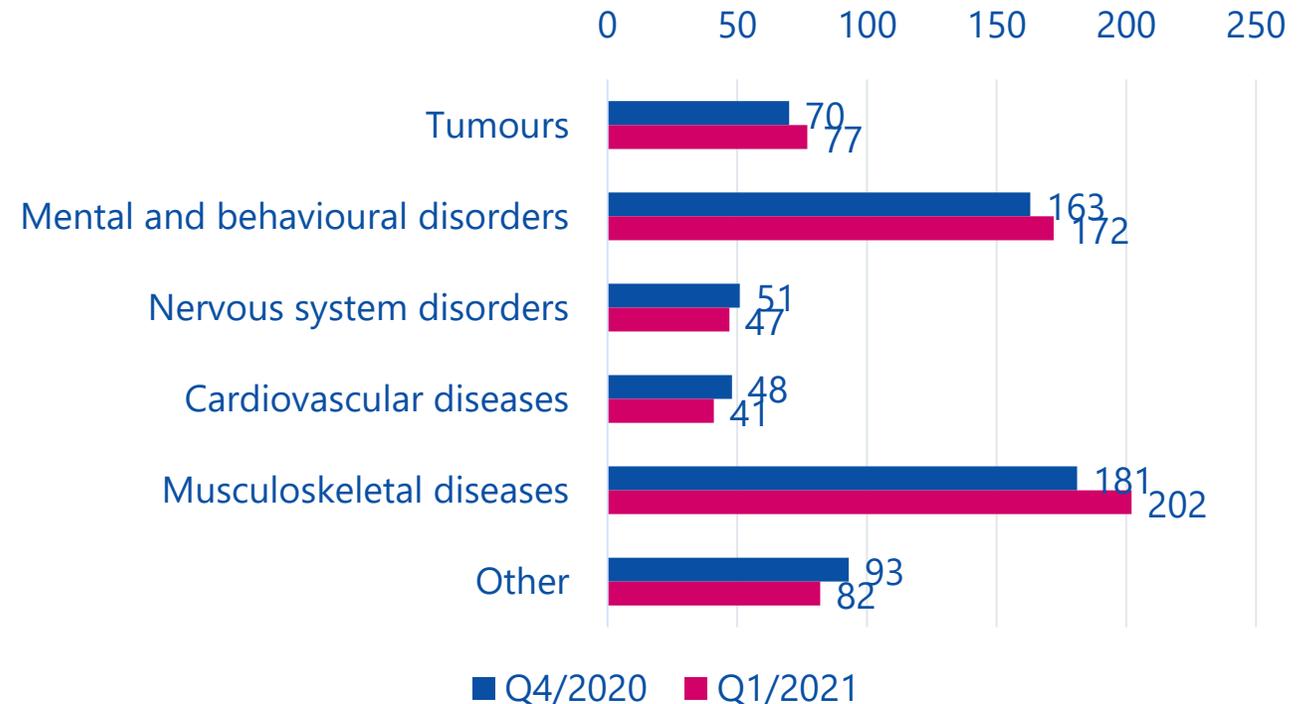
Disability Risk Management

Increase in disability pension applications in Q1: Musculoskeletal diseases and mental health disorders are the underlying reasons

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



Reasons behind new disability pension decisions



Changes in disability risk management



Varma is renewing its financial support for clients' work ability projects.



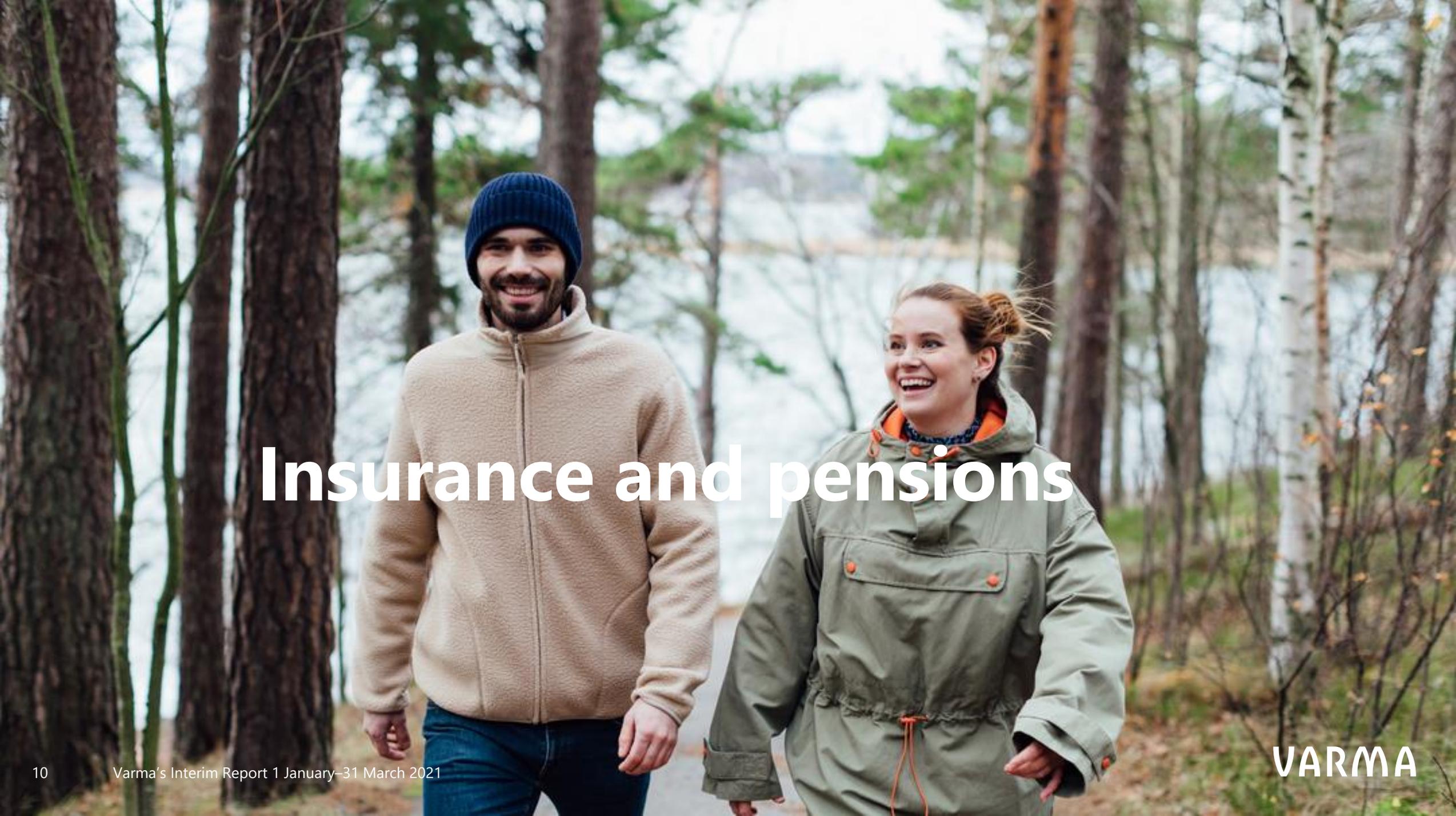
Support for work ability management will be targeted with a new forecasting model for analysing the customer base's disability risk.



Varma's data-based forecasting model enables more precise targeting of support and thus improved effectiveness.



The new operating model will be adopted gradually starting this autumn.



Insurance and pensions



Insured employees and
entrepreneurs

538,000

Pensioners

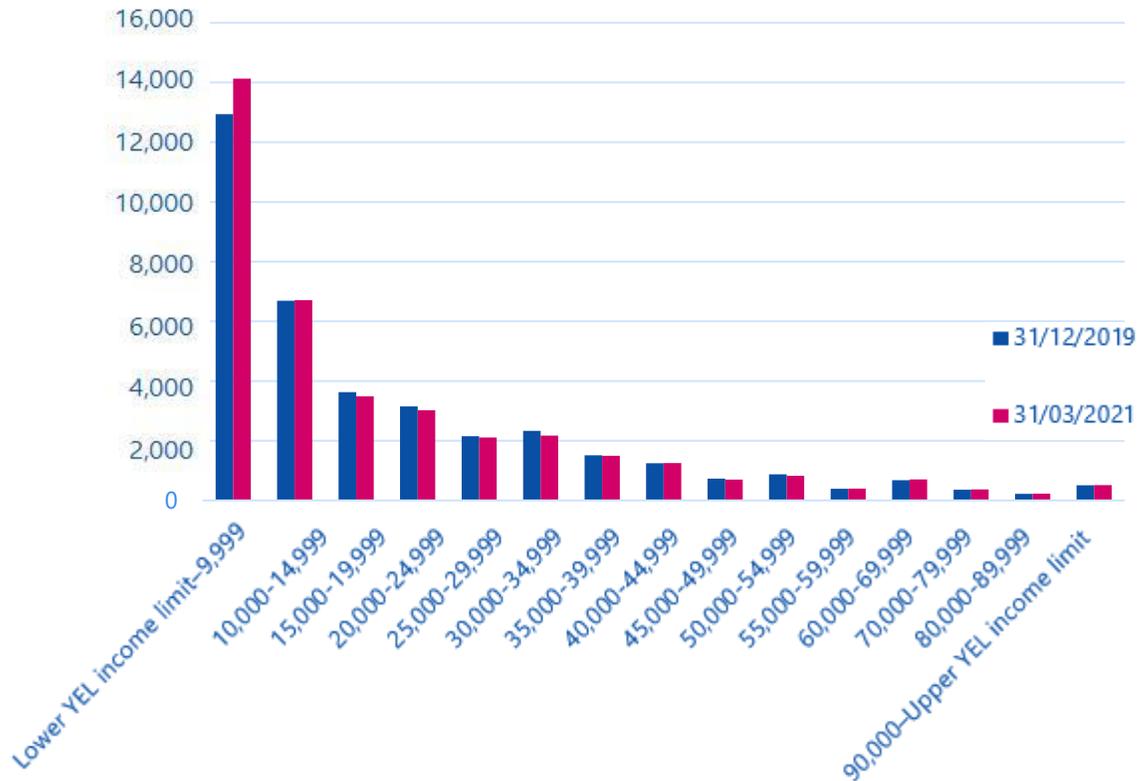
347,000

Pensions paid

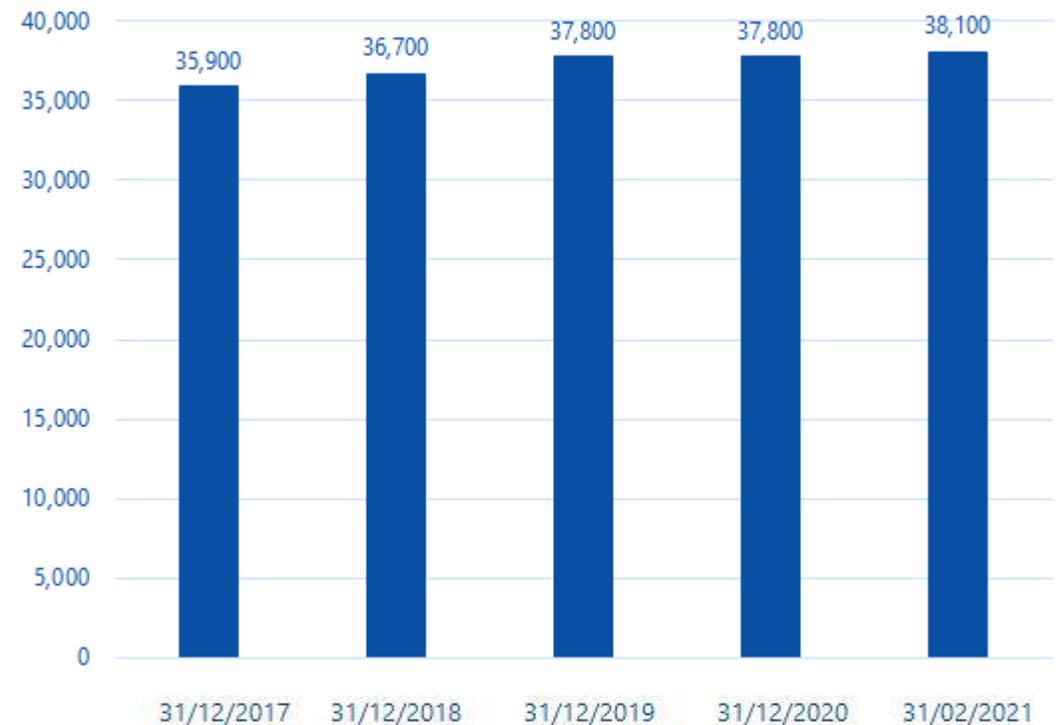
€1.5 bn

Self-employed persons' pension insurance: pandemic not reflected in YEL income levels or in the number of insurance policies

YEL confirmed income now and before the pandemic

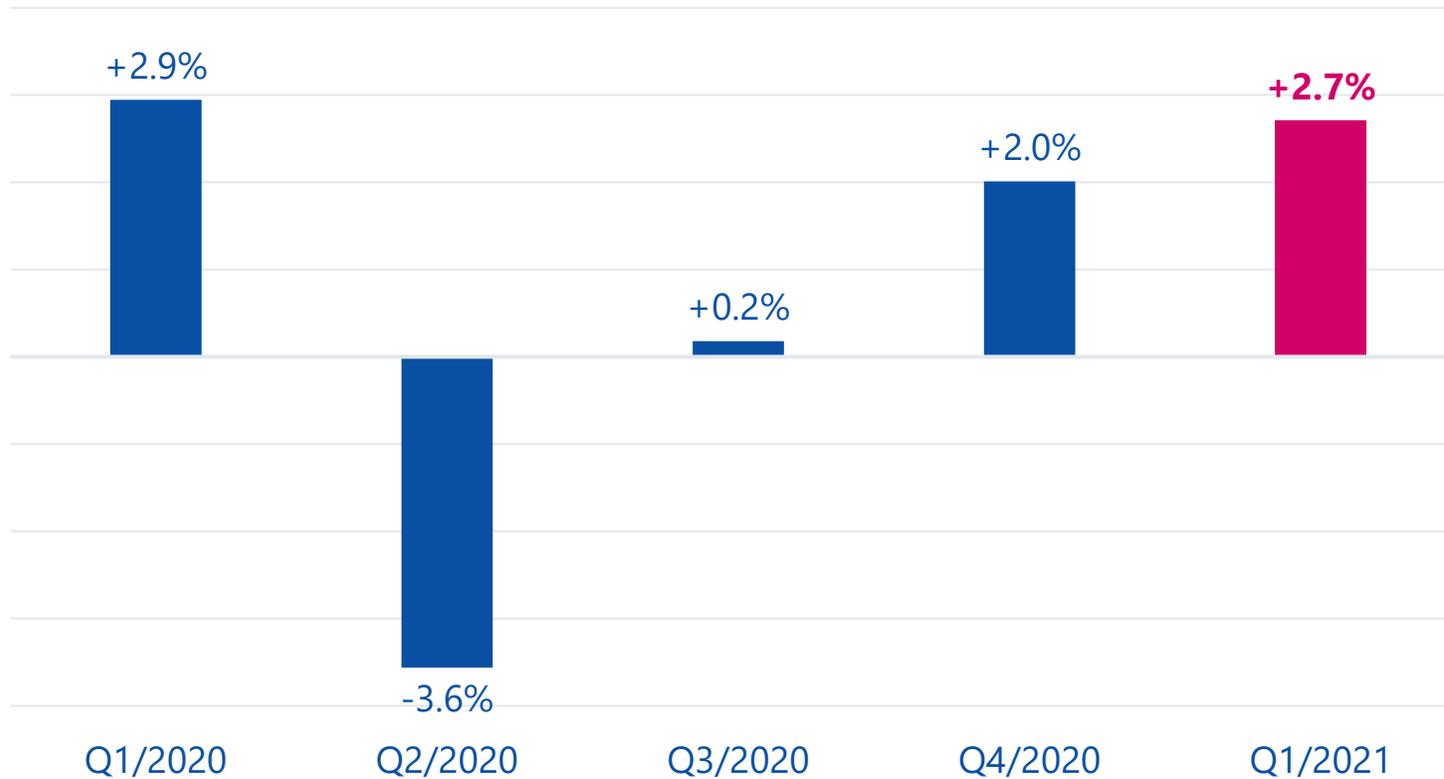


Number of YEL insurance policies



TyEL payroll grew compared to last year – major differences between industries

Annual change in the TyEL payroll by quarter



Despite the pandemic, the TyEL payroll of Varma's client base developed well in the first quarter of 2021. For many industries, however, such as the hotel and restaurant business, arts, entertainment and recreation, and in staffing services, the payroll was significantly lower than the level of previous years.

Current pension issues

- In the first quarter of 2021, the number of applications for old-age pension grew 3.0 percent compared to the same quarter last year.
- By the end of March, 5,975 new pension decisions had been made, which is roughly 0.5 percent less than in the corresponding period last year. A total of 14,385 pension decisions were issued in January–March.
- Partial early old-age pension, which was introduced at the start of 2017, remained popular. Varma made a total of 757 new decisions concerning this pension type during the first quarter.



A woman with short brown hair, wearing a blue denim jacket with a white fur collar and an orange top, is shown in profile, looking towards the right. She has her eyes closed and a peaceful expression. The background consists of horizontal wooden planks painted in shades of blue and teal. The lighting is warm and directional, coming from the right, casting soft shadows on her face and the background.

Sustainability



Working for future generations

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

Mitigating climate change

Promoting work ability and a good working life

Ethical business and open communication

Responsibility for Varma employees

Current sustainability topics

- EcoVadis, an international corporate sustainability assessment platform, awarded Varma the Platinum EcoVadis Medal. Varma's sustainability practices were rated as excellent, and it ranked in the top 1 percent of the 75,000 companies analysed.
- In March, Varma was recognised as one of Finland's Most Inspiring Workplaces for the third time in a row in Eezy Spirit's employee experience survey. In spite of a challenging year, Varma achieved its best result ever in the survey.
- We were among the first companies in Finland to launch environmental ratings of residential buildings in order to develop their sustainability.
- We donated 50,000 euros to the Deaconess Institute's Vamos youth service to promote efforts to find employment for young people at risk of exclusion.



VARMA

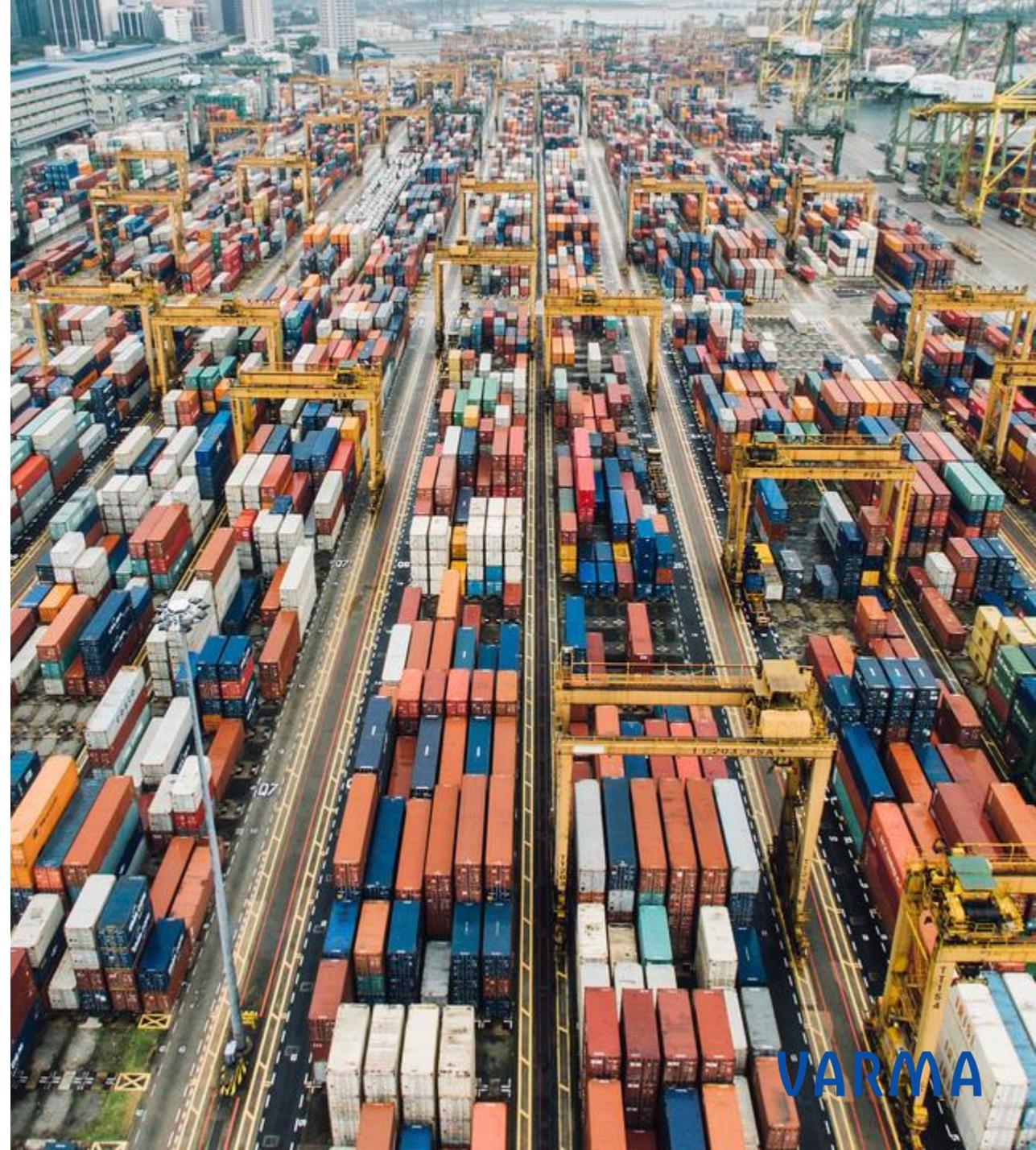


Best quarterly investment result ever

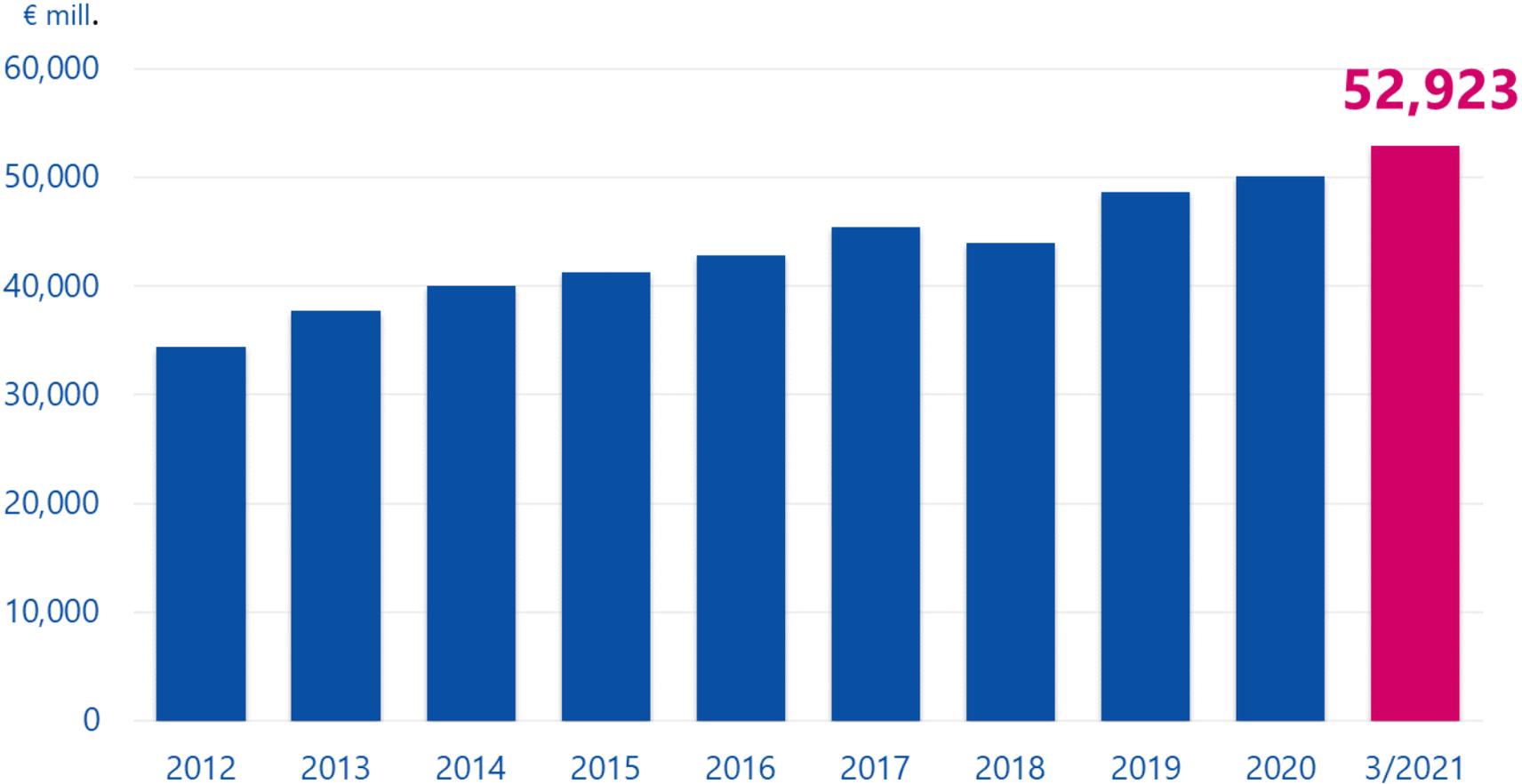
VARMA

Outlook for the economy and the investment markets

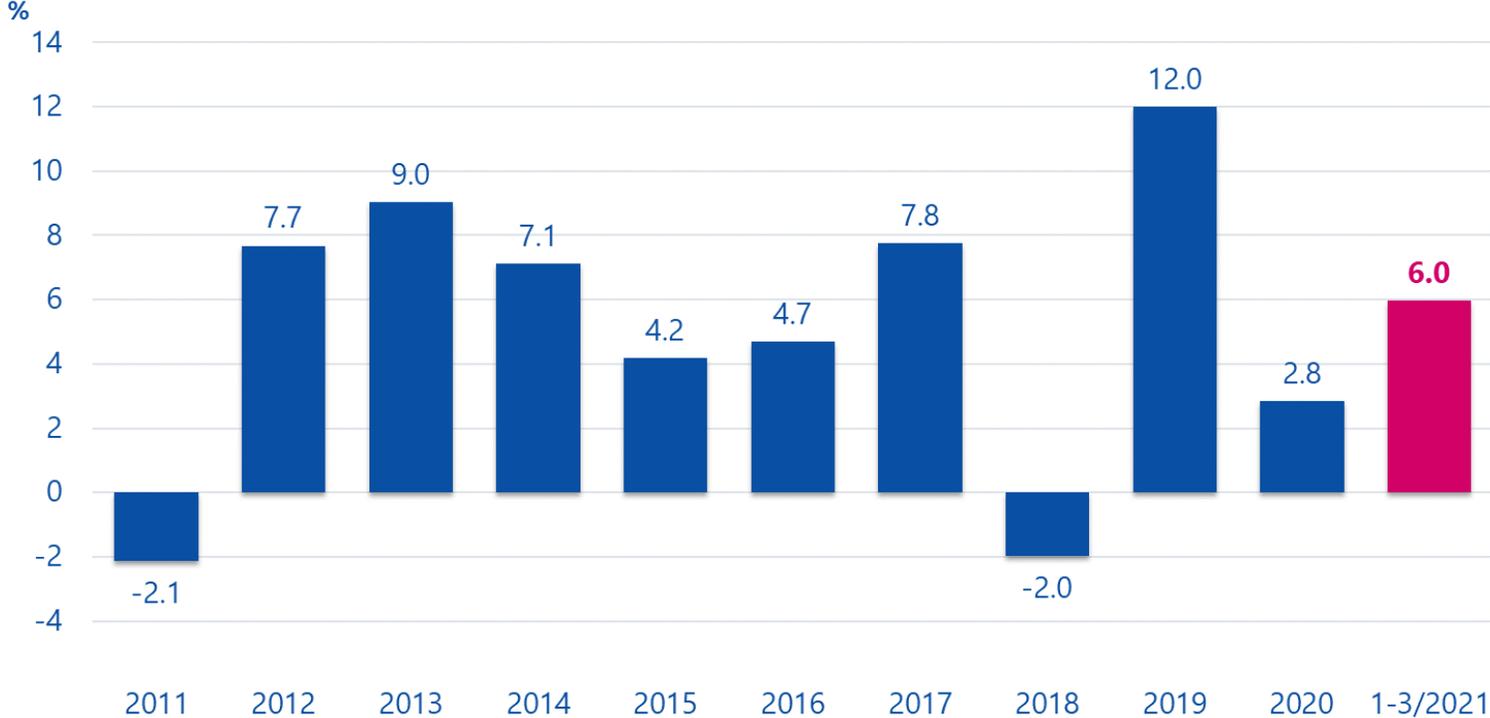
- Finland's economy made it through the pandemic year reasonably well, at least in the short term. Global economic recovery in the first quarter began to show also in the export industry.
- The restrictions imposed during the pandemic have had a major impact on demand, and companies faced the exceptional situation in very different ways. The service industry, whose economic situation weakened, bore the brunt of the impact.
- Finland could enjoy a growth spurt riding on the wave of the extremely strong economic growth in the U.S.
- The 2021 investment year got off to a strong start as markets have been pricing in a global economic recovery from the collapse caused by the pandemic.
- In 2021, earnings growth for companies is forecasted to be exceptionally strong overall, which has bolstered the global equity markets.



Market value of investments reached EUR 52.9 billion



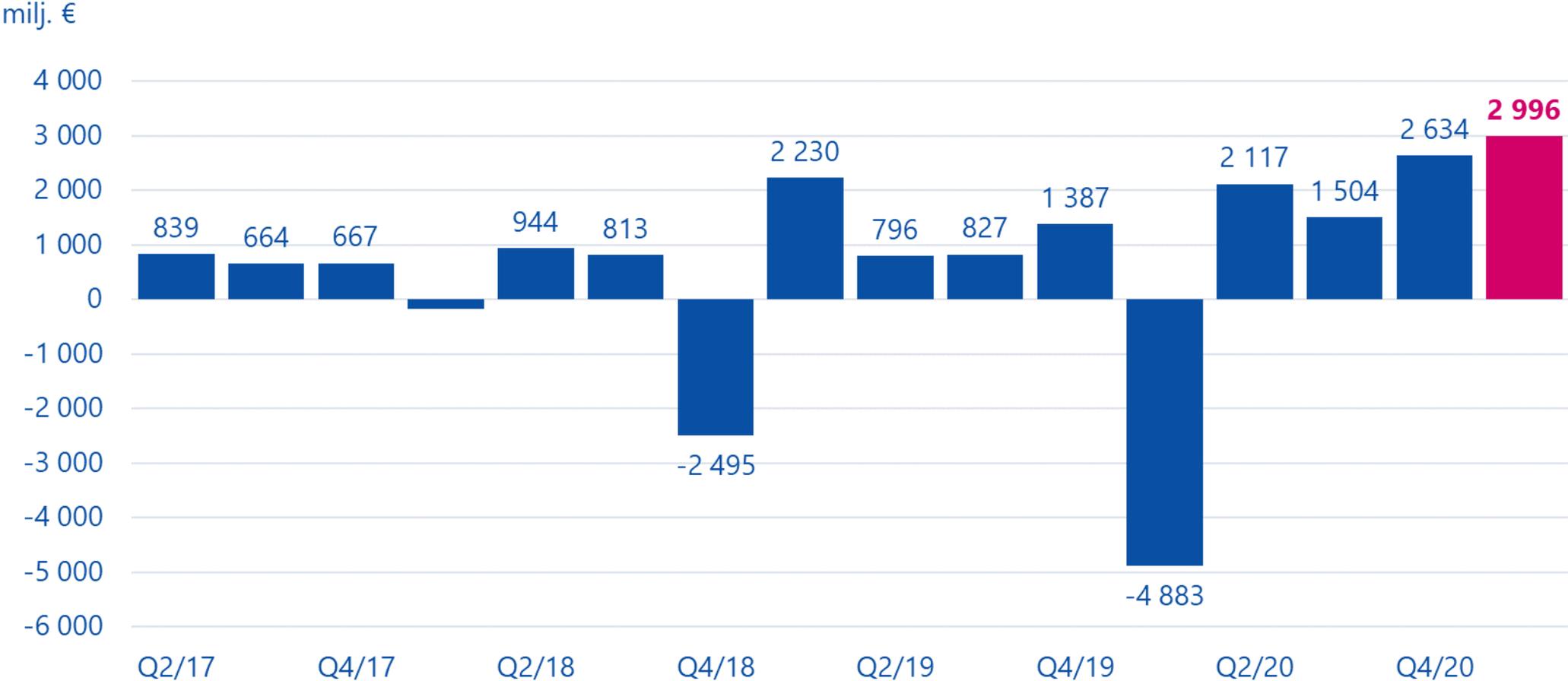
Return on investments 2011–Q1/2021



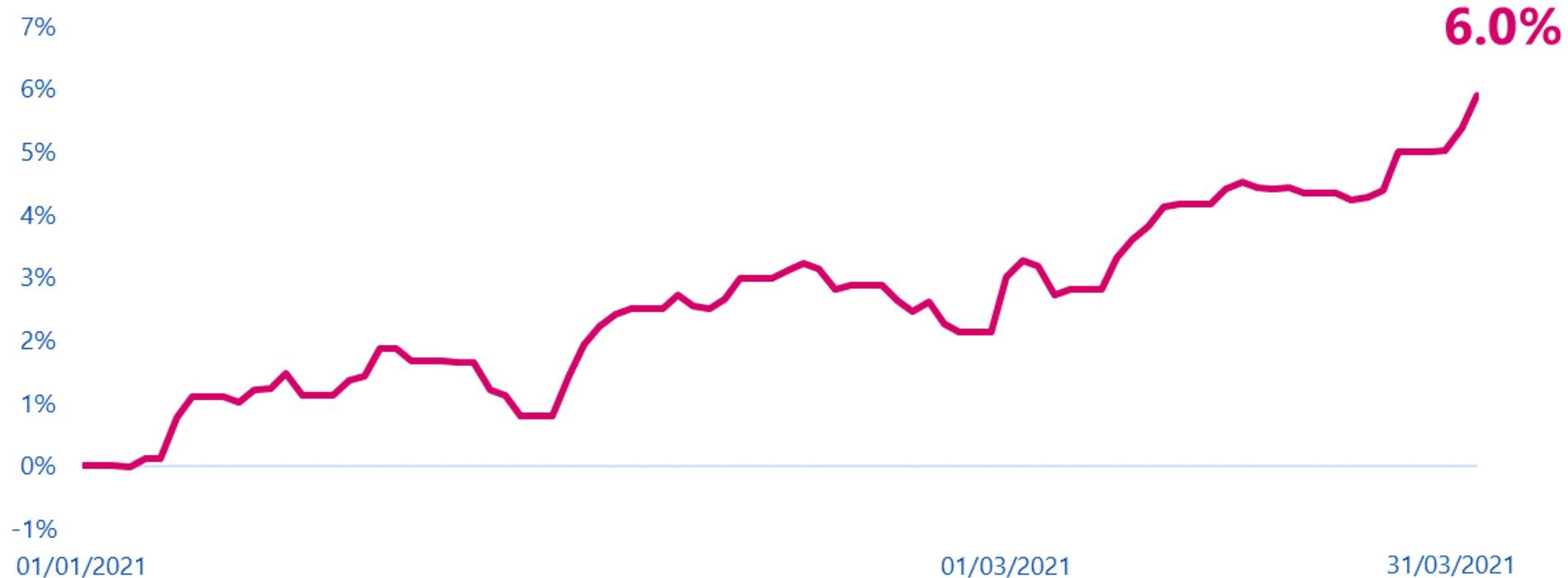
- In January–March 2021, Varma recorded the best quarterly investment result in the company’s history.
- The return on Varma’s investments was **6.0 percent** or **EUR 3.0 billion**.
- The total value of investments grew to **EUR 52.9 billion**.

The average nominal return on investments over ten years is approx. 5.5%, calculated in accordance with the recommendations issued by TELA. In 1-3/2020 return on investment was -10.0 %.

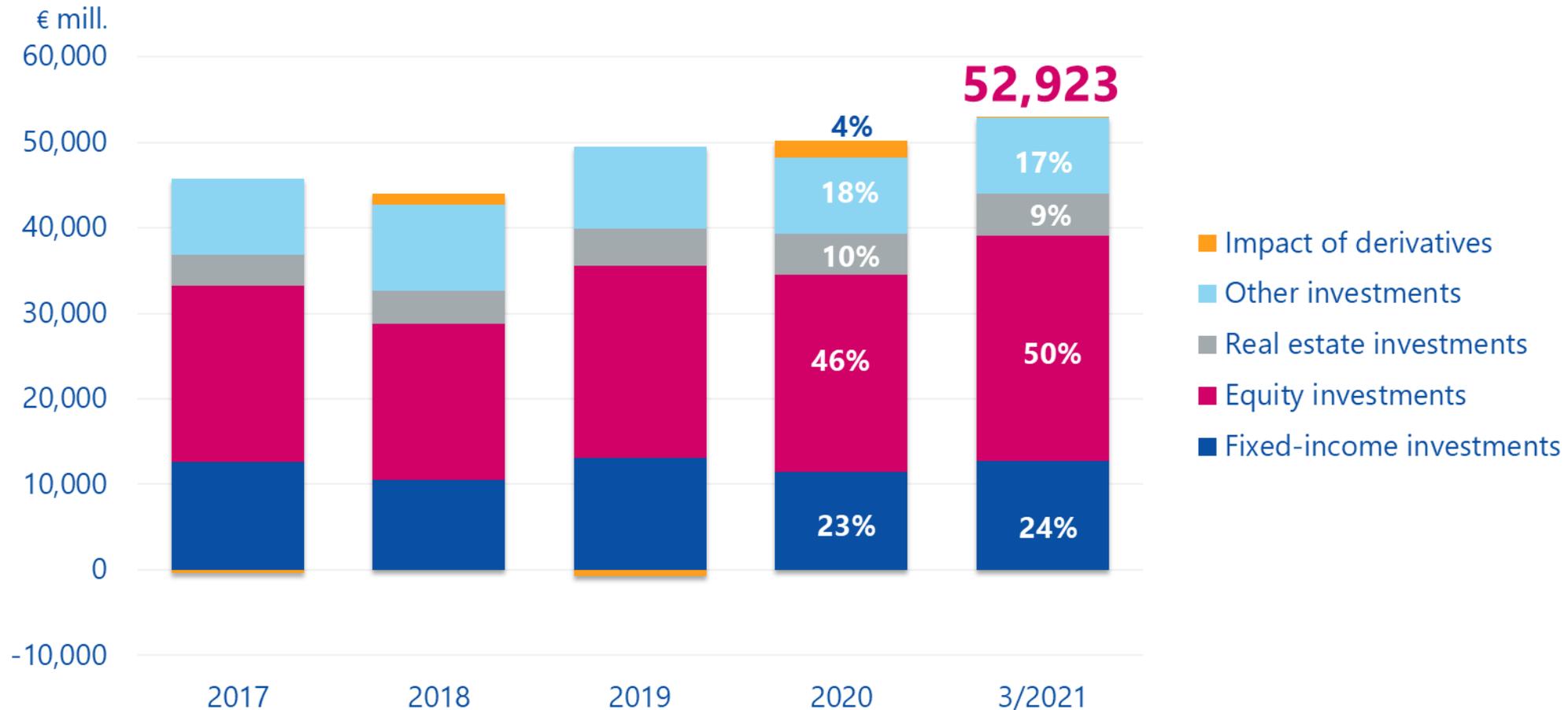
Return on investments at fair values increased to EUR 3.0 billion



Varma's investment year: January-March 2021



Share of equity investments in the investment allocation grew: 50% in equities



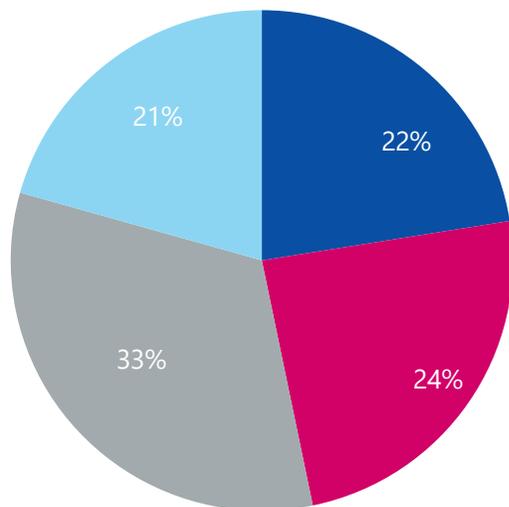
Investments classified according to risk

	31 Mar 2021				31 Dec 2020		01-03/2021	01-12/2020
	Market value				Market value		Return	Return
	Market Value		Risk position		Risk position		MWR	MWR
	€ mill.	%	€ mill.	%	€ mill.	%	%	%
Fixed-income investments ¹	12,858	24	12,687	24	11,410	23	-0.3	1.9
Loan receivables	2,877	5	2,877	5	2,711	5	1.0	0.5
Bonds	8,386	16	8,586	16	7,459	15	-0.7	3.0
Public bonds	3,604	7	3,804	7	2,490	5	-3.0	6.1
Other bonds	4,782	9	4,782	9	4,969	10	0.9	1.0
Other money-market instruments and deposits	1,595	3	1,225	2	1,240	2	-0.2	-1.0
Equity investments	26,301	50	26,406	50	23,083	46	10.8	5.9
Listed equities	19,092	36	19,197	36	16,807	34	9.2	5.2
Private equity	6,877	13	6,877	13	5,958	12	16.0	7.8
Unlisted equities	332	1	332	1	318	1	5.2	8.6
Real estate investments	4,876	9	4,876	9	4,828	10	0.9	2.0
Direct real estates	2,851	5	2,851	5	2,875	6	0.7	3.4
Real estate funds	2,026	4	2,026	4	1,953	4	1.1	-0.2
Other investments	8,888	17	8,888	17	8,827	18	4.4	-2.0
Hedge funds	8,880	17	8,880	17	8,818	18	4.5	-1.0
Commodities	0	0	0	0	0	0		
Other investments	8	0	8	0	9	0		
Total investments	52,923	100	52,858	100	48,149	96	6.0	2.8
Impact of derivatives			65	0	2,008	4		
Investment allocation at fair value	52,923	100	52,923	100	50,157	100		

¹ Includes accrued interest

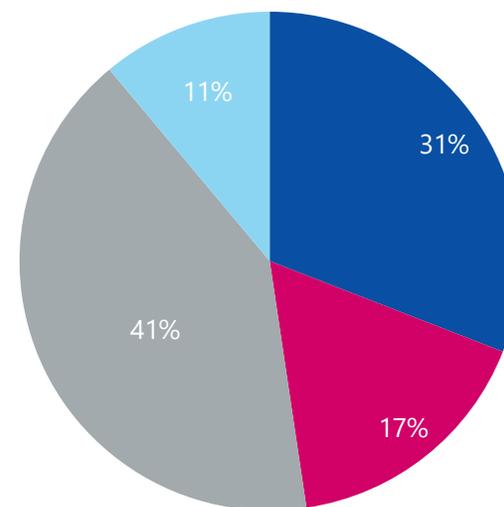
Geographical distribution of investments

Investments



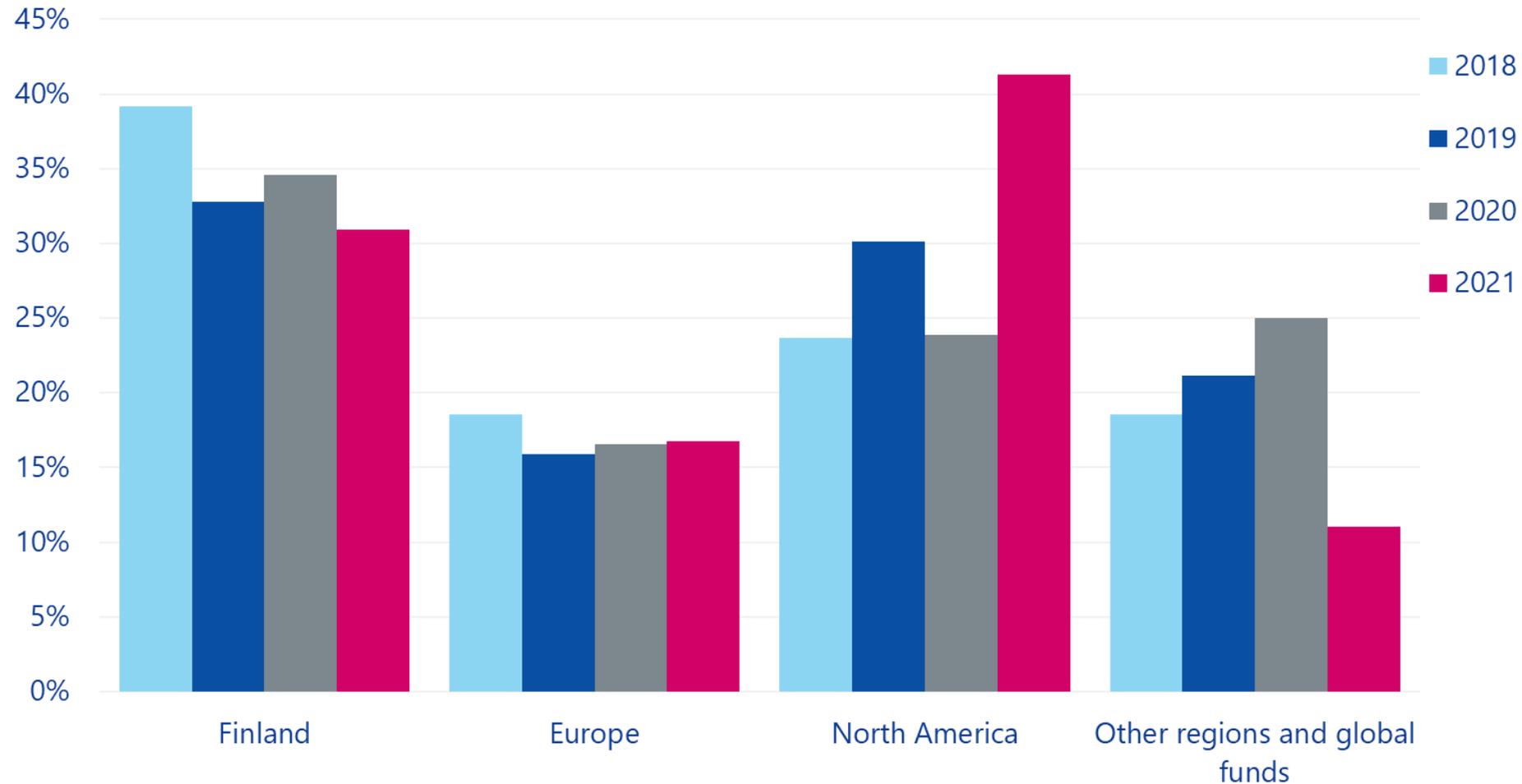
■ Finland ■ Europe ■ North America ■ Other regions and global funds

Listed equities



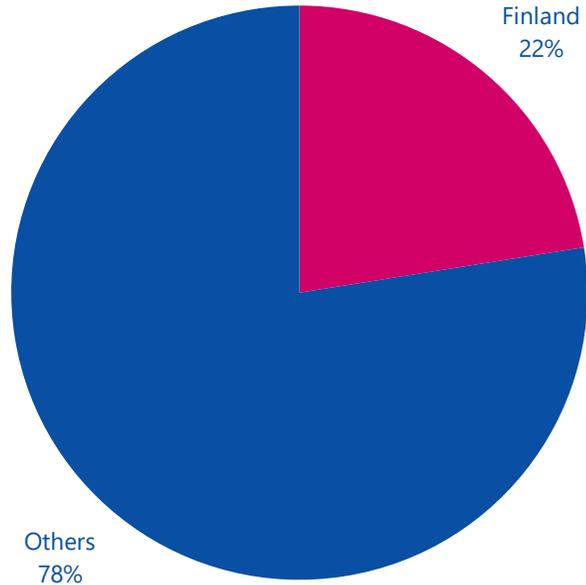
■ Finland ■ Europe ■ North America ■ Other regions and global funds

More than 40% of investments in listed equities are invested in North America

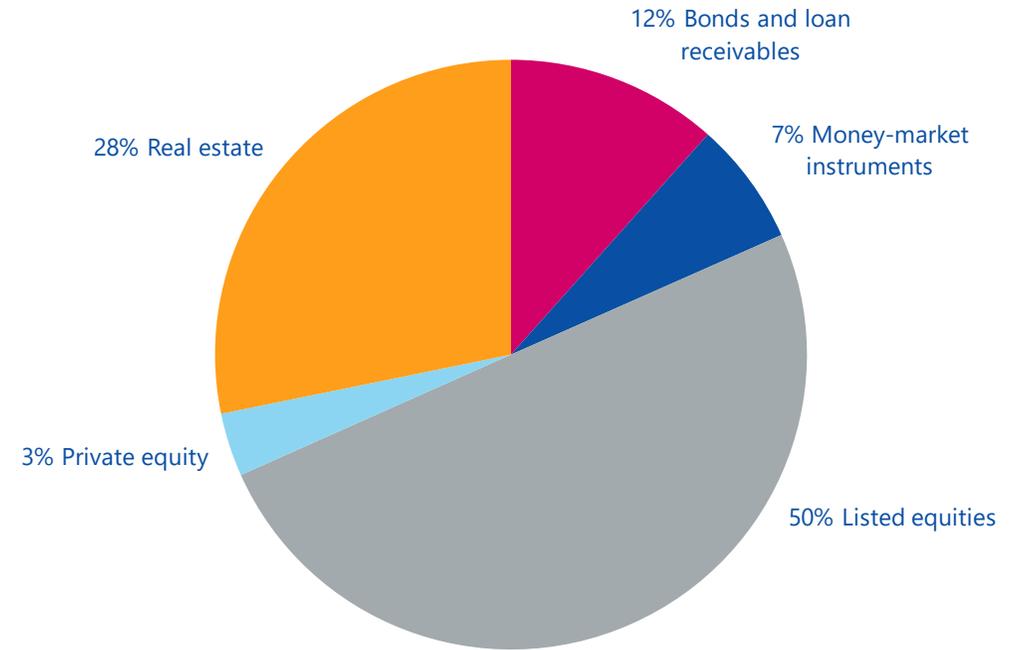


Investments in Finland 22%, EUR 11.9 billion

Investments in Finland

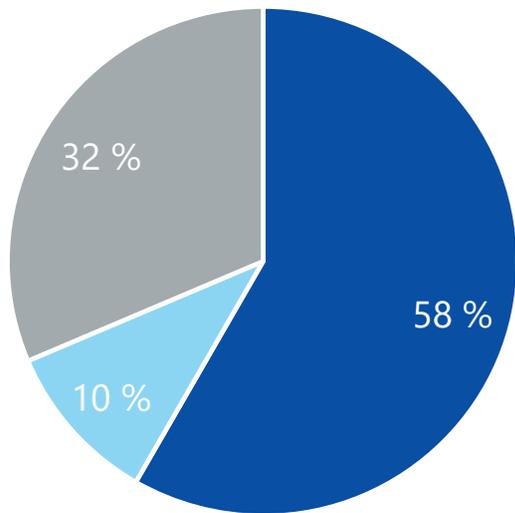


Distribution of Finnish investments



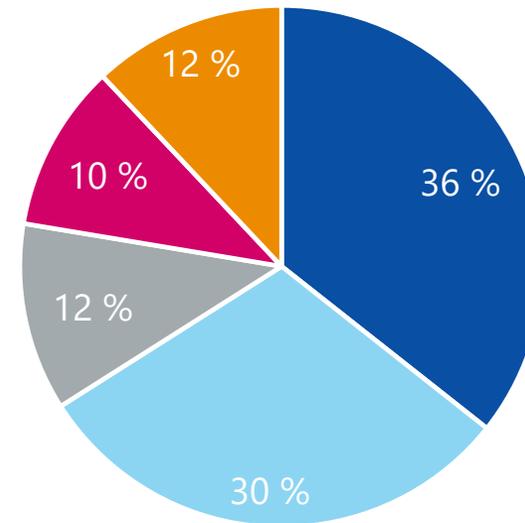
69% of real estate investments, EUR 3.4 billion, in Finland

Real estate investments €4.9 bn



- Direct Finland
- Indirect Finland
- Indirect other countries

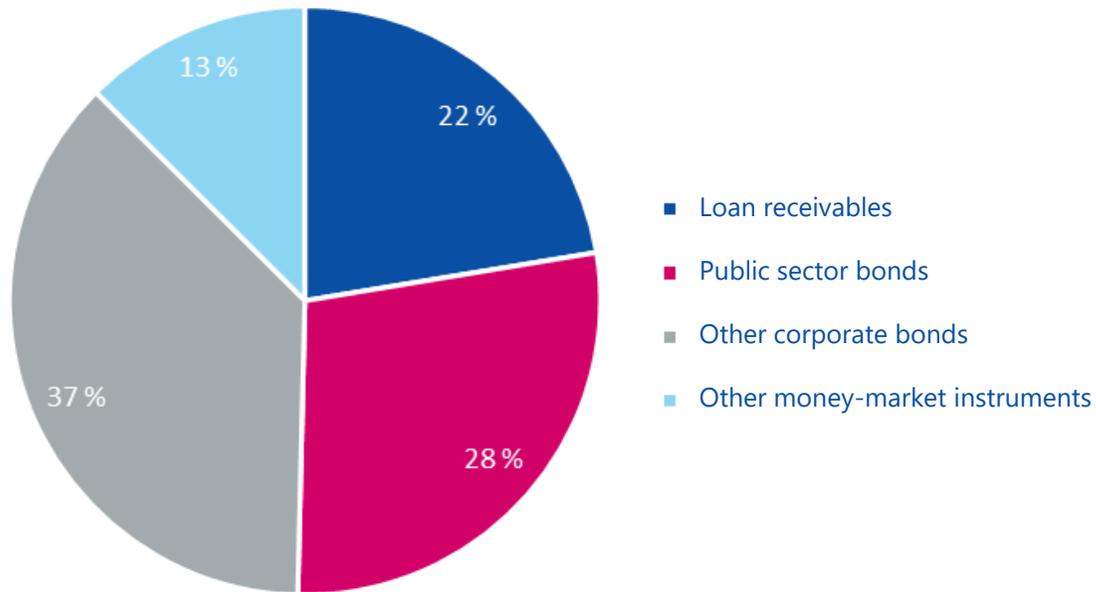
Direct real estate investments €2.9 bn



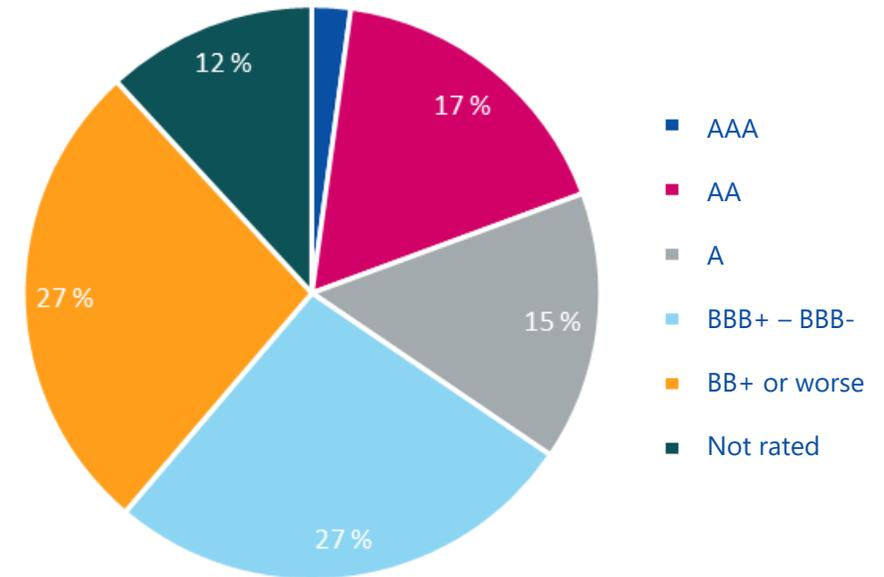
- Offices
- Residential
- Commercial premises
- Hotels
- Other

61% of fixed-income investments have a good credit rating

Fixed-income investments by type of investment according to market value



Bonds by credit rating



Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
1-3/2021	6.0	9.1	8.2	6.2	-2.3	-0.8
2020	2.8	15.7	-2.0	18.4	5.0	2.7
2019	12.0	20.4	26.8	31.5	6.7	6.3
Average nominal return						
5 years	6.5	13.8	7.8	16.3	2.0	2.3
10 years	5.5	10.3	7.5	13.9	4.5	3.8
Since 1999 *	5.7	9.2	4.6	7.4	4.3	4.1
Average real return						
5 years	5.5	12.7	6.8	15.2	1.1	1.3
10 years	4.4	9.2	6.4	12.8	3.5	2.8
Since 1999 *	4.1	7.6	3.1	5.9	2.8	2.5

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

Finnish equities = OMX Helsinki Cap Index

Euro government bonds = IBOXX Eurozone EUR (Total Return)

European equities = Stoxx 600 Total Return Index EUR

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

US equities = S&P500 Total Return Index

Key figures

	1-3/2021	1-3/2020	1-12/2020
Premiums written, € million	1,285	1,286	4,931
Net investment income at fair value, € million	2,996	-4,883	1,372
Return on invested capital, %	6.0	-10.0	2.8
	3/2021	3/2020	12/2020
Technical provisions, € million	42,552	36,905	40,726
Solvency capital, € million	13,462	7,870	11,517
in relation to solvency limit	1.7	1.6	1.7
Pension assets, € million	53,610	44,356	50,829
% of technical provisions	133.5	121.6	129.3
TyEL payroll, € million	21,942	20,434	21,142
YEL payroll, € million	817	786	807

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