



Varma's Interim Report 1 January–30 September 2017

Varma's targets – situation in September 2017



Solvency capital, €

11.4 bn

Premiums written, €

3.7 bn

Quality of pension
services

38.5 days

We process pensions
approx. 5 days faster than
average in the sector

Efficiency – share of
expense loading used

75%

Strong economy reflected in returns, account transfer result among the best ever



Market value
of investments, €

45.4 bn

Return on
investments

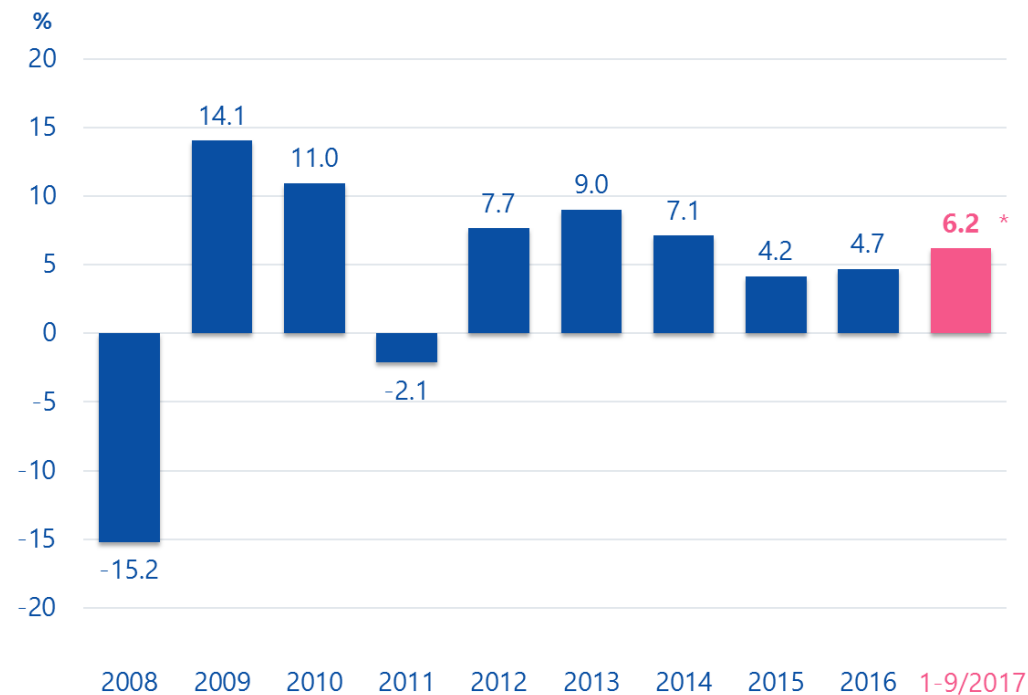
6.2%

Additional
premiums written

€ 48 million

Investment returns 2008–2017

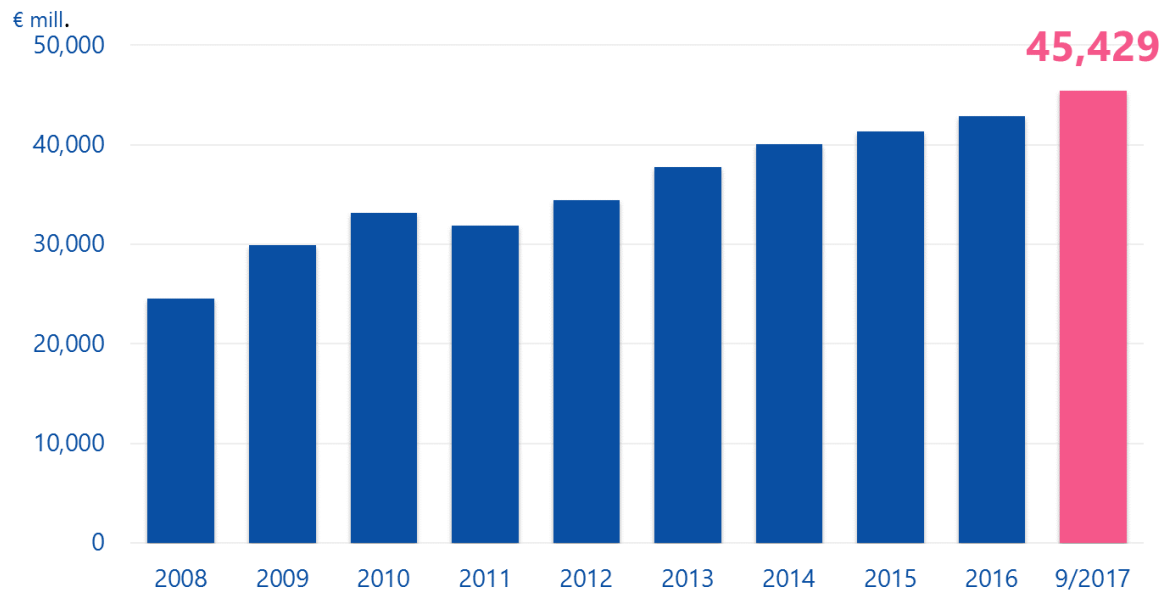
Investments yielded a return of EUR 2.7 billion in January-September



* 1-9/2016 return on investment was 3.1%

The average nominal return on investments over ten years is approx.
4.3%, calculated in accordance with the recommendations issued by TELA.

Value of investment assets rose to EUR 45.4 billion

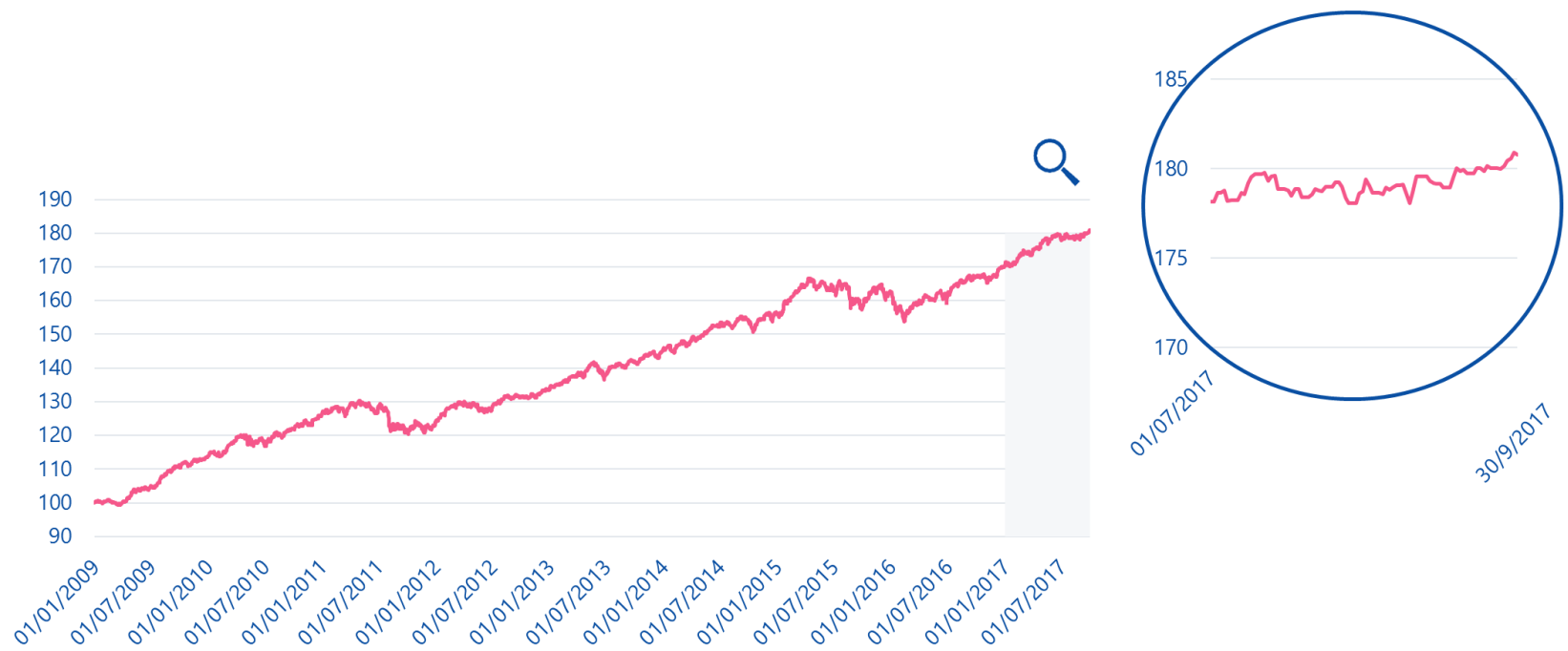


Investment return trend 1–9/2017

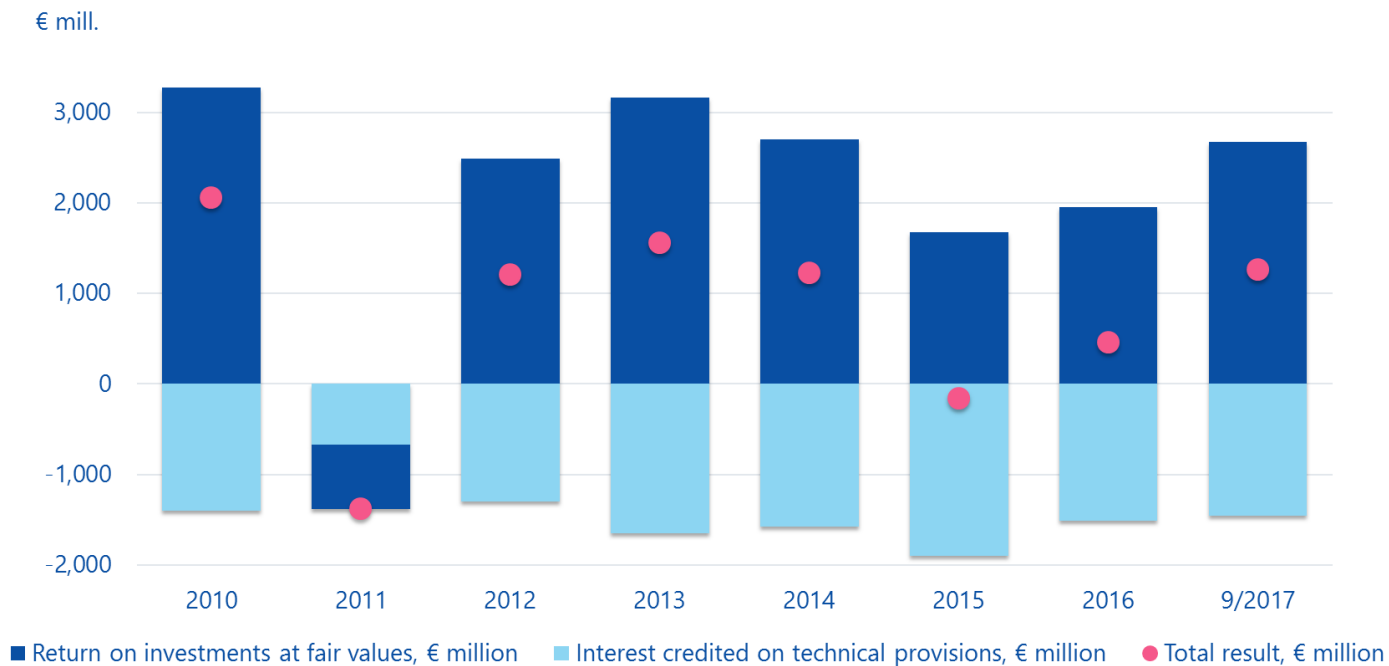
Strong economy reflected in investment returns



Since 2009, the cumulative return on Varma's investments is 80.8%, i.e. €20.8 billion



Composition of the investment result



Investments classified according to risk

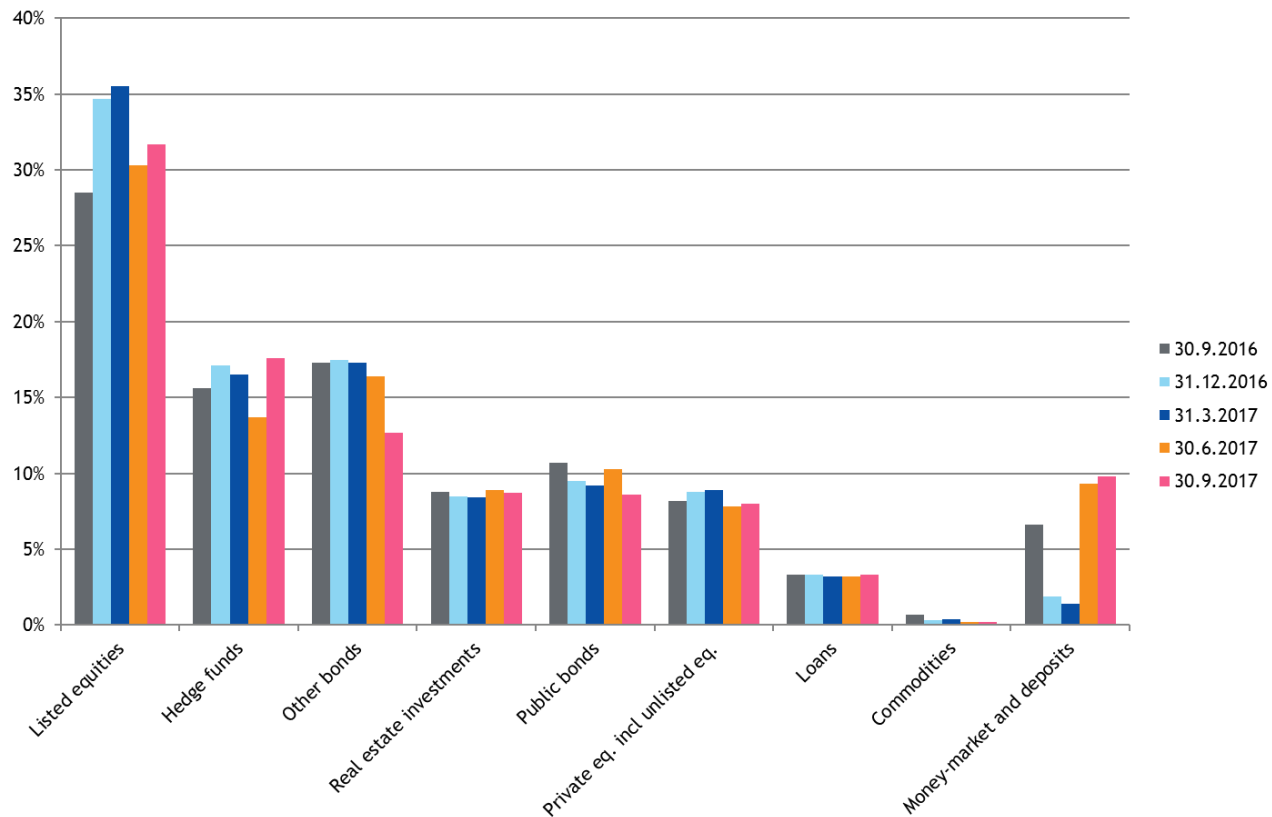
	30-September-2017				30-September-2016				31-December-2016	1-9/2017	1-9/2016	1-12/2016	24 m
	Market value				Market value				Market value	Return	Return	Return	
	Market Value		Risk position		Risk position		Risk position		Risk position	MWR	MWR	MWR	Vola-
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	tility
Fixed-income investments ¹	15,836	35	2,056	5	394	1	18,066	42		3.6	4.2	4.2	
Loan receivables	1,478	3	1,478	3	1,416	3	1,432	3		1.7	3.2	4.2	
Bonds	9,672	21	9,219	20	11,304	27	12,780	30		5.1	5.7	5.3	3.1
Public bonds	3,900	9	3,448	8	3,767	9	5,374	13		4.2	4.1	1.8	
Other bonds	5,772	13	5,772	13	7,537	18	7,406	17		5.5	6.8	7.8	
Other money-market instruments and deposits	4,687	10	-8,641	-19	-12,325	-29	3,854	9		-1.6	-0.5	-0.4	
Equity investments	18,298	40	18,374	40	15,603	37	18,527	43		9.6	3.2	6.4	
Listed equities	14,304	31	14,380	32	12,099	29	14,793	35		10.8	1.5	4.5	10.2
Private equity	2,836	6	2,836	6	2,654	6	2,794	7		4.1	8.1	11.2	
Unlisted equities	1,157	3	1,157	3	850	2	940	2		8.1	15.4	23.7	
Real estate investments	3,556	8	3,556	8	3,708	9	3,643	9		3.1	-0.4	-0.9	
Direct real estates	2,741	6	2,741	6	3,033	7	2,897	7		2.3	-1.5	-2.6	
Real estate funds	815	2	815	2	675	2	746	2		5.9	4.8	6.8	
Other investments	7,739	17	8,683	19	7,054	17	7,320	17		5.7	2.5	5.3	
Hedge funds	7,771	17	7,771	17	6,773	16	7,184	17		5.3	2.7	5.6	2.8
Commodities	1	0	90	0	293	1	137	0					
Other investments	-33	0	822	2	-12	0	-2	0					
Total investments	45,429	100	32,669	72	26,759	63	47,555	111		6.2	3.1	4.7	4.1
Impact of derivatives			12,760	28	15,681	37	-4,703	-11					
Investment allocation at fair value	45,429	100	45,429	100	42,440	100	42,852	100					

The modified duration for all the bonds is 3.0.

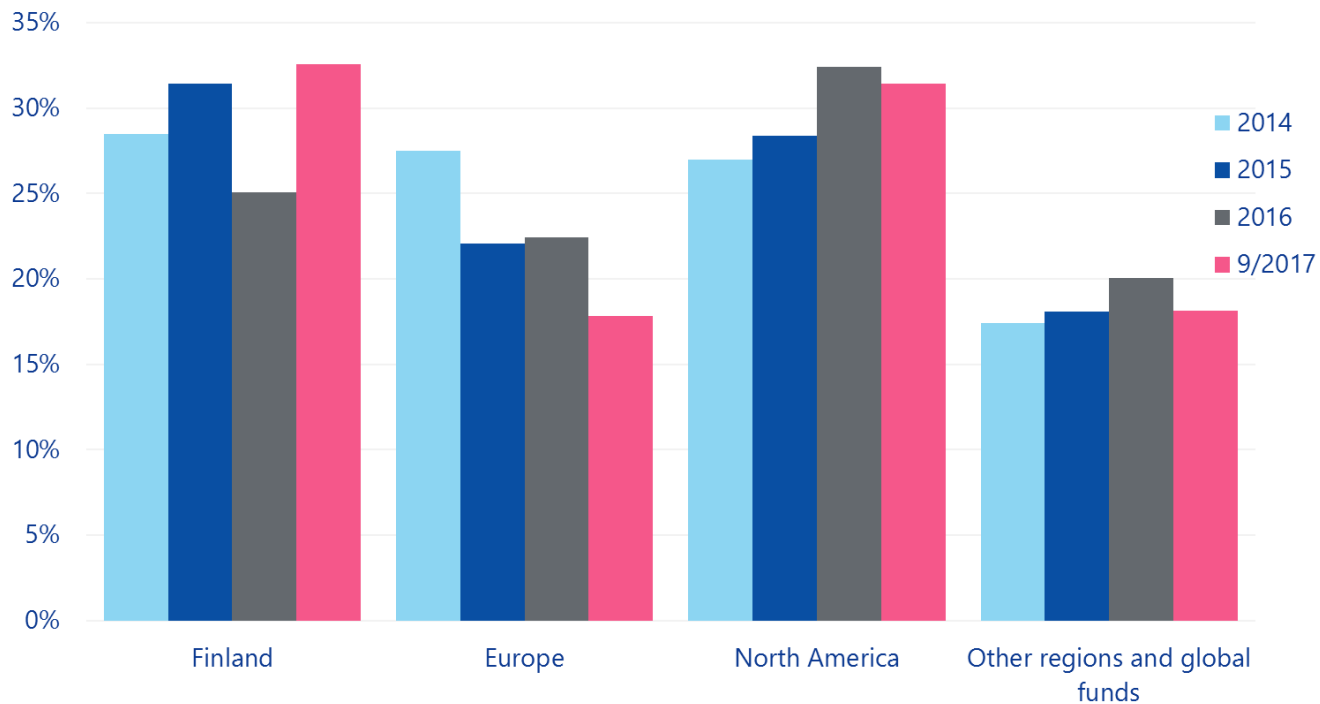
The open currency position is 18.6 % of the market value of the investments.

¹ Includes accrued interest

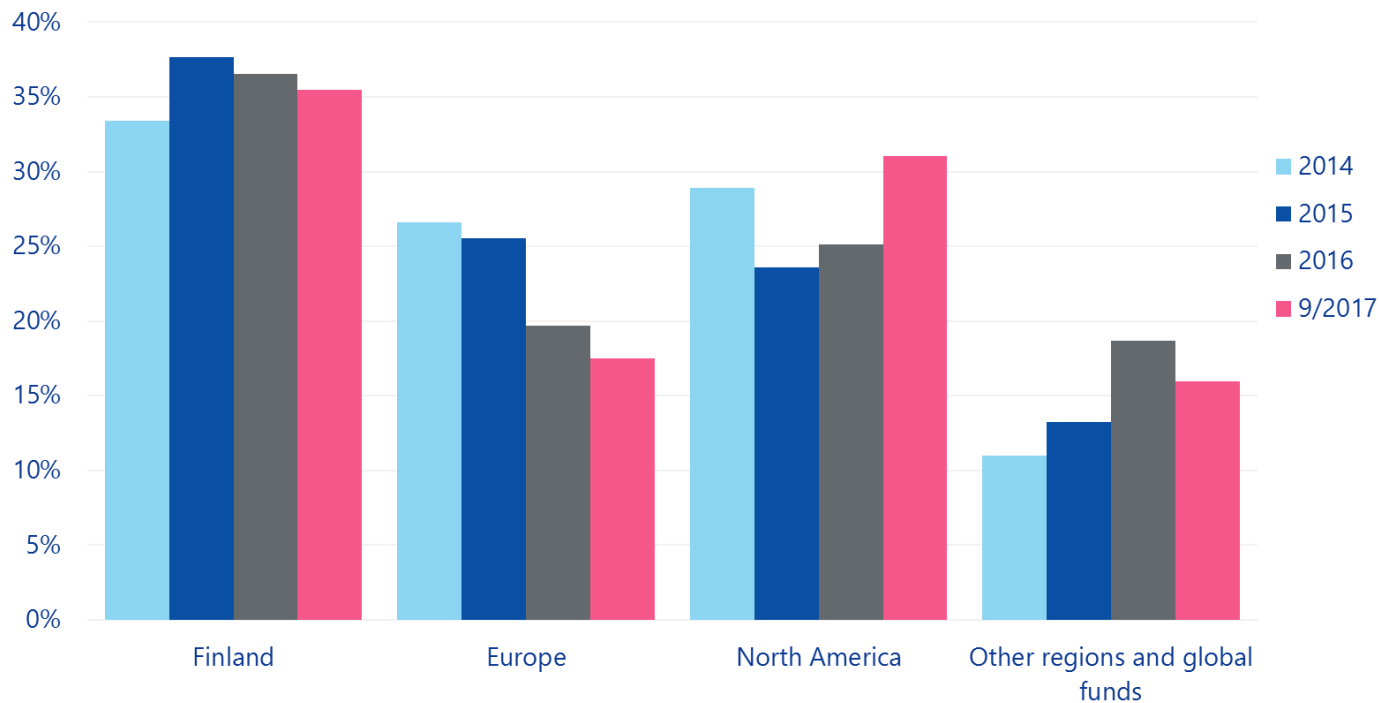
Changes in Varma's investment allocation 9/2017



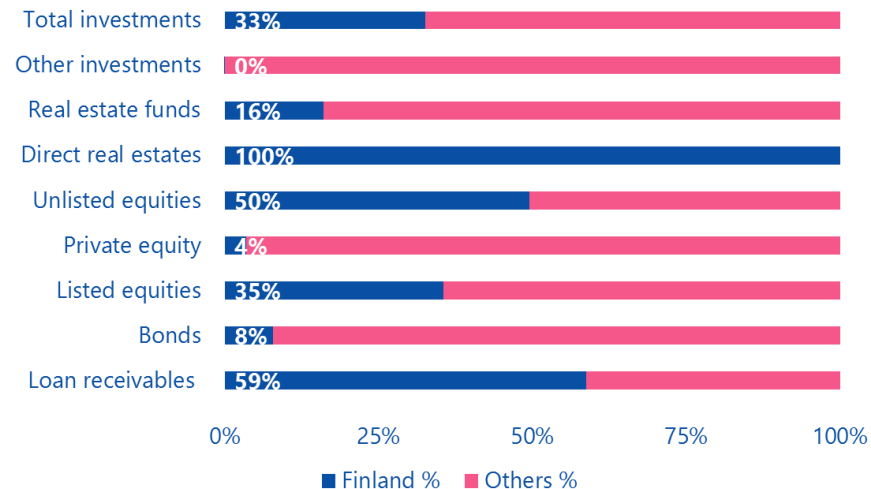
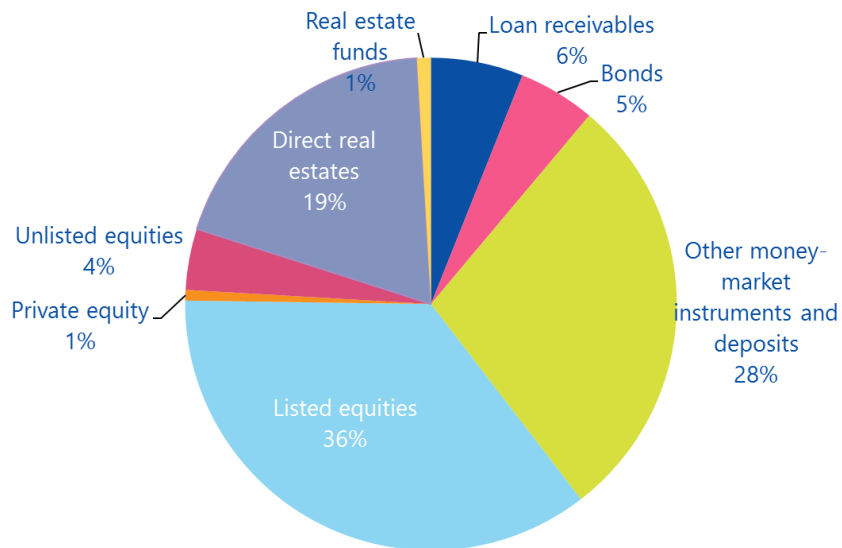
Geographical distribution of investments



Geographical distribution of listed equities



Investments in Finland 33%, €14.3 bn



Investment returns for Varma and the markets

%	Varma	Finnish equities	European equities	US equities	Euro government bonds	Euro corporate bonds
09/2017	6.2	12.9	9.9	14.2	-0.5	1.7
2016	4.7	13.3	1.7	12.0	3.3	4.7
2015	4.2	15.9	9.6	1.4	1.6	-0.7
Average nominal return						
5 years	6.6	18.1	10.7	14.2	4.4	3.8
10 years	4.3	5.3	3.3	7.4	4.9	4.6
Since 1999 *	5.6	8.9	4.5	5.9	4.6	4.4
Average real return						
5 years	6.0	17.4	10.0	13.5	3.8	3.2
10 years	2.8	3.8	1.8	5.9	3.4	3.1
Since 1999 *	4.0	7.2	2.8	4.2	2.9	2.8

* 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)

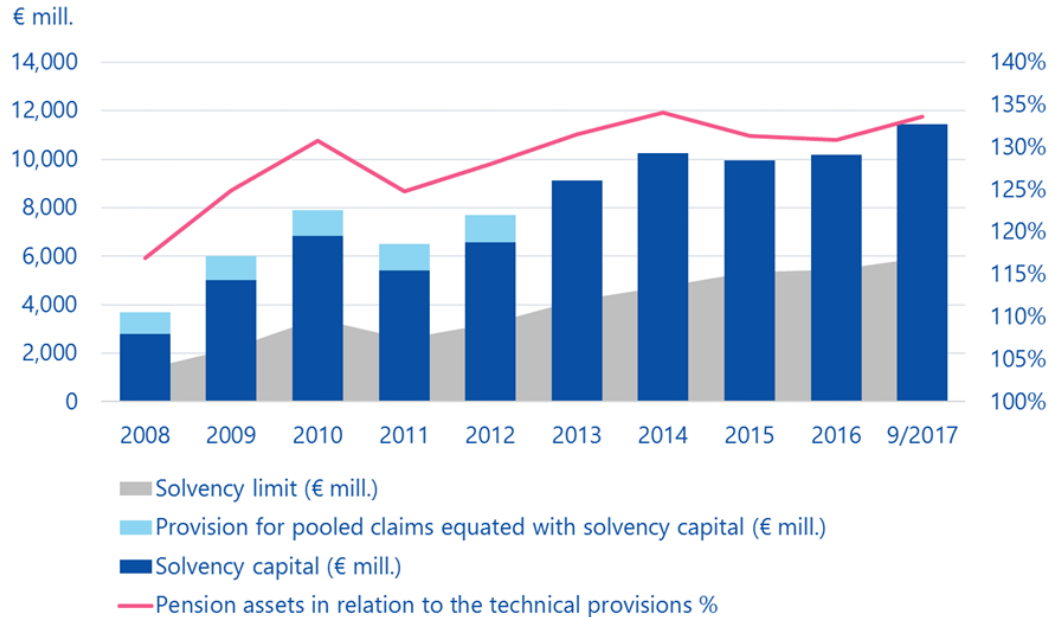
European equities = Stoxx 600 Total Return Index EUR

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

US equities= S&P500 Total Return Index

Solvency

Solvency has been strengthening steadily since the financial crisis



The figures comply with the legislation valid at the time.

Loading profit

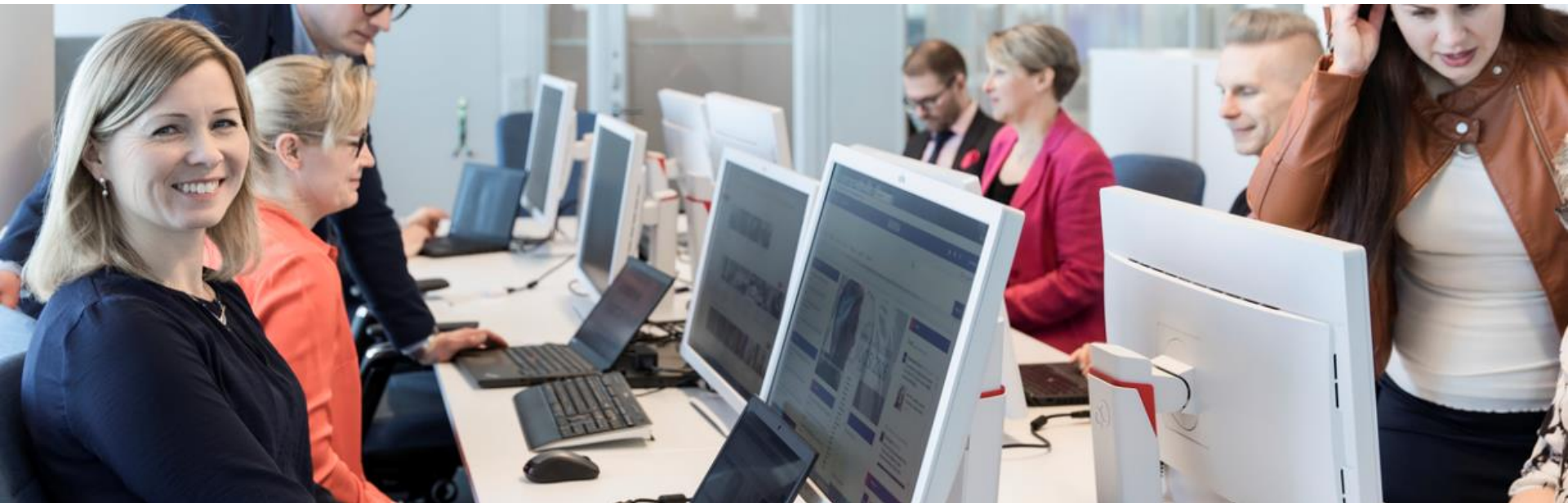


We handle the implementation of pension provision efficiently.

The expense loading, used to cover insurance operations expenses, was cut by 6% as of 2016. Through efficient operations, we have maintained our relative efficiency at a good level.

Loading profit generated through efficient operations and strong solvency guarantee the best client bonuses in the sector.

Latest developments for customers



Pensions paid

€4.0_{bn}

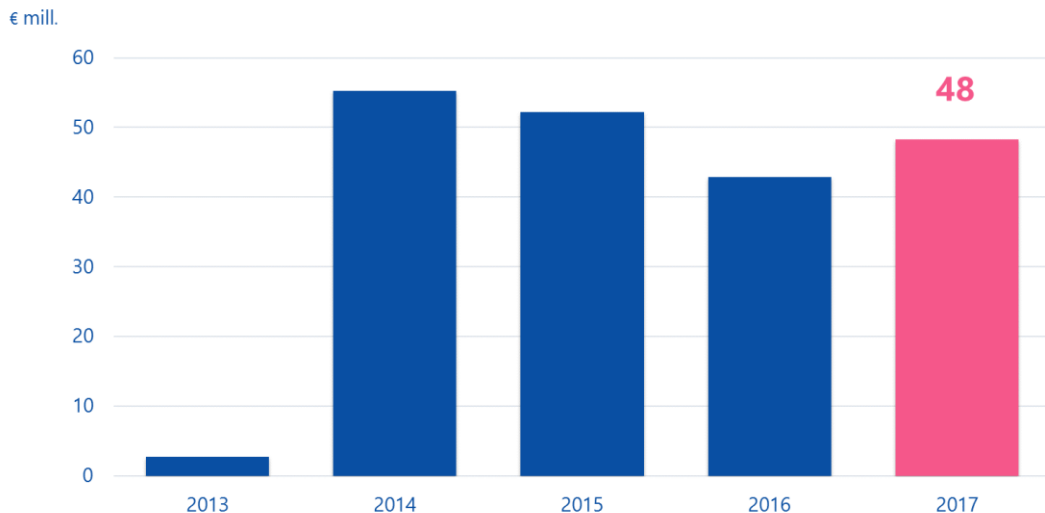
Pensioners

344,000

Insured employees and
entrepreneurs

542,000

EUR 48 million in TyEL premiums written will transfer to Varma



Varma's result in account transfers, TyEL premiums written
Source: <http://www.tela.fi/siirtoliiketilastot>

Varma did well in the account transfer rounds between earnings-related pension companies which were concluded at the end of September.

The premium income transferred to Varma over the past five years amounts to an additional EUR 200 million.

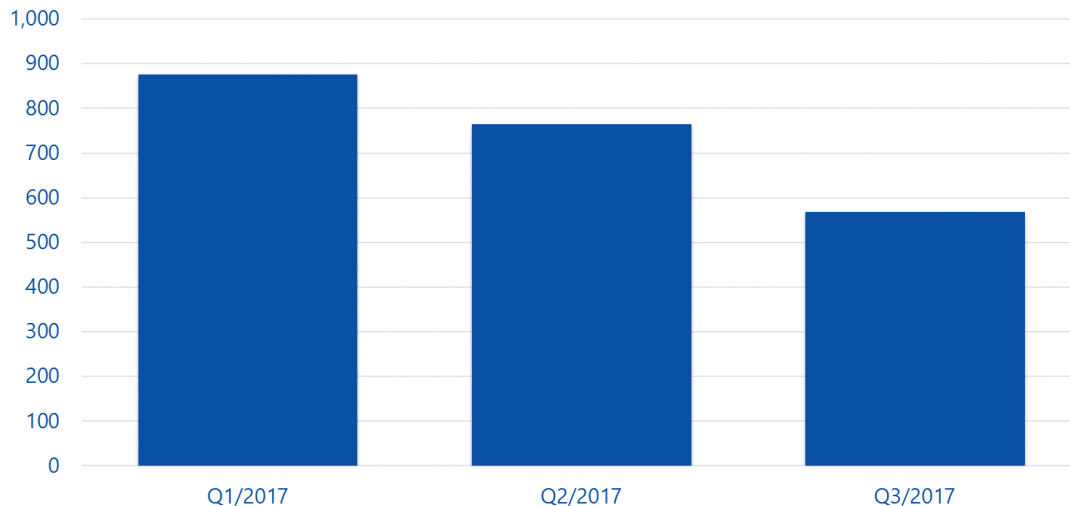
Varma's customers get their pension decisions faster

We process pension applications 5 days faster than the sector average, even though the number of pension applications has increased 12% from last year (Source: ETK's statistics)

- An old-age pension application takes an average of 29 days to be processed. The decision can be made within a few days, if all the required information is submitted with the application.
- Decision on the new, partial early old-age pension is made on average in 4 days, and often even on the same day the application is received.



Partial early old-age pension decisions in 2017



- A total of 2,200 partial early old-age pensions under the reformed pension act have been granted
- The peak at the start of the year has levelled out, proportion of 61-year-olds on the rise
- Women favour the 25 per cent pension
- Entrepreneurs' share declining

Current CSR issues



Varma's CSR focus areas



Responsibility for Varma employees



Cost-effective use of funds



Open and pro-active
communication



Ethical and transparent
business



Responsibility
in investment operations



Mitigating climate
change



Securing
solvency



High-quality implementation
of pension provision



Promoting workability
and longer careers

Responsible achievements in autumn 2017



Director of Responsible Investment

Hanna Kaskela has been appointed Director of Responsible Investment at Varma effective 1 September 2017. In recent years she has been building Varma's award-winning sustainable equity portfolio.



More solar power

Varma will build 7 solar power systems at its properties around Finland, and starting in the autumn, a total of 5,000 new solar panels will be installed. The annual output is equal to the annual consumption of 60 detached houses heated with electricity.



Varma accepted in CLC

In September, we joined the Climate Leadership Council (CLC), which challenges businesses and society to mitigate climate change. One of our key responsibility targets is to develop our investment portfolio to conform with the targets of the Paris climate agreement.

Current issues in the earnings-related pension sector and the economy



Current issues in the economy and earnings-related pension sector

- The outlook for the global economy is more balanced now than it has been since the financial crisis
- The Finnish economy is growing at a fast pace, which helps reduce deficits and unemployment
- Varma is preparing for the national income register, due to be introduced at the start of 2019
- Finland's pension system ranks among the best in an international comparison (Mercer Global Pension Index 2017)
- Varma has given its commitment to the transfer of liabilities of a pension fund which has gone into liquidation. Should the transfer take place, the costs to Varma's client companies and the insured would be around EUR 25 million.

VARMA