



# Varma's Interim Report January – September 2018

## Return on Varma's investments in January–September 3.5% – solvency strengthened



Solvency capital, €

**11.6 bn**

Market value  
of investments, €

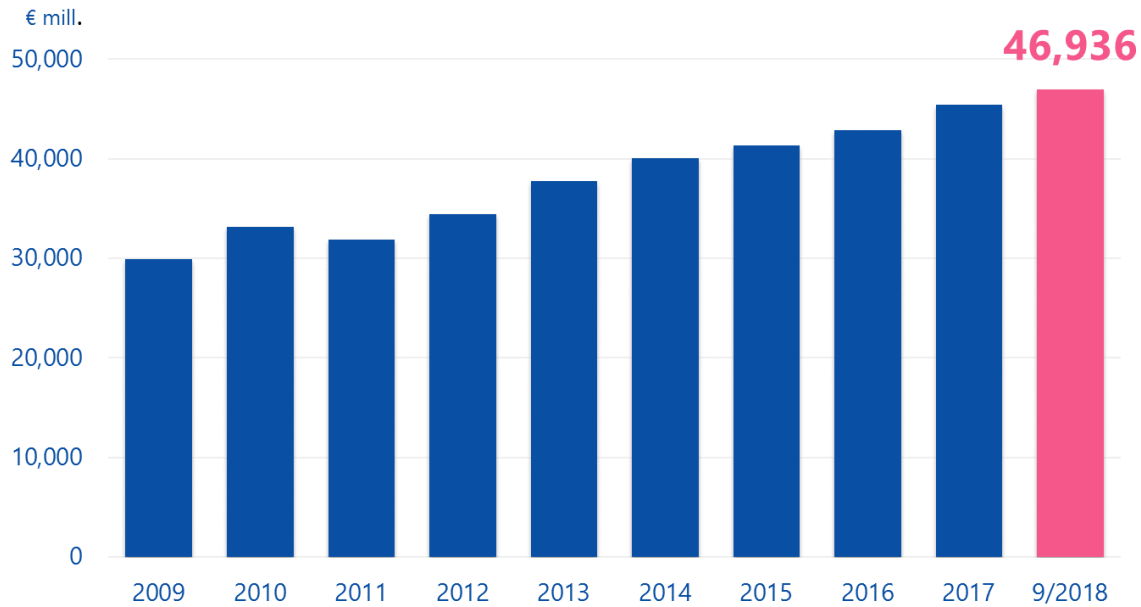
**46.9 bn**

Return on  
investments

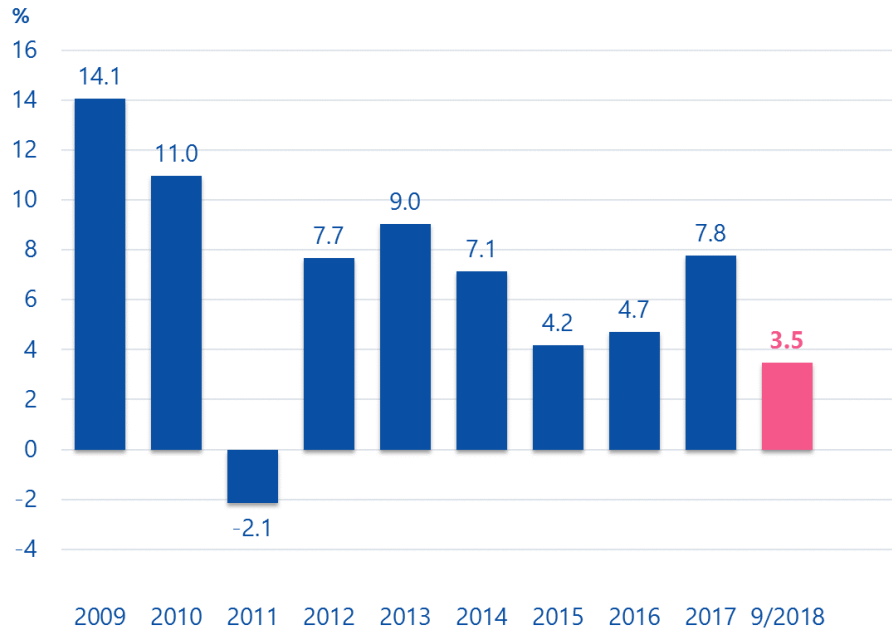
**3.5%**



## Value of investments grew to €46.9 billion



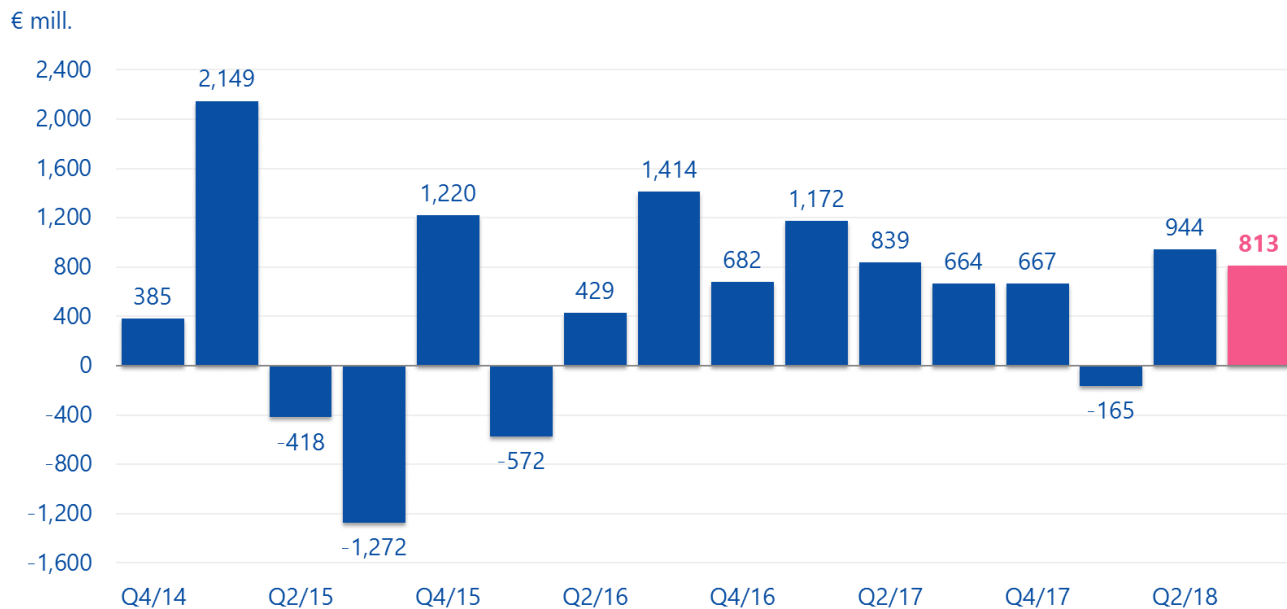
## Varma's investment returns 2009–9/2018



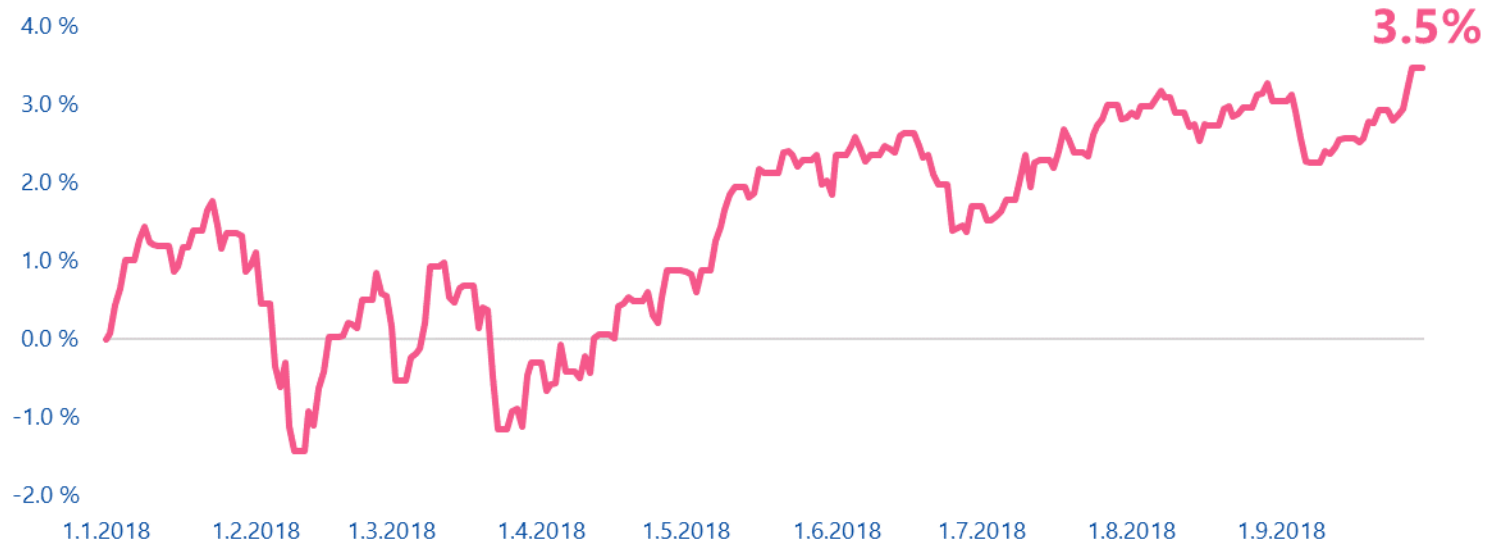
The average nominal return on investments over ten years is approx. 5.9%, calculated in accordance with the recommendations issued by TELA. In 1-9/2017 return on investment was 6.2%.

The return on Varma's investments remained on a steady growth track in the third quarter of the year, after market turbulence in the beginning of 2018. Impacts of the trade war did not extend to investment returns in the earnings season, although political and economic risks have escalated.

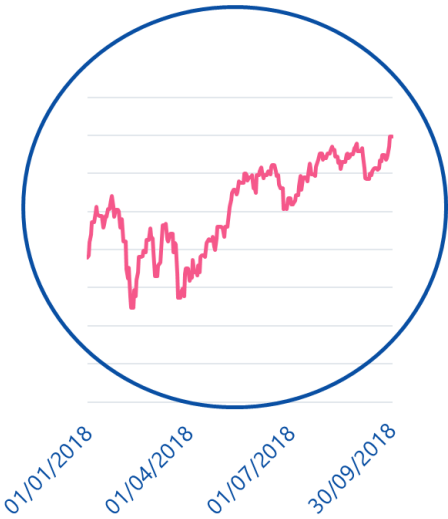
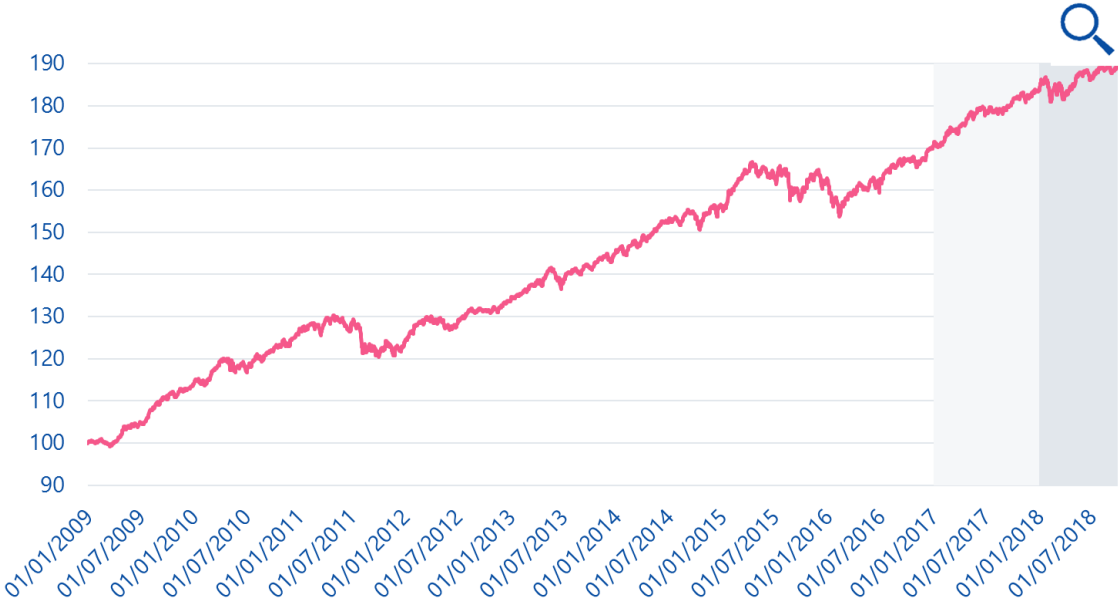
## Return on investments €813 million in Q3



## Steady investment return growth over the nine-month period



# Following the financial crisis, Varma's cumulative return on investment 89.9%, i.e. €23.0 billion



# Investments classified according to risk

	30 Sep 2018				31 Dec 2017				1-9/2018	1-9/2017	1-12/2017	24 m
	Market value				Market value				Return	Return	Return	Vola- tility
	Market Value		Risk position		Market Value		Risk position		MWR	MWR	MWR	
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	%	
<b>Fixed-income investments <sup>1</sup></b>	<b>14,262</b>	<b>30</b>	<b>10,881</b>	<b>23</b>	<b>13,481</b>	<b>30</b>	<b>12,579</b>	<b>28</b>	<b>-1.2</b>	<b>3.6</b>	<b>3.7</b>	
Loan receivables	1,737	4	1,737	4	1,453	3	1,453	3	2.7	1.7	2.2	
Bonds	10,882	23	9,757	21	10,028	22	10,510	23	-1.9	5.1	5.4	2.2
Public bonds	4,236	9	3,471	7	4,153	9	4,285	9	-4.5	4.2	4.0	
Other bonds	6,646	14	6,285	13	5,874	13	6,224	14	-0.1	5.5	6.2	
Other money-market instruments and deposits	1,643	4	-613	-1	2,001	4	617	1	0.1	-1.6	-1.9	
<b>Equity investments</b>	<b>19,917</b>	<b>42</b>	<b>19,695</b>	<b>42</b>	<b>20,427</b>	<b>45</b>	<b>20,687</b>	<b>46</b>	<b>6.6</b>	<b>9.6</b>	<b>11.4</b>	
Listed equities	15,715	33	15,493	33	16,492	36	16,753	37	5.5	10.8	11.6	5.9
Private equity	3,676	8	3,676	8	2,767	6	2,767	6	12.2	4.1	7.9	
Unlisted equities	527	1	527	1	1,167	3	1,167	3	7.1	8.1	18.5	
<b>Real estate investments</b>	<b>3,854</b>	<b>8</b>	<b>3,854</b>	<b>8</b>	<b>3,602</b>	<b>8</b>	<b>3,602</b>	<b>8</b>	<b>4.0</b>	<b>3.1</b>	<b>4.9</b>	
Direct real estates	2,851	6	2,851	6	2,797	6	2,797	6	3.2	2.3	2.9	
Real estate funds	1,002	2	1,002	2	805	2	805	2	6.6	5.9	12.0	
<b>Other investments</b>	<b>8,903</b>	<b>19</b>	<b>10,236</b>	<b>22</b>	<b>7,900</b>	<b>17</b>	<b>8,907</b>	<b>20</b>	<b>3.4</b>	<b>5.7</b>	<b>9.3</b>	
Hedge funds	8,916	19	8,916	19	7,886	17	7,886	17	4.9	5.3	8.5	1.4
Commodities	15	0	46	0	11	0	179	0				
Other investments	-28	0	1,274	3	3	0	842	2				
<b>Total investments</b>	<b>46,936</b>	<b>100</b>	<b>44,665</b>	<b>95</b>	<b>45,409</b>	<b>100</b>	<b>45,775</b>	<b>101</b>	<b>3.5</b>	<b>6.2</b>	<b>7.8</b>	<b>2.2</b>
Impact of derivatives			2,271	5			-365	-1				
<b>Investment allocation at fair value</b>	<b>46,936</b>	<b>100</b>	<b>46,936</b>	<b>100</b>	<b>45,409</b>	<b>100</b>	<b>45,409</b>	<b>100</b>				

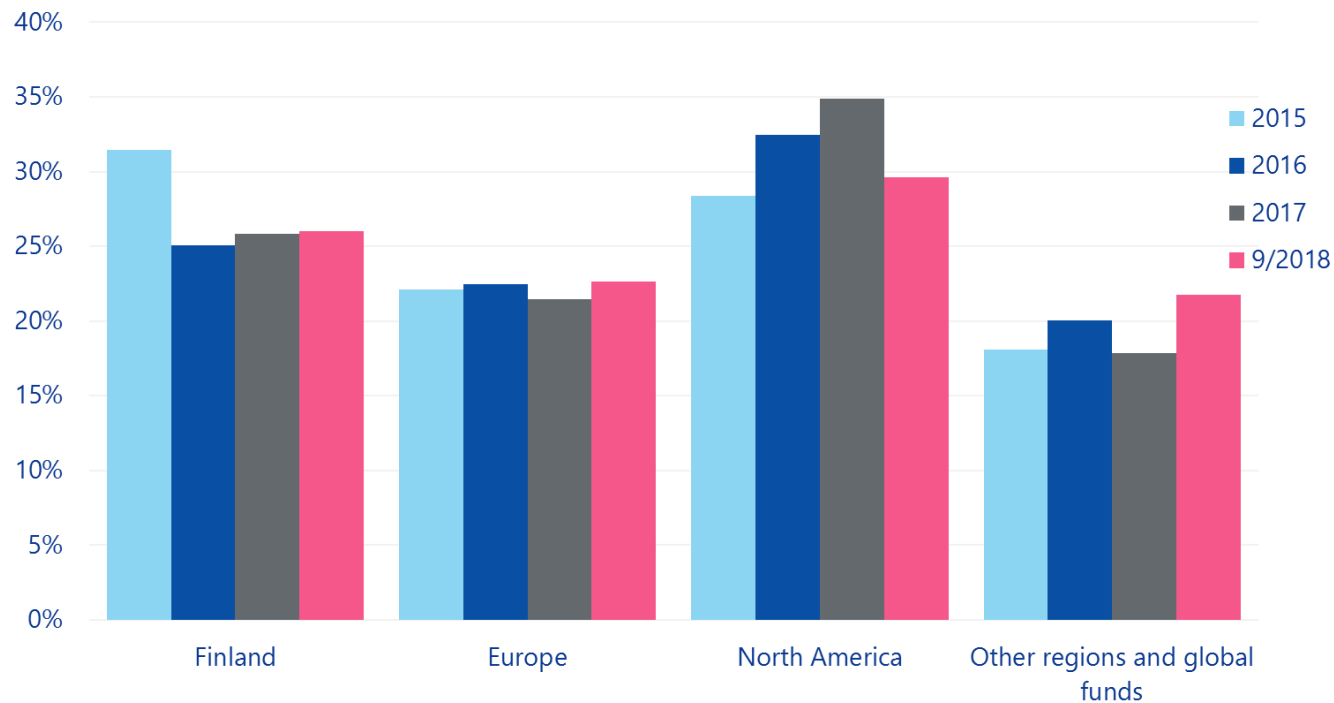
The modified duration for all the bonds is 2.4.

The open currency position is 25.5 % of the market value of the investments.

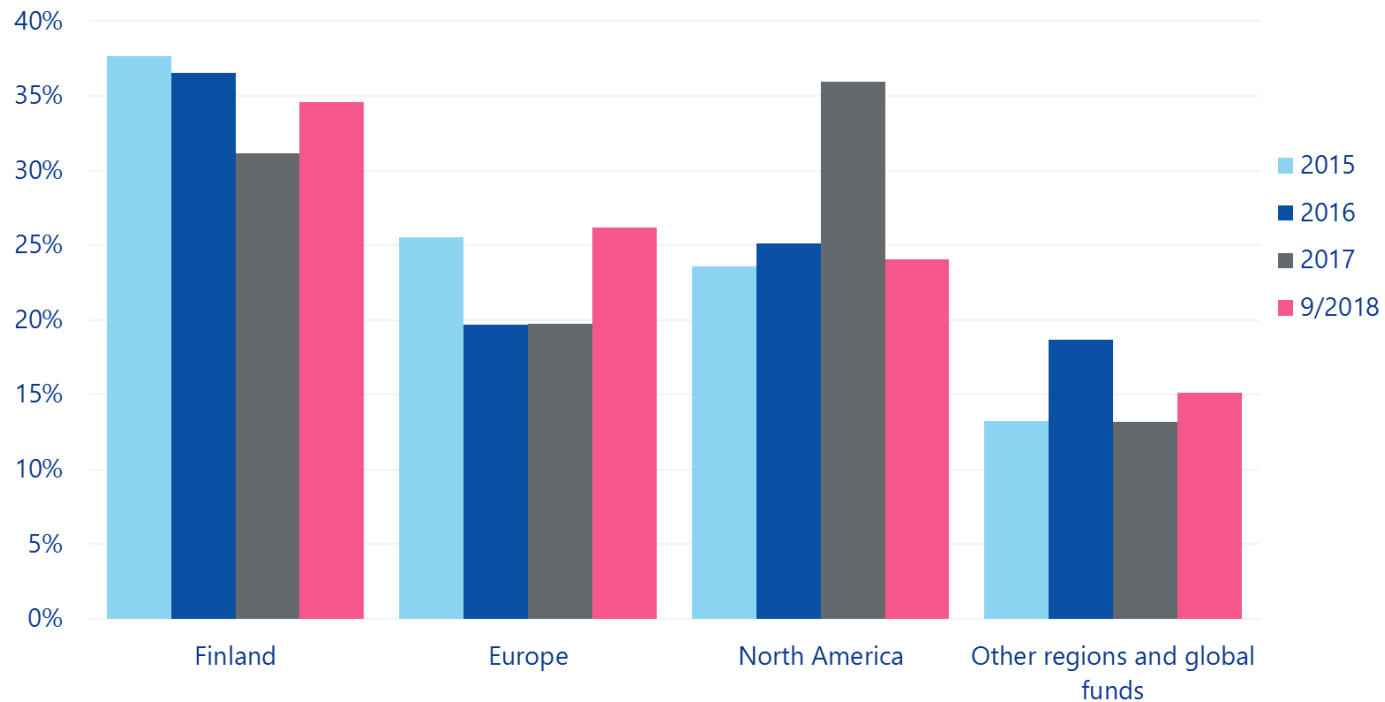
<sup>1</sup> Includes accrued interest



## Geographical distribution of investments

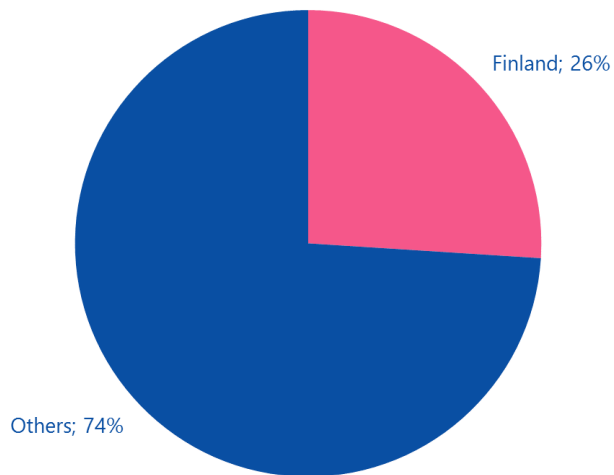


## Geographical distribution of listed equities

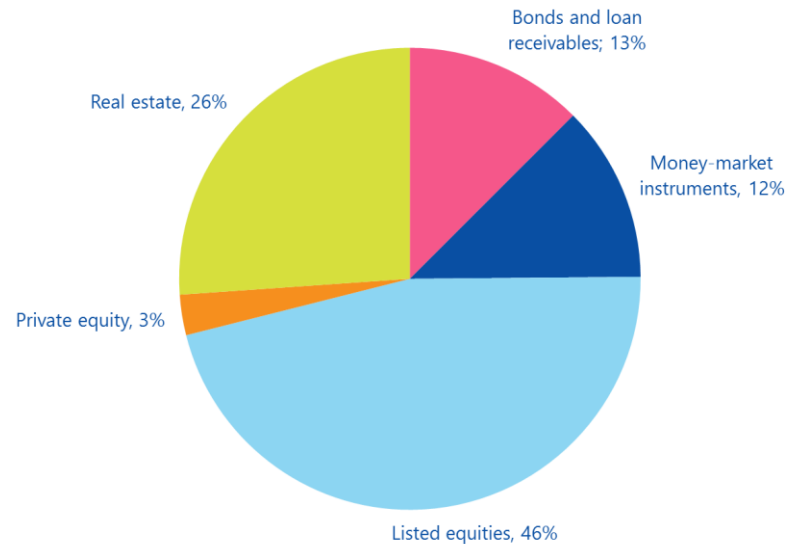


## Investments in Finland 26%, €11.6 billion

### 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
9/2018	3.5	12.3	0.9	10.6	-0.5	-0.7
2017	7.8	11.5	10.6	21.8	0.1	2.4
2016	4.7	13.3	1.7	12.0	3.3	4.7
<b>Average nominal return</b>						
5 years	6.0	14.2	7.2	13.9	3.6	2.9
10 years	5.9	11.5	7.2	12.0	4.5	5.1
Since 1999 *	5.6	9.0	4.3	6.5	4.3	4.2
<b>Average real return</b>						
5 years	5.3	13.5	6.5	13.2	3.0	2.3
10 years	4.7	10.3	6.0	10.7	3.3	4.0
Since 1999 *	4.0	7.3	2.7	4.8	2.7	2.6

\* 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

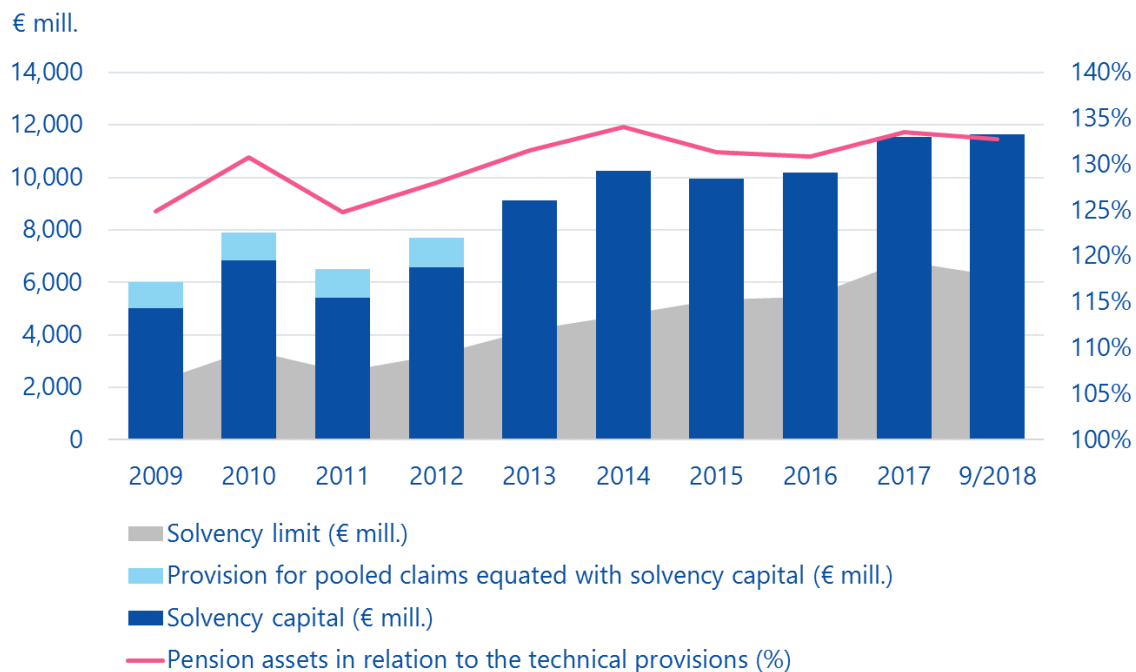
Euro government bonds = IBOXX Eurozone EUR (Total Return)

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 at a strong level



## By far the best loading profit in the sector



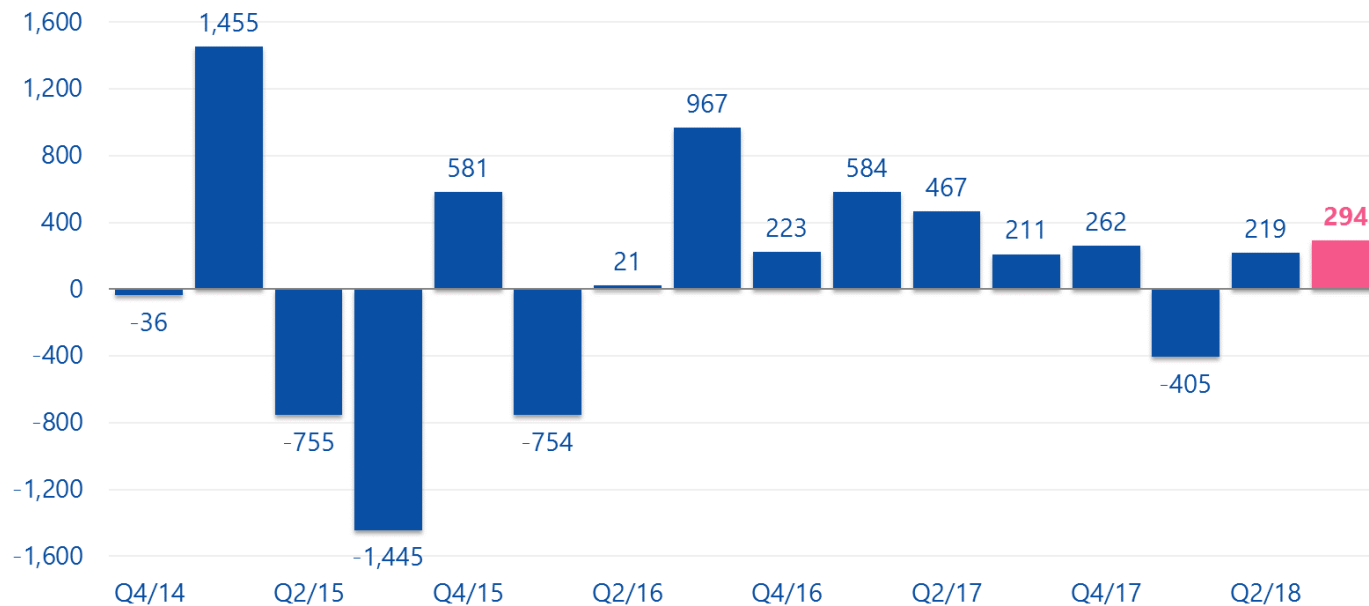
We handle the implementation of pension provision efficiently.

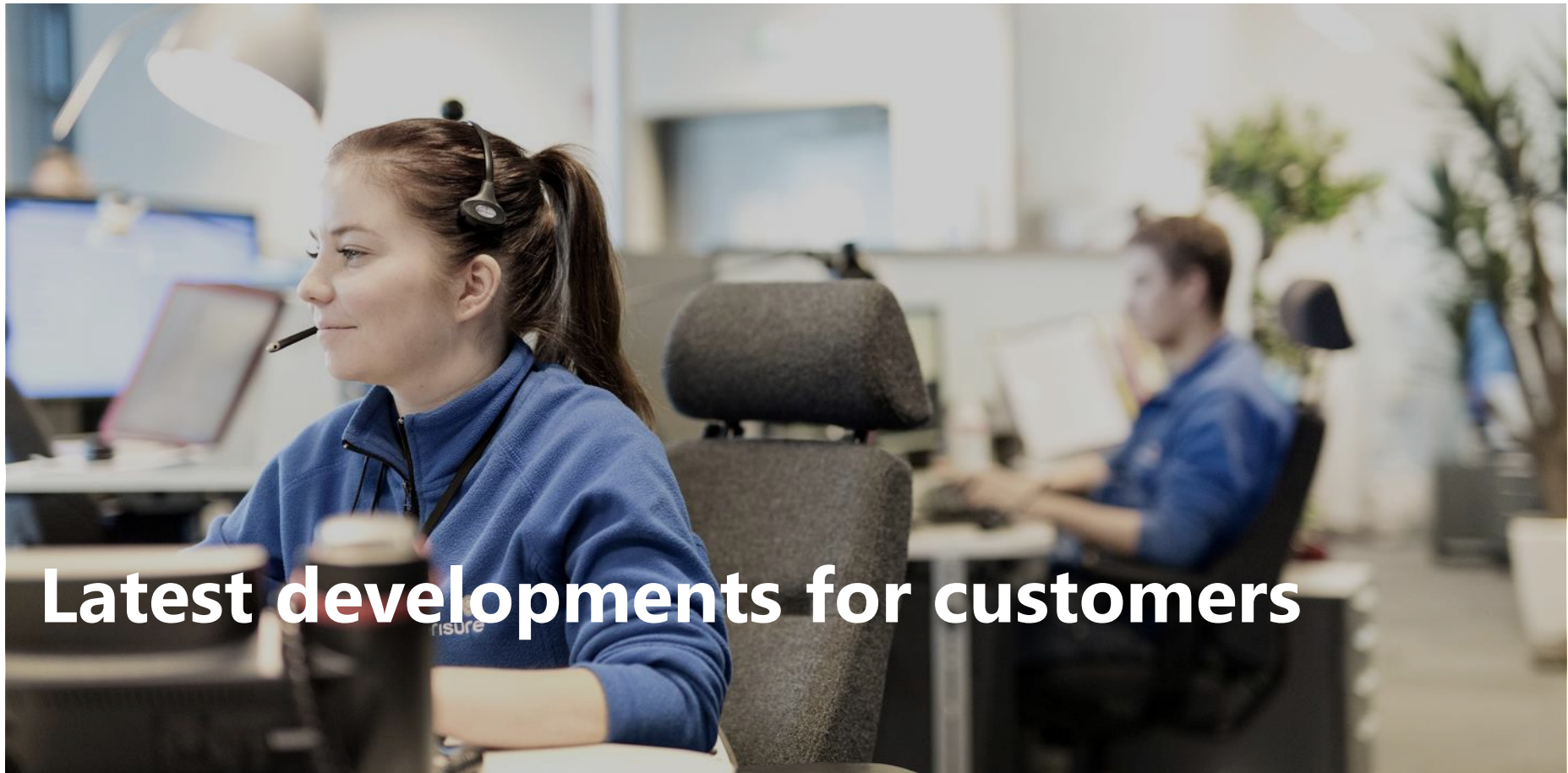
Loading profit, generated through efficient operations, and strong solvency have an impact on the bonuses paid to our clients.



## Total result by quarter

€ mill.





# Latest developments for customers



Insured employees and  
entrepreneurs

555,000

Pensioners

343,000

Pensions paid

€4.1 billion

## Latest developments for customers



### Shortest pension application processing times ever

In September, the average processing time of pension applications was the shortest ever recorded at Varma, 27 days. This was 6 days quicker than in 2017. We process applications for all pension benefits faster than average in the sector.



### More up-to-date pension decisions thanks to Incomes Register

As of 2019, earnings-related pension companies will receive their customers' payroll information from the Incomes Register, a national electronic database. Varma has trained its customers and prepared carefully for system changes.



### New customers from small companies

According to application data, EUR 17 million in premiums written have been transferred to Varma from other earnings-related pension companies during 2018. Customer acquisition work was especially successful in small businesses.

# Earnings information from the Incomes Register

As of the beginning of next year, Varma will start using the Incomes Register to receive the information it needs from the employer in close to real time. This will speed up the processing of insurance contributions and pension decisions. The national Incomes Register is an important project for the earnings-related pension sector at large.



## **Varma is ready**

Varma has been carefully preparing for the Incomes Register. The final tests will be performed during the end of the year. Varma employees have been training customers in preparation for the changes and new operating models.



## **Centralised earnings reporting and faster payments**

In future, employers will report earnings in close to real time and only to the Incomes Register. Varma will receive consistent and up-to-date earnings information from the Incomes Register, which will enable smoother payment of pension contributions.



## **More up-to-date pension estimates thanks to Incomes Register**

Earnings information collected in the Incomes Register allows for more up-to-date pension estimates. Benefit and pension information will be available from the Incomes Register as of 2020.



## **Concerns about small companies being prepared in time**

Payroll administration professionals using different services are largely familiar with the Incomes Register. There are concerns that smaller companies are not aware of the changes required by the Incomes Register or that preparations are begun too late. Supporting small companies before and after the turn of the year calls for major efforts from all players.



## Current issues in pension services

- 13% fewer pension applications were made than in the corresponding period last year due to the higher age limit for old-age pension.
- We received 1,523 applications for partial old-age pension, 33% fewer than in the corresponding period last year.
- Years-of-service pension has so far been granted to 9 applicants.
- Rehabilitation applications are on the rise, 18% more applications than in the corresponding period last year.
- Disability pension applications up 15% year-on-year. The growth can be partly attributed to the activation model.
- We launched an online service (in Finnish) for our customers to help them estimate their own workability and income security during rehabilitation.







# Responsibility



# Responsible Varma



## ETHICAL AND TRANSPARENT BUSINESS

We develop the responsibility of our business operations, e.g. in customer work and the supply chain.



## COST-EFFECTIVE USE OF FUNDS

We take care of our customers' earnings-related pension cover efficiently.



## OPEN AND PRO-ACTIVE COMMUNICATION

We openly and pro-actively disclose information about our operations. Our use of pension assets is transparent.



## RESPONSIBILITY FOR VARMA EMPLOYEES

We take care of Varma employees' well-being at work and develop an inspiring work culture based on equality.



## RESPONSIBILITY IN INVESTMENT OPERATIONS

Responsibility is an integral part of our investment decisions and ownership policy.



## MITIGATING CLIMATE CHANGE

We are reducing the CO<sub>2</sub> footprint of our investments and operations.

## Varma secures pensions

### Securing solvency



We make profitable and secure investments. Strong solvency helps to secure pensions.

### High-quality implementation of pension provision



Dealing with Varma is smooth, and customers receive decisions without delays.

### Promoting workability and longer careers



Our workability management and rehabilitation services prevent disability and lower disability costs.

## Varma ranks fifth in AODP's global climate index

Varma was ranked fifth in AODP's (*Asset Owners Disclosure Project*) assessment of the world's 100 largest global pension funds' approach to climate-related risks and opportunities.

At Varma, climate issues are an integral part of the investments' decision-making process. We have substantially reduced the carbon footprint of our investments over the past few years: the carbon footprint of the company's equity investments, for example, has diminished by 27% in two years.

In the long term, Varma's goal is to align the entire investment portfolio to the Paris Agreement.



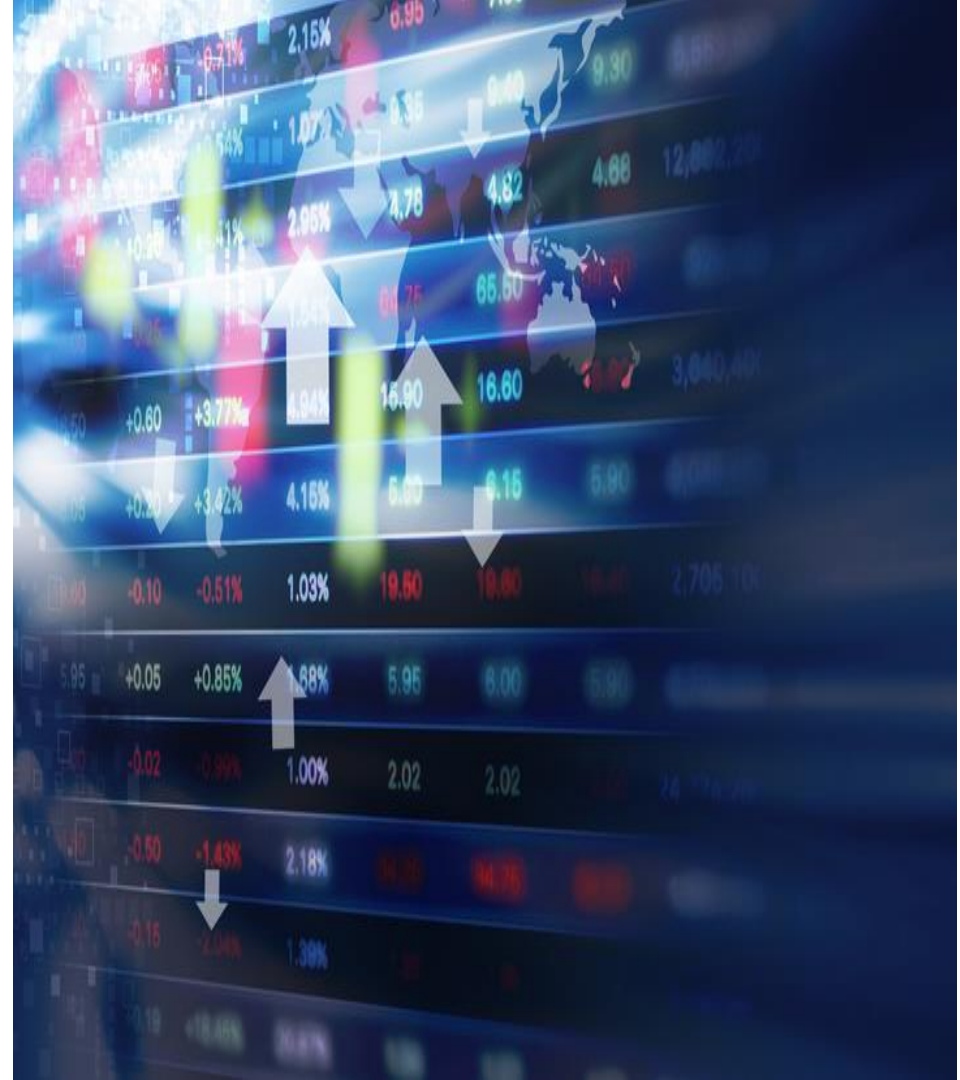




# Current economic issues

## Continued growth, escalated risks

- Peak growth in Finland and eurozone has passed.
- The profitability of Finnish companies remains at a good level, but global economic and political risks have increased.
- Plenty of risks: trade wars, rising interest rates in the US, Brexit and Italy.



**VARMA**