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Salary and remuneration statement

1. GENERAL DESCRIPTION

This statement is based on the Finnish Corporate Governance Code. Varma complies with the Code provisions that apply to the statutory activities of earnings-related pension insurance companies. This statement can also be viewed at www.varma.fi/en.

This statement describes the situation on 7 February 2018.

1.1 Decision-making procedure

Varma's Board of Directors annually decides on the principles and maximum amounts of the company's performance-based remuneration, as well as the personnel groups that are included. The Board of Directors also decides on the remuneration of the President & CEO and those who answer directly to the President & CEO, according to the 'one-over-one' principle, in which the decision is made by at least one organisational level above the superior of the person in question.

1.2 Composition and authority of the Nomination and Compensation Committee

The preparation of remuneration matters to be discussed by the Board of Directors is the responsibility of the Nomination and Compensation Committee, appointed by the Board of Directors. In 2018, the Committee consists of Chairman of the Board of Directors Jari Paasikivi and the vice chairmen of the Board of Directors, Antti Palola and Kai Telanne. Remuneration decisions are made by the Board of Directors.

1.3. Contents of the performance-based remuneration schemes

Varma has three performance-based remuneration schemes in use:

- the incentive scheme for key persons
- the separate scheme for Investment Operations (see 1.3.2) and
- the incentive scheme for personnel (see 1.3.3).

The key principles of performance-based remuneration are as follows:

- The schemes support Varma's long-term objectives, which include solvency, the return on investments and cost efficiency.
- Remuneration should be planned so as to prevent unhealthy risk-taking. Therefore, the schemes include pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to discontinue the schemes before the end of the period if the company's economic position is jeopardised (see 1.5 for more details).
- The Board of Directors decides on the payment of performance-based remuneration annually after the end of the incentive period.
- The share of performance-based remuneration of total remuneration shall increase along with an increase in the person's responsibility and capacity

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to influence the performance of other Varma employees and the success of the company.

- Compliance with the norms regulating the activities is also considered when making remuneration decisions. Performance-based remuneration is not paid, or it will be recovered as an unjustified gain, if it is discovered that the person in question has behaved contrary to Varma's internal guidelines or ethical principles, legislation or official regulations or guidelines.
- Remuneration decisions must always be made according to the 'one-over-one' principle, i.e. by the supervisor of the supervisor of the person in question.

1.3.1 Incentive scheme for key persons

The purpose of the incentive scheme is to commit key persons to Varma and its objectives, which is why performance-based remuneration is determined on the basis of common, company-level criteria. The extent to which the objectives set for the criteria are achieved linearly determines how big a share of the maximum sum of the incentive is distributed.

The incentive scheme is based on incentive periods of three calendar years. At the beginning of each incentive period, the Board of Directors identifies the persons covered by the scheme, their maximum remuneration, and the remuneration criteria and their indicators.

Those included in the incentive scheme for key persons are not part of the incentive scheme for personnel described in section 1.3.3; their remuneration is determined solely on the basis of the incentive scheme for key persons.

In the incentive scheme for key persons, the maximum bonus paid to the CEO corresponds to his 12 months' salary, the maximum bonus paid to members of the Executive Group corresponds to their 6.5 months' salary, and the maximum bonus paid to other designated key persons corresponds to their 3.5 or 4.5 months' salary. The scheme covers a maximum of 40 Varma employees.

A share of the CEO's bonus, and that of other members of the Executive Group, that corresponds to no more than 6 months' salary is paid within one month following the granting of the bonus, and the remainder within three years in three equal instalments (1st year: 1/3; 2nd year: 1/3; and 3rd year: 1/3).

The Senior Vice-President of Investments and other Investment Operations personnel do not participate in the incentive scheme for key persons or in the former long-term incentive scheme.

1.3.2 Separate scheme for Investment Operations

The aim of the Board-approved separate scheme for Investment Operations is to benefit from added value that is created if Varma's solvency and return on investments develop, in the long term, better than those of a peer group of competitors. The separate scheme covers, in addition to the Senior Vice-

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President of Investments, a maximum of 50 key persons in Investment Operations.

Personal maximum remuneration is based on the last salaried month of the previous calendar year and corresponds to a maximum of 6 or 12 months' salary.

A share of remuneration that corresponds to no more than 6 months' salary is paid within one month following the granting of the remuneration, and the remainder within three years in three equal instalments (1st year: 1/3; 2nd year: 1/3; and 3rd year: 1/3).

1.3.3 Incentive scheme for personnel

All Varma employees are covered by an incentive scheme for personnel, with the exception of personnel who are covered by the incentive scheme for key persons (see section 1.3.1 above) and the separate scheme for Investment Operations (see 1.3.2 above). Remuneration is paid from one scheme only.

The amount to be paid in the 2017 scheme is determined by the achievement of, on one hand, company-level and, on the other hand, function-level or personal/team-level targets; personal/team-level targets apply to those employees who can be set clear and measurable targets.

The basis for the maximum annual remuneration under the incentive scheme for personnel is determined by the person's position and monthly salary. The maximum bonuses under the scheme correspond to 1–4 months' salary.

1.4 Remuneration in relation to performance

In all schemes, performance-based remuneration is dependent on the achievement of the criteria based on performance indicators. The extent to which the objectives set for the criteria are achieved linearly determines how large a part of the maximum sum is distributed.

1.5 Basis for performance measurement and risk weighting

In all of Varma's incentive schemes, performance measurement is based on objective criteria, the realisation of which can be independently verified.

Apart from maximum remuneration determined in advance, the risk inherent in the incentive schemes is managed such that the Board of Directors has reserved the right to discontinue the schemes before the end of the incentive period. The discontinuation can be based on the Board of Directors' assessment that Varma's economic position is seriously jeopardised due to a reason inside or outside the company.

Excessive risk-taking is also prevented by a maximum risk level confirmed by the Board of Directors.

2. INDIVIDUAL-LEVEL INFORMATION

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2.1. Remuneration of Supervisory Board members

The Supervisory Board convened three times in 2017. The average attendance rate was 70 per cent. Attachment 1 contains information on each member for 2017.

Remuneration of the Supervisory Board is decided by the Annual General Meeting. The annual remuneration of the Chairman of the Supervisory Board is EUR 5,000, of the Deputy Chairmen EUR 3,800 and of other members EUR 2,500. In addition, the members of the Supervisory Board receive a meeting fee of EUR 300.

Members of the Supervisory Board are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

2.2. Remuneration of the members of the Board of Directors

The Board of Directors convened 10 times in 2017. The average attendance rate (including deputy members) was 94.6 per cent. Attachment 2 contains information on each member for 2017.

Remuneration of Varma's Board of Directors is decided by the Supervisory Board. In 2017, the annual remunerations were: EUR 45,000 for the Chairman, EUR 32,000 for the Deputy Chairmen, EUR 18,000 for members and EUR 13,000 for deputy members. A meeting fee of EUR 600 per meeting was also paid. The same meeting fee is also paid for the separate meetings of the Board of Directors' committees, as well as for the meetings of the presiding officers and the Supervisory Board.

On 30 November 2017, the Supervisory Board decided on the remuneration for 2018 as follows: EUR 47,250 for the Chairman, EUR 33,600 for the Deputy Chairmen and Chairman of the Audit Committee, EUR 18,900 for members and EUR 13,650 for deputy members. In addition, EUR 600 per meeting is paid to participants. The same meeting fee is also paid for the separate meetings of the Board of Directors' committees and the Election Committee, as well as for the meetings of the presiding officers and the Supervisory Board.

Members of the Board of Directors are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

2.3. Remuneration scheme for the President & CEO and members of the Executive Group

2.3.1. Remuneration and other benefits of the President & CEO

The Board of Directors appoints the President & CEO and decides on the terms of his/her employment relationship.

President & CEO Risto Murto's remuneration and fringe benefits in 2017 amounted to EUR 549,137, and his bonus for 2016 was EUR 161,940, amounting to a total taxable income of EUR 711,077.

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Under the incentive scheme for key persons, Murto's maximum bonus is no more than 12 months' worth of salary. The incentive scheme for key persons is described above in section 1.3.1. Murto is not covered by the separate scheme for Investment Operations (see section 1.3.2 above) or the incentive scheme for personnel (section 1.3.3).

President & CEO Risto Murto's fixed monthly salary is EUR 43,000. The President & CEO does not have a company flat. The value of his company car benefit is EUR 975/month, and the value of his mobile phone benefit is EUR 20/month. The tax value of the car benefit is included in his fixed monthly salary.

President & CEO Murto's retirement age was raised from 63 to 65 in connection with the pension reform. At the same time, Murto transferred from the earnings-based supplementary pension system to a contribution-based arrangement as of 1 January 2017. The cost (provisional contribution) of Murto's supplementary pension agreement amounted to EUR 154,800 in 2017.

The President and CEO has a period of notice of six months, in addition to which he is entitled to severance pay equal to six months' salary.

2.3.2. Remuneration and other benefits of the members of the Executive Group

The Board of Directors decides on the remuneration and other terms of employment of the members of the Executive Group.

Members of the Executive Group are covered by the incentive scheme for key persons as described above (see 1.3.1).

In 2017, the salaries and fringe benefits of the members of the Executive Group, excluding the President & CEO, amounted to EUR 1,530,158 and performance pay amounted to EUR 128,500 (for 2016). In addition, the CIO/deputy CEO was due to receive a deferred bonus of EUR 99,840 under the scheme for Investment Operations for 2015.

The costs (provisional contributions) of the members of the Executive Group's supplementary pension agreements amounted to EUR 398,783 in 2017. They have been transferred from the earnings-based supplementary pension system to a contribution-based arrangement as of 1 January 2017.

The members of the Executive Group do not have a company flat. The members of the Executive Group have the option of a company car benefit and they have a mobile phone benefit. The tax value of the car benefit is included in his fixed monthly salary.

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Attachment 1

Varma's Supervisory Board 2017 – attendance and remunerations

Name	Supervisory Board meetings, attendance	Election Committee	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
Chairman					
Kari Jordan	3/3	5/5	5,000	2,400	7,400
Deputy Chairmen					
Saana Siekkinen	2/2		2,850	600	3,450
Satu Wrede	3/3		3,800	900	4,700
Members					
Juri Aaltonen	2/3		2,500	600	3,100
Petri Castrén	3/3		2,500	900	3,400
Erkki Etola	1/3		2,500	300	2,800
Stig Gustavson	3/3		2,500	900	3,400
Olavi Huhtala	1/2		1,875	300	2,175
Jarmo Hyvärinen	0/1		625	300	925
Juha Häkkinen	2/2		1,875	600	2,475
Erkki Järvinen	1/2		2,500	300	2,800
Jukka Jäämaa	2/3		2,500	600	3,100
Timo Karttinen	0/1		625		625
Niina Koivuniemi	2/3		2,500	600	3,100
Ville Kopra	2/3		2,500	600	3,100
Tapio Korpeinen	2/3		2,500	600	3,100
Timo Koskinen	1/3		2,500	300	2,800
Päivi Kärkkäinen	3/3		2,500	900	3,400
Jari Latvanen	1/2		1,875	300	2,175
Päivi Leiwo	2/3		2,500	600	3,100
Olli Luukkainen	1/3		2,500	300	2,800
Ilkka Nokelainen	3/3		2,500	900	3,400
Lauri Peltola	3/3		2,500	900	3,400
Risto Penttinen	2/2		1,875	600	2,475
Jari Suominen	2/3				
Leena Vainiomäki	2/3		2,500	600	3,100
Jorma Vehviläinen	3/3		2,500	900	3,400
Christoph Vitzthum	1/3		2,500	300	2,800
Anssi Vuorio	3/3		2,500	900	3,400
Göran Åberg	1/3		2,500	300	2,800

Attachment 2

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Varman hallitus 2017 – osallistuminen ja palkkiot

Nimi	Hallituksen kokoukset, osallistuminen	Nimitys- ja palkkio- valio- kunta	Tar- kastus- valio- kunta	Vaali- valio- kunta	Hallinto- neuvosto	Vuosi- palk- kio, €	Kokous- ja valio- kunta- palk- kiot, €	Yht., €
Puheenjohtaja								
Jari Paasikivi	10/10	7/7		5/5	3/3	45 000	10 800	58 500
Varapuheenjohtajat								
Antti Palola	10/10	7/7	7/7	5/5	2/3	32 000	17 100	49 100
Kai Telanne	10/10	7/7	7/7	5/5	2/3	32 000	17 100	49 100
Jäsenet								
Riku Aalto	9/10					18 000	5 400	23 400
Mikael Aro (jäsen 2.3.2017 asti)	3/3					4 500	1 800	6 300
Johanna Ikkäheimo	10/10				3/3	18 000	7 800	25 800
Ralf Jansson (jäsen 8.3.2017 alkaen)	7/7				3/3	15 000	4 200	19 200
Ari Kaperi	9/10		7/7		1/3	18 000	10 200	28 200
Casimir Lindholm	10/10				1/3	18 000	6 600	24 600
Jyri Luomakoski	10/10		7/7		1/3	18 000	10 800	28 800
Petri Niemisvirta	10/10					18 000	6 000	24 000
Ilkka Oksala	10/10					18 000	6 000	24 000
Pekka Piispanen	10/10			5/5	2/3	18 000	8 700	26 700
Varajäsenet								
Eila Annala	10/10					13 000	6 000	19 000
Eija Hietanen	8/10			2/2	1/3	13 000	6 000	19 000
Liisa Leino	6/10				1/3	13 000	4 200	17 200