



VARMA

# 2016

ANNUAL AND CSR REPORT

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## DEAR READER,

you are viewing Varma's first-ever integrated Annual Report & Corporate Social Responsibility Report. The new format contains both the traditional annual report and a CSR report that is in line with GRI standards. Responsibility is an integral part of Varma's core task – securing pensions – and all our operations, which is why it was natural for us to combine the traditional annual report contents and CSR information into a single report.

The Financial Statements and Corporate Governance Report are available as separate pdf files.

They can be downloaded at [varma.fi/annualreport](http://varma.fi/annualreport).





# VARMA IN BRIEF

Varma's core task is to secure pensions. We take care of the statutory pension cover of private entrepreneurs and employees. Companies take out TyEL insurance for their employees, while entrepreneurs insure themselves through YEL insurance.

We invest the assets collected as pension contributions profitably and securely for current and future pensions. With some EUR 42.9 billion in investment assets, Varma is Finland's largest private investor.

We pay pensions to approximately 340,100 people, and we provide reliable and useful information about pension insurance. We are responsible for the pension cover of some 870,000 Finns.

Our services in workability management and rehabilitation help client companies to save in pension and sick-leave costs. We also let office space and flats and provide financing for companies.

Varma is a mutual company, owned by its client companies and self-employed persons, insured employees and owners of the guarantee capital.

Varma's headquarters are located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire country. Varma has 540 employees.

Risto Murto, President & CEO

# PRESIDENT & CEO'S REVIEW

The year 2016 was both interesting and challenging. As regards international politics, the year was full of surprises, such as Brexit and the election of Trump as the US president.

For Varma it was a good year in many respects. We had successful co-operation with our customers, and we improved the quality of our pension services and returns on investments.



## PRESIDENT AND CEO'S REVIEW

The return on investments was unexpectedly good. Varma is in very good financial condition: our investments assets are at a record-high level and our solvency is about to break the previous record. Thanks to our strong solvency and high operating efficiency, we offer very competitive client bonuses.

Last year, we prepared for the pension reform, and we improved the quality of our pension services. As a result, those applying for pension or rehabilitation now receive their decision even faster and with fewer errors than before.

Our premium income developed consistently, and growth was especially strong in mid-sized companies. Our focus in 2017 will be on improving services for entrepreneurs and small companies. We want to better understand the needs of small companies

**Our focus in 2017 will be on improving services for entrepreneurs and small companies. Our goal is to provide equally good services to small and large customers alike.**

and work more actively on their behalf. Our goal is to provide equally good services to small and large customers alike.

**Responsibility is part of Varma's core task and strategy.**

2016 marked the beginning of a new strategy period, and we advanced the strategic themes together with our employees. These themes are: responsible Varma, courage to try new things, promoting entrepreneurship, and one Varma for the customer.

I am especially pleased with our responsibility-related work: responsibility is part of

Varma's core task and daily operations. We published a climate policy for our investments, which includes ambitious targets for reducing the portfolio's carbon footprint. We took a big leap towards achieving these targets immediately in 2016: the carbon footprint of the equity portfolio, for example, declined 22%. The importance of responsibility is highlighted by our combined Annual Report and Corporate Social Responsibility Report, which is now published for the first time in accordance with the GRI standards.

2016 was indeed a successful year for Varma, and I would like to thank our employees and customers. We are well-positioned to move forward.

Risto Murto  
President & CEO



**Record high investment assets**

**42.9**

€ billion



**Strong solvency**

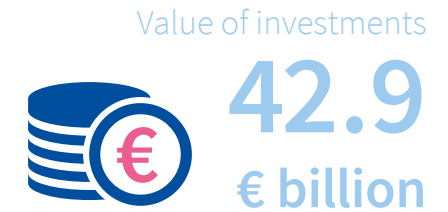
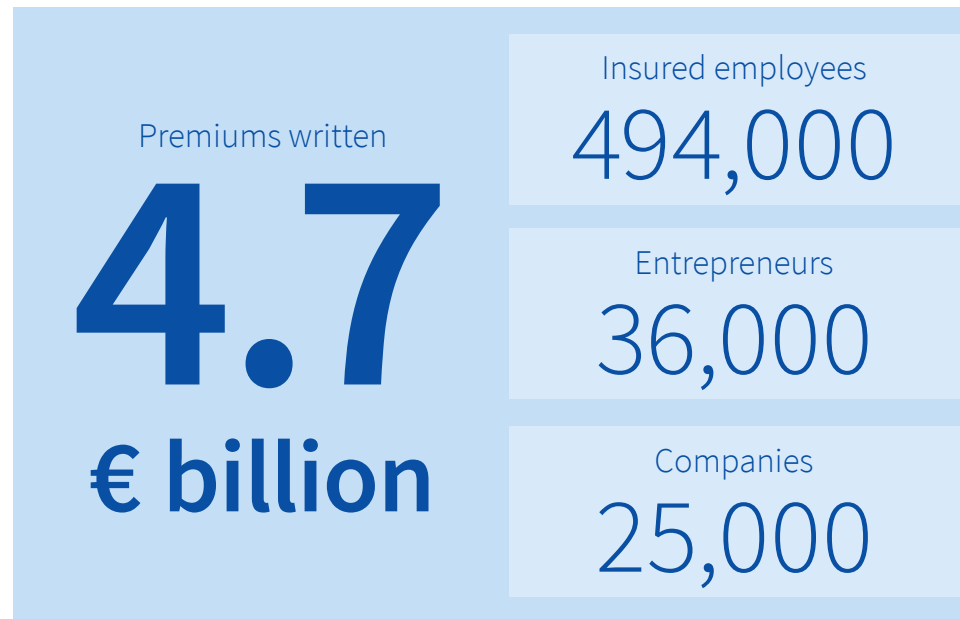
**10.2**

€ billion

# THE YEAR IN BRIEF

In 2016, the return on Varma's investments was 4.7% or EUR 2.0 billion. The market value of investments increased to a record high of EUR 42.9 billion. Pension processing times were markedly reduced, and premium income showed consistent development.

Solvency strengthened to EUR 10.2 billion. Thanks to our strong solvency and high operating efficiency, we offer very competitive client bonuses.



Pensions paid



Pensioners



Solvency capital



Client bonuses





## THE YEAR IN BRIEF

### Surprising investment year

Varma's investment result developed in line with the markets and strengthened in the second half of the year. Equity investments generated the highest returns, at 6.4% (8.8%). The return on fixed-income investments, 4.2% (-0.4%), at the current interest rate level was exceptionally good. As a result of impairments, the return on real estate investments remained negative, at -0.9% (3.3%). The return on other investments grew to 5.3% (3.5%).

At year-end, the average annual real investment return over five years was 5.4%, and over ten years 2.6%.

### Strong solvency and efficient operations lower clients' earnings-related pension insurance contributions

Solvency strengthened by EUR 243 million and amounted to EUR 10.2 (10.0) billion at year-end. The solvency ratio, i.e. solvency capital in relation to technical provisions, was 30.9% (31.4%). Strong solvency and good operating expense efficiency benefit our customers. EUR 121 (115) million was set aside for client bonuses, equalling around 0.6% (0.6%) of the estimated TyEL payroll of the insured.

### Pension reform reflected in customer service

The pension reform was reflected in our customer service: customers were especially interested in the new pension type, partial old-age pension. Varma paid out pensions in the amount of EUR 5.3 (5.2) billion to 340,100 (337,100) people. A total of 22,579 (23,113) new pension decisions were made during the year. Our pension application processing times showed a substantial improvement: the average processing time fell from 60 days to 44 days, which is clearly shorter than the sector average.

Premiums written increased to EUR 4.7 (4.6) billion. At the end of the year, 529,900 people were insured with Varma. High-quality customer service and customer work have boosted sales, and growth has been seen especially in mid-sized companies. In 2017 we will increase our focus on services for entrepreneurs.

Read more about the investment year and market developments in the section Responsibility for pension assets (p. 18) and about our customer work in the section Responsibility for customers (p. 22).

### Key figures 2016

1 Jan–31 Dec, € million	2016	2015
Premiums written, € million	<b>4,675.1</b>	4,576.4
Pension payments to pensioners, € million <sup>1)</sup>	<b>5,345.3</b>	5,183.0
TyEL insured 31 December	<b>493,890</b>	486,960
YEL policies	<b>36,000</b>	37,380
Pensioners	<b>340,100</b>	337,100
Investments, € million	<b>42,852.3</b>	41,293.3
Investment income, € million	<b>1,952.7</b>	1,679.3
Return on invested capital, %	<b>4.7</b>	4.2
Total result, € million	<b>456.9</b>	-164.0
Loading profit, € million	<b>39.0</b>	36.1
Operating expenses as % of loading income	<b>72.1</b>	74.0
Transfer to client bonuses, € million	<b>121.0</b>	115.0
% of TyEL payroll	<b>0.6</b>	0.6
Technical provisions, € million	<b>33,501.3</b>	31,865.6
Solvency capital, € million	<b>10,199.5</b>	9,956.1
Solvency capital/technical provisions, % <sup>2)</sup>	<b>30.9</b>	31.4
Solvency capital/solvency limit	<b>1.9</b>	1.9
Parent company staff 31 December	<b>534</b>	534
Personnel expenses	<b>49.8</b>	50.0
Donations, € million	<b>0.02</b>	0.04
Membership fees in sectoral organisations, € million	<b>1.3</b>	1.3
Purchases from service providers and suppliers, € million	<b>48.4</b>	51.3

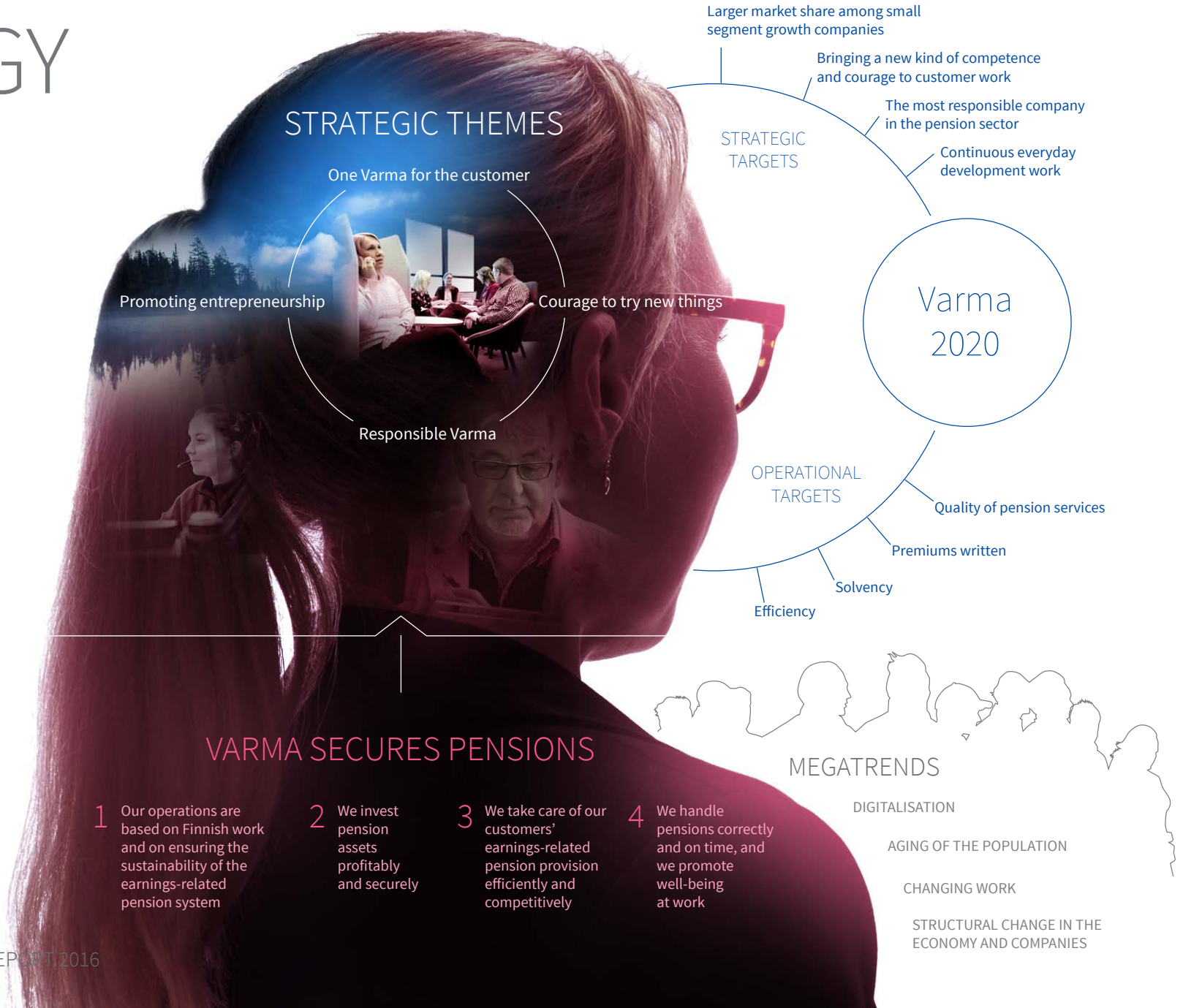
1) Before the reduction of received clearing of pay-as-you-go (PAYG) pensions

2) Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit

# STRATEGY

Varma launched a new strategy at the beginning of 2016. Its key themes are: One Varma for the customer, Promoting entrepreneurship, Responsible Varma and Courage to try new things.

The strategy highlights Varma's core task, that of securing pensions, and the benefits to the customer, which serves as the foundation for the development of all our operations. In 2016 we developed our customer service, extended our service times and expanded the service to various digital channels. We involve our customers in service development at an early stage to ensure that we are able to respond to their changing needs. Our goal is to be a multi-channel service company.





## STRATEGY

The starting point for developing our operations is the benefits received by our customers. Our goal is to be a multi-channel service company.

We promote our client companies' growth and support entrepreneurship. We develop services and look for ways to make companies' and entrepreneurs' daily operations easier. During the year under review, a new team focussing on self-employed customers started its work, with employees from Varma, the bank Nordea and the insurance company If taking part. The goal is to serve the self-employed even better in matters relating to insurance and banking services. In 2017 we will increase our focus on entrepreneurship.

[Read more in the section Responsibility for customers](#)

### CSR work progressed on many fronts

In order to improve the responsibility of our operations, we established a Corporate Social Responsibility (CSR) programme, which includes the priorities, targets, indicators and measures for responsibility work in 2016. Varma's Board of Directors approved the programme in March 2016.

With the purpose of promoting responsibility, we have measured the carbon footprint of our investments, published a climate policy, updated our Code of Conduct and Insider Guidelines, increased the transparency of our business, introduced the Green Office system and improved Varma employees' work culture and equality and non-discrimination. We are now also publishing our first CSR report in accordance with the GRI guidelines. Accordingly, we discuss responsible operations in more detail in this report.

[Read more in section Responsible Varma](#)

### New work culture guided by agility and accountability

We encourage Varma employees to develop our internal operating culture and propose daily innovations and experiments in order to support agile implementation of changes and reforms. Lean will be a key element of our daily work and the continuous improvement of our operations. In 2016, we started to renew our work culture with a focus on agility and accountability.

According to the personnel survey, new ambitious experiments have facilitated reforms and changes within Varma.

[Read more about Varma's new work culture](#)

### Strategic goals

High-quality pension services, developing premium income, efficiency and strong solvency are Varma's strategic goals. Varma did well with respect to these goals in 2016.

#### Quality of pension services:

Pension application processing times showed major progress during the year, thanks to the new electronic processing system. Our pension application processing times are approximately 9 days shorter than the average for the sector.

**Premium income** developed favourably during the year, amounting to EUR 4.7 billion. Growth was especially strong among mid-sized customers. In terms of entrepreneurs' YEL premium income, there is room for improvement, and we will be focussing on services for companies and the self-employed in 2017.

**Efficiency:** We take care of our customers' earnings-related pension provision efficiently. Varma used 72%, or EUR 101 million, of the funds reserved for operating expenses.

**Solvency:** Strong solvency is one of the key strategic goals, which benefits our customers through higher client bonuses. During 2016 solvency strengthened by EUR 243 million to EUR 10.2 billion. Varma has been the most solvent private earnings-related pension company for a long time.

[Read more in sections Responsibility for pension assets and Responsibility for customers](#)

# ECONOMIC YEAR FULL OF UNCERTAINTY AND SUDDEN EVENTS

VARMA SECURES PENSIONS ALSO IN AN UNCERTAIN OPERATING ENVIRONMENT

Global economic growth continues, and economic recovery is also expected to continue in the eurozone. In the US, the heightened inflation expectations, sizable stimulus plans and changes in monetary policy indicate an economic shift, at least in the short term. Political uncertainty makes the operating environment more difficult to predict. Earnings-related pensions are well-secured also in a volatile economic environment.

## Positive momentum in the US and eurozone economy

The employment rate in the US has kept improving. Consumer demand continues to increase, and consumer confidence is strong. The scale and impacts of the planned stimulus programme are uncertain. The targeted increase in protectionism increases the uncertainty relating to the direction and growth of the global economy.

The eurozone economy is progressing favourably. In the big picture, financing conditions have relaxed, although there has been uncertainty concerning the situation of certain major banks. Both consumers' and companies' confidence in the economy have strengthened. The easing of tight financial policy has promoted growth in demand. Political uncertainty in the eurozone also continues.

The rising price of oil is expected to support the Russian economy, which is in deep trouble. China's economy is growing, but at a slower pace. In addition to structural changes, market bubbles and problems in the financial sector cast a shadow on the country's economy.

## Political uncertainty did not knock out the markets

Good investment returns alleviate the pressure to increase pension contributions.

Valuation levels in the capital markets held their ground in the political turmoil of 2016. Inflation has picked up in both the US and the eurozone. The U.S. central bank, the Fed, has continued to normalise its monetary policy. Europe's economic cycle is lagging behind compared to the US. Changes in monetary policy are also mirrored in the valuation of other asset classes.

Political uncertainty makes the operating environment more difficult to predict. Varma's strong solvency provides a major competitive edge in a volatile market situation. Competent risk management and active diversification of investment assets supports the profitable and secure investment of pension assets.

The equity-linked share of the return requirement on technical provisions will be gradually raised to 20% as of the beginning of 2017. This is a buffer jointly maintained by earnings-related pension companies to

Finland was ranked fourth in an international pension scheme comparison in 2016, improving on its previous ranking. According to the Melbourne Mercer Global Pension Index, Finland has the most reliable and transparent pension system in the world in terms of governance.

bear some of the risks resulting from the fluctuations in equity income. The goal is to improve opportunities for higher returns.

## Long-awaited turn in Finland's economy

The Finnish economy has finally overcome the recession. Growth is accelerated by

## OPERATING ENVIRONMENT

the development of the domestic markets, which was more favourable than anticipated. Consumer confidence in the Finnish economy is strong, but companies have a more cautious outlook. Private investments have taken an upward turn, which strengthens the foundation for economic growth.

Export demand is expected to pick up. The prolonged, nearly uninterrupted decline in industrial output has come to an end. The employment rate has improved. The labour market continues to be burdened by structural inflexibility, which is reflected in the discrepancy between demand and supply.

The recovery of exports is vital, as the domestic markets are incapable of creating adequate economic growth. The competitiveness pact, a tripartite labour market agreement, strengthens exports' price competitiveness in relation to competitor countries. From the perspective of financing earnings-related pensions, an improvement in cost competitiveness and employment rates and securing sufficient pension asset investments are essential.

A slowdown in global economic growth, increase in protectionism and general escalation in political uncertainty could pose a risk to Finland's economic recovery.

### Longer careers through long-term co-operation

The majority of pensions that are currently being paid are financed directly through

pension contributions. A high employment rate and economic growth are required to fund pensions. The purpose of the pension reform is to lengthen careers and strengthen the financial and social sustainability of the earnings-related pension system.

[Read more about pension accrual](#)

The ageing of the population increases pension and care expenses. The economic growth, although stronger, is not sufficient to balance public finances. Longer careers are also necessary to bridge the sustainability gap in public finances.

Knowledge of pension matters and the accrual of one's own pension influence retirement plans. Varma has been preparing for the pension reform by improving private customers' electronic services. It is important to promote the achievement of the pension reform goals in the workplace. Varma has strong expertise in workability management and vocational rehabilitation. When improving our services, we focus on their effectiveness, leading with knowledge and partnership with client companies.





# RESPONSIBLE VARMA

Corporate responsibility is an integral part of Varma's core task – securing pensions. 'Responsible Varma' is also a key theme in our new strategy.

For Varma, responsible operations means first and foremost securing solvency, disruption-free implementation of pension provision and promoting workability. Corporate social responsibility is also an integral part of our investment operations and ownership practices. We also take care of mitigating climate change and ensuring the well-being at work of Varma employees.

In our vision for responsibility, responsibility is part of Varma's daily operations. We actively communicate what CSR means to us and how our responsible operations show in society. We will continuously develop our responsible ways of operating.

Responsibility has been chosen as a key focal point in Varma's strategy for 2016–2020. Our goal is to be the most responsible company in the pension sector.

## The CSR programme is based on a materiality assessment

In autumn 2015 we drew up a new Corporate Social Responsibility (CSR) programme. It is based on a materiality assessment, which was carried out to identify the most important responsibility factors for Varma.

We wanted to hear what our stakeholders' CSR expectations are and analyse the business impacts of CSR issues.

The stakeholder survey was carried out in October 2015. The survey was sent out by email to 28,075 people, representing 11 pre-determined stakeholder groups: entrepreneurs, representatives of client companies, private customers, office space customers, partners and service providers, representatives of Varma's administration, representatives of organisations and associ-

ations in the pension sector, labour market representatives, legislators, Varma employees and representative of the media.

A total of 1,168 people responded to the survey. Furthermore, 14 stakeholder representatives were interviewed in person – among them representatives of the Executive Group, Board of Directors, public authorities and personnel.

Stakeholder expectations were reviewed in management's responsibility workshops in November and December 2015. The



## RESPONSIBLE VARMA

For Varma, responsible operations means first and foremost securing solvency, disruption-free implementation of pension provision and promoting workability.

workshops delved into the views of stakeholders and prioritised them according to their impacts on Varma's business. This work formed the basis for a materiality matrix, which presents the issues considered most important by the stakeholder groups and their impact on Varma's operations. Based on the matrix, Varma's CSR programme was drawn up, priorities, indicators and measures included. Varma's Board of Directors approved the CSR programme in March 2016.

### CSR is visible in the organisation

Since the beginning of 2016, Varma's Executive Group has included a member with responsibility for CSR issues, following the appointment of a new Director in charge of HR, responsibility and communications. The Executive Group discusses all major

### CSR focus areas

#### Securing solvency



Pensions are well secured, and we pay the best client bonuses.

#### Smooth implementation of pension provision



We make fair pension decisions without delays.

#### Open and pro-active communication



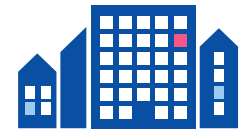
We openly disclose information about our responsible actions, also in connection with our interim reports.

#### Promoting workability and longer careers



Activities that promote workability and rehabilitation prevent disability, improve well-being at work and reduce disability costs.

#### Transparent operations and administration



Open communication builds trust, and stakeholders consider our operations to be flawless and upstanding.

#### Responsibility in investment operations



Varma's responsible investment policies are integrated in its investment decision-making processes and ownership policy.

#### Mitigating climate change



We will reduce the CO<sub>2</sub> footprint of our investments and operations. We publish a climate policy for investments.

#### Varma employees' well-being at work and competence



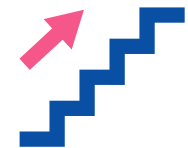
We take care of our workability and develop our competence. We know how to serve our customers smoothly.

#### Preventing the grey economy



All work carried out in Finland is covered by earnings-related pension insurance.

#### Supporting entrepreneurship



We support entrepreneurship by, among other things, offering free digital tools especially to entrepreneurs that are starting up or expanding their operations.

## RESPONSIBLE VARMA

projects and decisions relating to the development of responsibility. Varma's Board of Directors discusses, in addition to the CSR programme, the company's main responsibility policies. In 2016, the Board approved, for example, Varma's Code of Conduct and Insider Guidelines, and discussed the climate policy for investments.

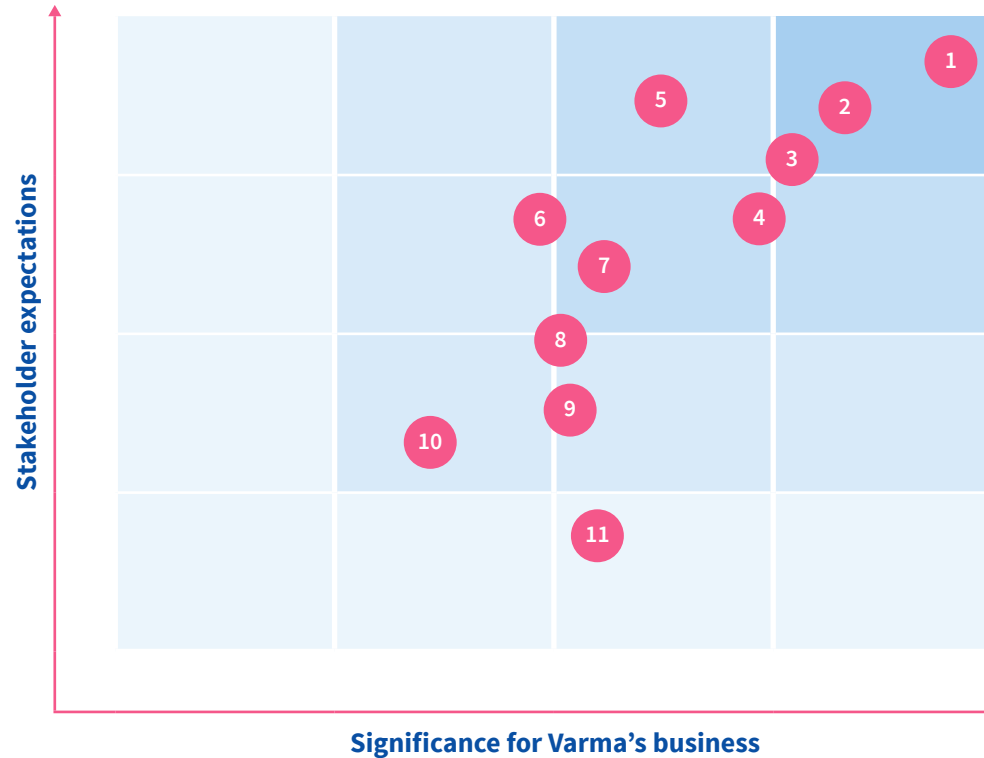
Varma has appointed a CSR Manager who co-ordinates CSR measures and communication. Furthermore, an expert in responsible investments works in Investment Operations. A number of experts in all parts of the organisation develop responsible operations in their functions, and make up an informal co-operation network that flexibly convenes around different issues, if necessary.

Varma has two working groups that focus on developing responsible ways of operating: the Green Office team and the equality and non-discrimination working group. The Green Office team co-ordinates Varma's environmental programme, while the equality and non-discrimination working group focuses on promoting equality and equity among Varma employees. There is also separate working group that develops responsible purchasing.

[Read about corporate social responsibility at Varma on our website](#)



### Key CSR elements in a materiality matrix



- |  |  |
|--|--|
| 1. <b>Securing solvency</b>  | 6. <b>Responsibility in investment operations</b>  |
| 2. <b>Disruption-free implementation of pension provision</b>          | 7. <b>Mitigating climate change</b>  |
| 3. <b>Open and pro-active communication</b>                            | 8. <b>Considering environmental aspects in the company's operations and supply chain</b> |
| 4. <b>Promoting workability and longer careers at client companies</b> | 9. <b>Varma employees' well-being at work and competence</b>                             |
| 5. <b>Transparent and open operations and administration</b>           | 10. <b>Preventing the grey economy</b>   |
|  | 11. <b>Supporting entrepreneurship</b>   |



# STRONG SOLVENCY HELPS TO SECURE PENSIONS

For Varma, strong solvency is a strategic choice, and securing solvency is one of the key targets in our CSR programme. We safeguard our solvency in order to ensure that pension liabilities are covered at all times.

Responsibility for pensions extends well into the future. Through a controlled risk profile, we strive for the best possible return on our investments in order to secure the payment of pensions.

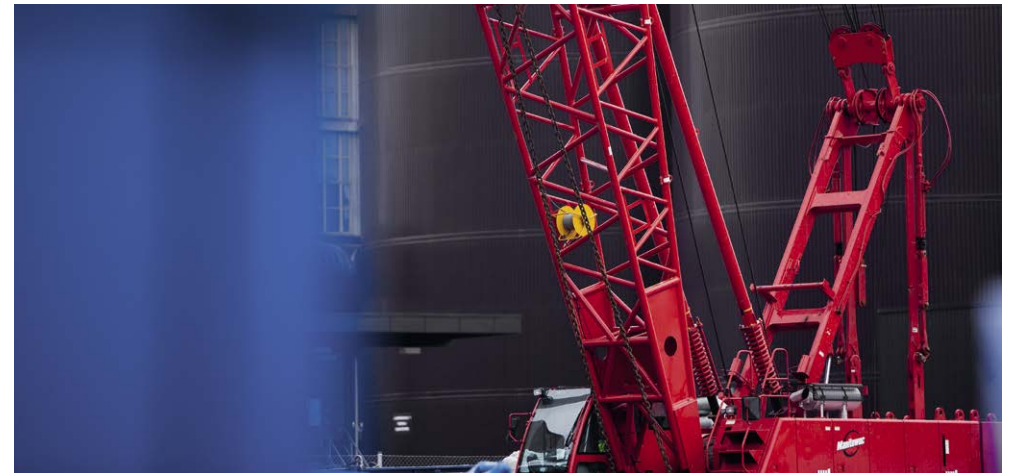
Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions.

Strong solvency capital acts as a risk buffer for investment activities and provides protection against volatility in the capital markets. Strong solvency also enables Varma to aim for higher returns by making

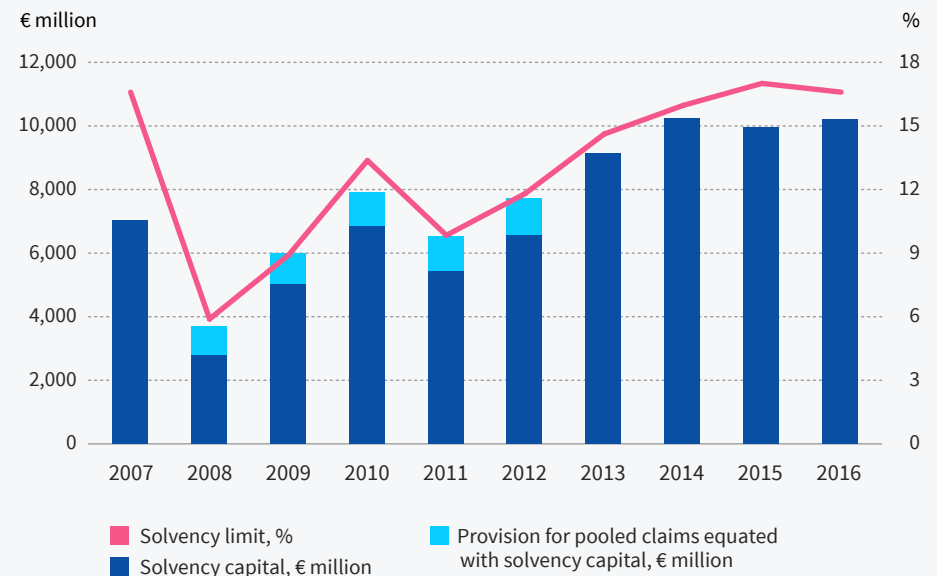
higher-risk investments with a higher return potential.

At the end of 2016, solvency capital amounted to EUR 10,199 million, i.e. 30.9% of technical provisions. Varma's solvency has shown an upward trend in the past five years, and the company has become the most solvent earnings-related pension company in Finland.

Strong solvency also has an effect on the amount of client bonuses: the stronger the solvency, the bigger the amount refunded to our customers. In 2016, EUR 121 million was set aside for client bonuses. The amount of the bonuses is also influenced by the



Solvency 2007-2016



## STRONG SOLVENCY

cost-effectiveness of the pension company's operations.

### Steady development of premiums written

Pension contributions are used to pay pensions and some are set aside in funds for future pensions. The majority of the pension contributions paid by employers

and employees is used to pay the pensions for that year. This is why the consistent development of premium income plays an important role in securing pensions. Varma's premium income totalled EUR 4,675 million in 2016, representing an increase of 2.2% from the previous year.

We were successful in client transfers between earnings-related pension insurance

companies, with a net result of EUR 43 million in terms of TyEL insurance contributions for the entire year.

Earnings-related pension is an essential part of the Finnish social security system. In 2016, Varma paid EUR 5,345 million in pensions to approximately 340,100 recipients.

Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions.

### Largest equity investments

	€ million	Varma's holding of shares, %
1. Sampo Plc	1,518	6.35
2. Wärsilä Corporation	438	5.20
3. Nordea Bank AB	317	0.74
4. Nokia Corporation	286	1.07
5. WO Group Plc	276	16.98
6. Elisa Corporation	207	4.01
7. KONE Corporation	194	0.94
8. Stora Enso Oyj	163	1.99
9. UPM-Kymmene Corporation	142	1.14
10. Nokian Tyres Plc	134	2.78
11. Sponda Plc	127	8.56
12. Technopolis Plc	119	24.04
13. Metso Corporation	118	2.89
14. Metsä Board Corporation	117	4.85
15. Amer Sports Corporation	112	3.74

### We invest EUR 10.8 billion in Finland

Of Varma's total investments, 25%, or EUR 10.8 billion, has been invested in different ways in Finnish society.

Varma is an important investor in Finnish companies and in this way participates in the long-term development of Finnish industry and commerce. Varma invests in the shares of Finnish companies, provides funding through different loan instruments and owns real estate.

We report on our financial performance quarterly, and the most recent information is available on our website.

Financial information and investments



### Varma's tax footprint

Our tax footprint is made up of, in addition to the taxes related to our own operations, insurance and investment activities' taxes and the taxes paid by the companies we invest in.

## STRONG SOLVENCY

In 2016, Varma paid out pensions in the amount of EUR 5.3 billion, and pensioners paid EUR 1.2 billion in income taxes on those pensions as withholding tax. On our employees' salaries, we paid withholding taxes in the amount of EUR 12.9 million.

Varma's taxes relating to investments totalled EUR 22.8 million in 2016, including EUR 1.0 million in transfer tax, EUR 13.6 million in real estate tax, and EUR 8.2 million in tax at source.

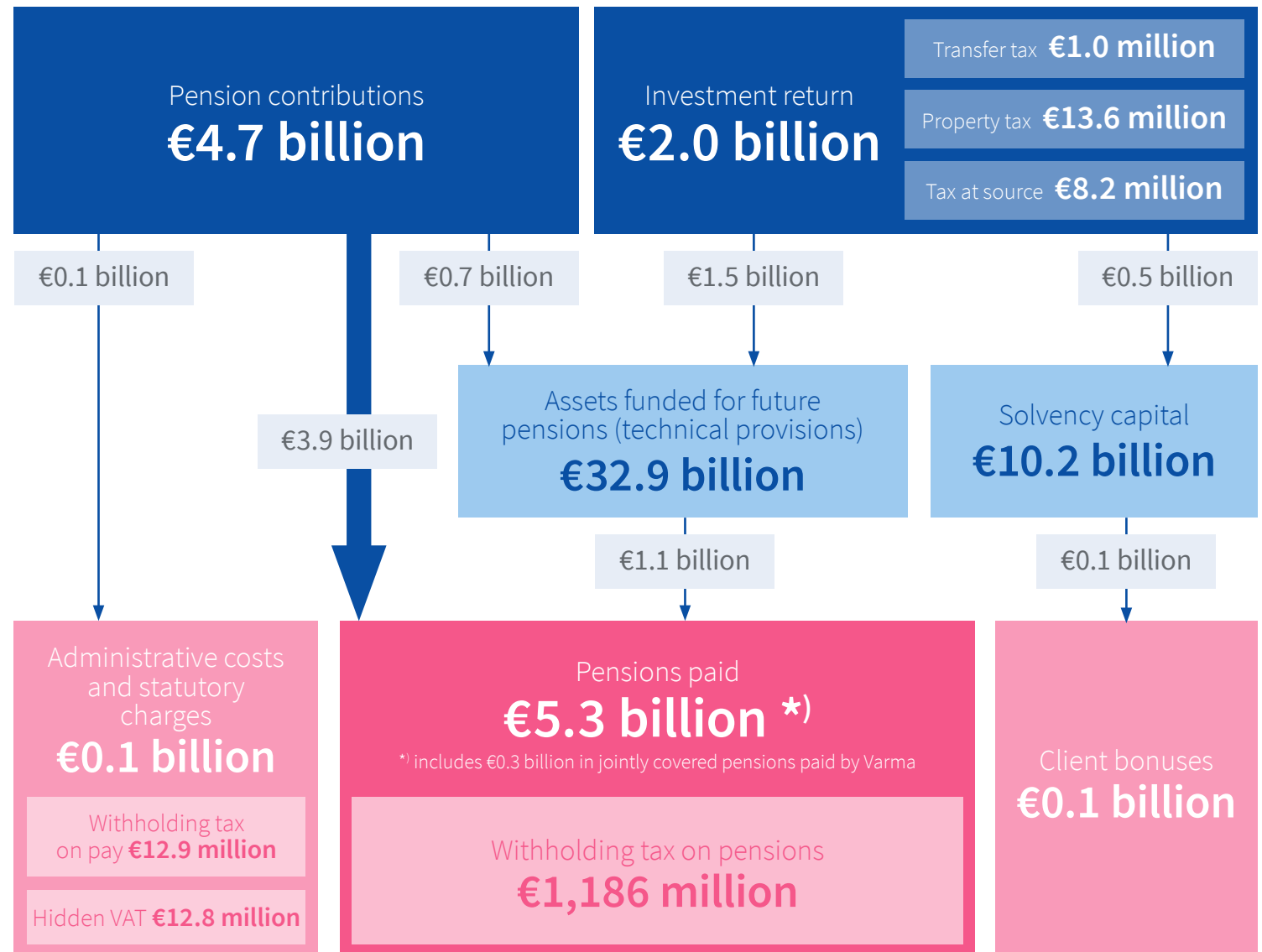
Hidden VAT included in operating expenses totalled EUR 12.8 million.

Our [Principles for Responsible Investments](#) provide the company's general outline of the responsibility for paying taxes. We will not enter into transactions with the main purpose of securing a tax advantage contrary to the intention of the legislator in enacting the relevant tax legislation.

Our principle is to avoid double taxation on investment returns; double taxation would contradict the ultimate objective of the investment operations, which is to generate returns. In fund investments, the avoidance of double taxation means that capital gains from abroad are recognised as income in full in Finland.

We require that the domiciles of private equity and hedge funds participate in the exchange of tax information between authorities.

### Varma's cash flows, including taxes





## INVESTMENT YEAR 2016

### Consistent returns through effective diversification

In 2016, the return on Varma's investments was good, at 4.7% (4.2%). Broad diversification of investments muted the risks caused by market movements, and returns were generated consistently by the different asset classes.

The value of Varma's investments grew to EUR 42.9 billion, and solvency capital increased to EUR 10.2 billion. The return on investments was slightly higher than the interest credited on the technical provisions, but solvency weakened to 30.9% (31.4%). Varma's solvency remained at a strong level.

Fixed income investments accounted for 42%, equity investments for 43%, real estate investments for 9%, and other investments for 17% of the investment allocation, and the impact of derivatives was -11%.

**The result was a positive surprise. Equities generated the strongest return.**

Of Varma's investments, the highest returns were recorded in equities and especially in unlisted equities and private equity investments, which were unaffected by the fall in the equity markets early in the year. Listed equities yielded a return of 4.5% (8.0%),

private equities 11.2% (7.8%), and unlisted equities 23.7% (21.2%).

Fixed income investments also yielded good returns at 4.2%, thanks to the falling interest rates and tightening of the credit spreads. The return on the loan portfolio was 4.2% (2.4%), public-sector bonds 1.8% (-2.5%), other corporate bonds 7.8% (0.4%) and other money-market instruments -0.4% (0.5%).

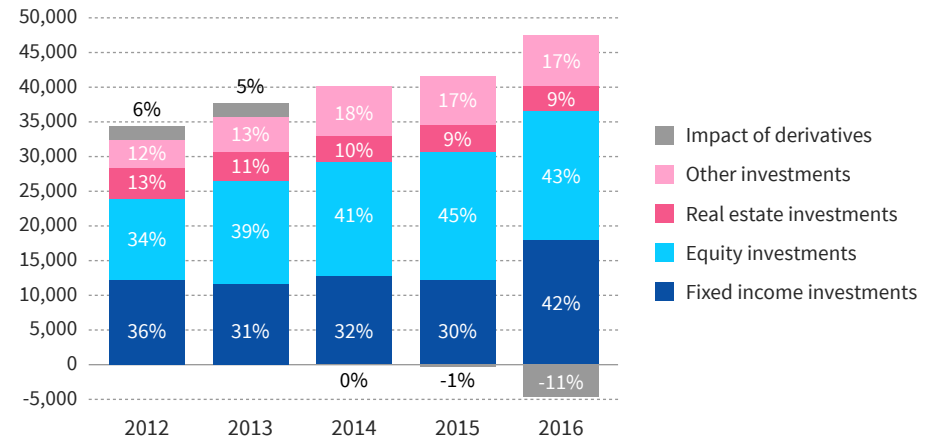
The return on real estate investments remained slightly negative, at -0.9% (3.3%), as a result of EUR -218 million in impairments. Direct real-estate investments yielded a return of -2.6% (2.3%) and real-estate investment funds 6.8% (9.9%). During the year, the real estate portfolio was further developed through the divestment of commercial and office premise portfolios and new investments in Finland and abroad.

**In our investment operations, the emphasis is on strong solvency, diversification and risk management.**

The return on other investments grew to 5.3% (3.5%). They mainly consist of hedge funds and a small commodities position. The return on hedge funds increased to 5.6%

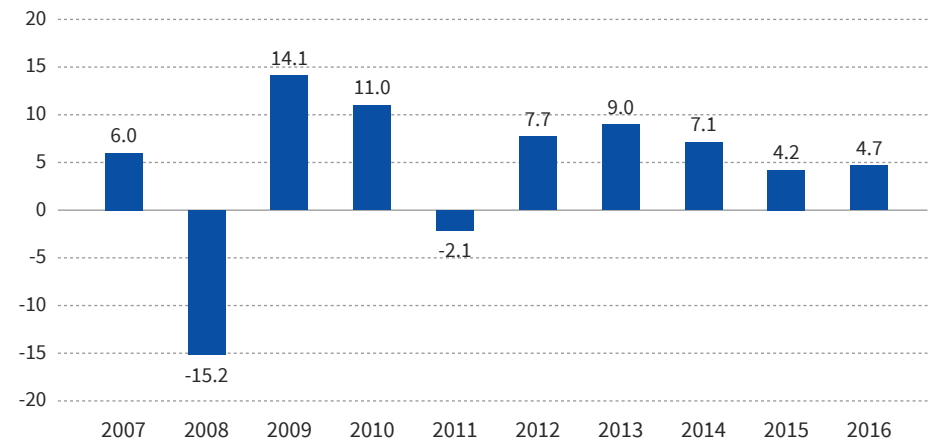
### Investments

€ million



### Return on investments

%



## INVESTMENT YEAR 2016

as the market's risk premiums narrowed towards the end of the year. The return on Varma's hedge fund investments has been very good over a long period, and volatility has been very low.

At the end of the year, the average five-year nominal return on Varma's investments was 6.5%, and the ten-year return was 4.3%. The real returns were 5.4% and 2.6% respectively.

Varma's investment activities focussed on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management.

### Consistent returns in politically uncertain environment

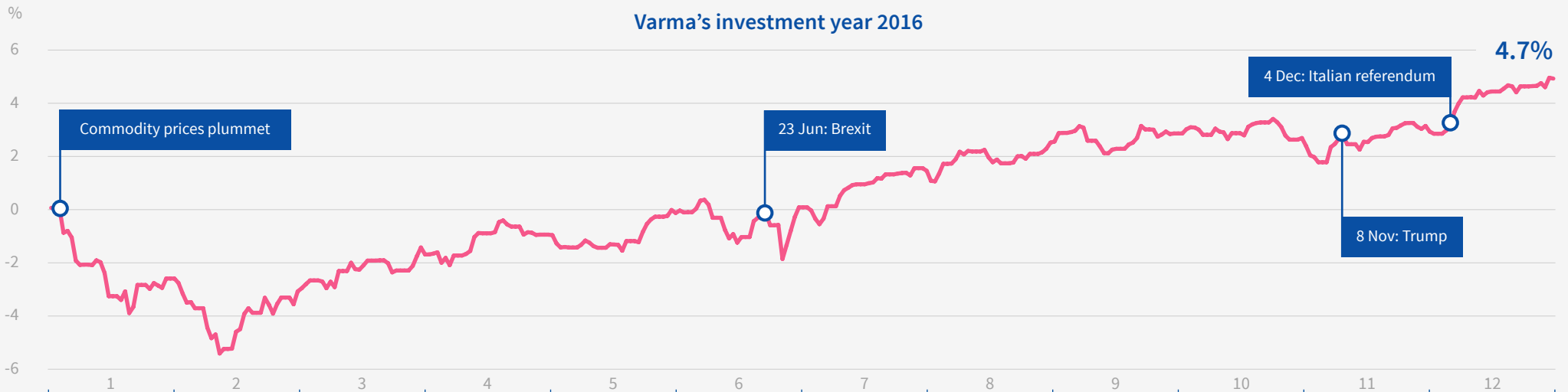
In the first months of 2016, the investment markets were weighed down by concerns over the weakening of China's economic growth and the decline in the commodity prices. The low price of oil caused fear over the risk of bankruptcies within the oil industry and the state of oil-producing countries' economies. In the spring, the markets simmered down due to the ECB's announcement that it was expanding its monetary stimulus measures and especially by the postponement of the Fed's interest rate hike

until the end of the year. As a result, interest rates continued to decline in both Europe and the U.S.

As the market sentiment started to improve, the investment markets began to become rattled by the Brexit vote and the US presidential election. The UK's likely exit from the EU weakened economic growth expectations in both Europe and the US immediately after the Brexit vote. Following the results of the US presidential election, the promised tax reliefs and public investments by the president-elect raised expect-

tations for economic growth and pulled the equity markets up.

Despite the increased geopolitical risks, global economic growth seems to have picked up both in the US and Europe. The realised economic figures at the end of the year have proved to be better than expected on both continents. As expected, the Fed hiked its benchmark rate in December. Elevated expectations of inflation picking up and the Fed tightening its monetary policy at a faster rate drove interest rates up and strengthened the US dollar.



## RESPONSIBLE INVESTMENT

Responsibility is a key aspect of Varma's strategy, and investment activities play a major role in its implementation.

Responsible investment refers to incorporating environmental, social and corporate governance criteria into investment operations and ownership policies, with a focus on factors that are essential to the success of and return generated by the investments.

As a long-term investor and earnings-related pension company, responsibility is an important target for us, as the investment decisions we make shape, through the availability of financing, the operational conditions of companies and other investment objects. For Varma, responsibility is also a means for securing long-term investment returns while making sure that risks and opportunities are taken broadly into consideration when making investment decisions.

In 2014, we published the [Principles for Responsible Investment](#), which cover Varma's investment assets in their entirety. The principles have been approved by Varma's Board of Directors and are based on identifying the key responsibility aspects of investments and focussing on those.

The application of these principles is discussed in more detail in asset-specific policies which have been published for key

asset classes: [listed equities](#), [corporate bonds](#), [private equity investments](#), [hedge investments](#) and [real estate](#).

For ethical reasons, Varma excludes companies that concentrate on the manufacture of tobacco and nuclear weapons from its direct investments.

Varma signed the UN-supported [Principles for Responsible Investment \(PRI\)](#) in 2011. [We report](#) on responsible investment annually in accordance with the PRI framework.

In 2016, we published a climate policy for our investments. You can read more about the policy in section [Mitigating climate change](#).

### Compliance with international agreements and standards

In addition to local legislation, we expect listed companies to comply with international standards and agreements. This means largely compliance with the principles of the UN Global Compact initiative on corporate responsibility. The principles of the Global Compact initiative cover the UN Declaration of Human Rights and Convention against Corruption, ILO labour conven-





## RESPONSIBLE INVESTMENT

tions and the Rio Declaration on Environment and Development.

We review compliance with the standards with the help of an external service provider, which examines Varma's direct listed equity investments, listed corporate bond investments and equity funds twice a year. The service provider submits a report on companies which have been proved to have violated the standards and norms or which are suspected of such violations. Investment Operations decides separately for each company on the measures, targets and follow-up resulting from the violations. Our primary goal is to influence the companies such that they rectify the detected violations and change their ways of operating. We may divest our investment following a longer influencing process, if we do not achieve the desired results.

**Responsible investments help secure the return on Varma's investments in the long term.**

In September 2016, the norm based screening covered 32% of all of Varma's investments. At the end of the year, Varma's listed equity investments or listed corporate bond investments did not include companies with confirmed long-term violations.

### Responsibility management and organisation in Investment Operations

Varma's Principles for Responsible Investment and asset-specific policies, approved by the Board of Directors, serve as the foundation for our responsible investments. The Board of Directors was also informed of the climate policy, published in May 2016.

The CIO and head of each asset class are responsible for the application of the responsible investment principles and practices. The Investment Operations' management team regularly discussed matters relating to responsible investments in 2016. Furthermore, a separate working group, made up of representatives from Investment Operations and from communications and CSR functions, was in charge of creating the climate policy. An expert in responsible investments, who co-ordinates and develops Varma's responsible investments, works in our Investment Operations.

Share ownership issues were discussed on several occasions during 2016. In addition to Investment Operations' manage-

### Norm based screening of listed portfolios

Review of listed equity and corporate bond investments in terms of violations of international standards	Share of all investment objects in the asset class
Listed direct equity investments, review coverage	100%
Listed direct corporate bond investments, review coverage	100%
Active equity funds, review coverage	100%
Review coverage of Varma's entire investment portfolio	32%

ment, the CEO and members of nomination boards participated in these discussions. In 2016, we initiated a review of Varma's share ownership policy. The aim is to bring the policy up to date and to include responsibility aspects, while at the same time clarifying the reporting principles.

### Responsibility as an element of active ownership

We influence the operations of the companies we invest in in several ways. We engage in regular dialogue with the management

and the boards of directors. Varma is also represented in many nomination boards. **Memberships in nomination boards** are given on our website. As a general rule, Varma's representative participates in the annual general meetings of Finnish companies in which we have a holding.

We influence companies in matters relating to the environment, society and governance. In 2016, we influenced 23 companies, mainly in matters relating to governance.



# RESPONSIBILITY FOR CUSTOMERS

Smooth implementation of pension cover is our core task and the cornerstone of our CSR programme. We aim to make sure that pension and rehabilitation customers receive their decisions without delay and that our pension decisions are fair. Our client companies benefit from the best client bonuses in the sector. Our workability services improve employee well-being and working life at our client companies.

 We pay pensions correctly and on time to an increasing number of pensioners.

Applying for pension is a unique event in life, and it should go smoothly. Accordingly, improving the quality of pension services has been a key target at Varma in recent years. It is important for our customers that pension applications are processed swiftly and there are no interruptions to the applicant's income.

The number of pensioners and the euro amount of pensions paid are constantly rising at Varma, due to the change in Finland's age structure and longer life expectancy.

## CORRECT PENSIONS ON TIME

### We process pension applications swiftly

Varma has been improving the processing of pension applications during the past few years in order to speed up the process. In 2016, we made great progress in the processing times of pension applications: the average processing time was shortened from 60 days in 2015 to 44. That is 9 days quicker than the average for the sector.

In 2016, the applicant received an old-age pension decision from Varma on average in just over a month, and sometimes even within a few days – and a rehabilitation decision in a week. The faster pension processing times were the result of an increase in the proportion of electronic

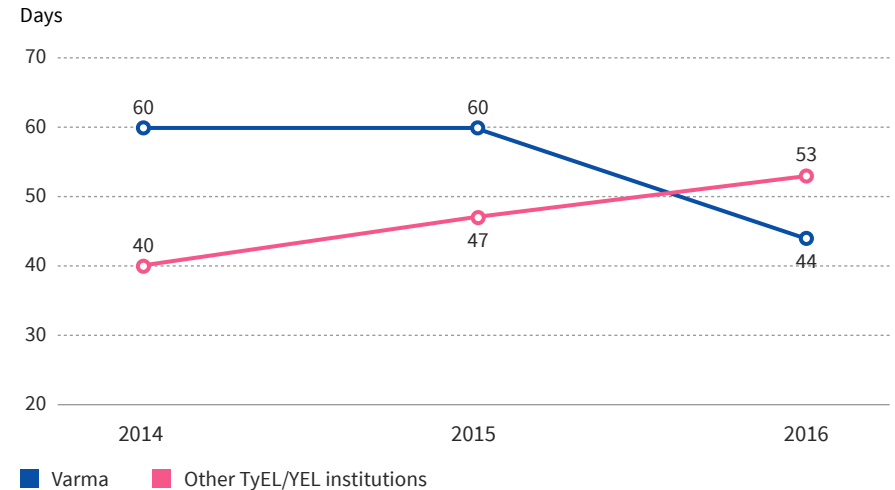
pension applications, the new processing system introduced in 2015, and general improvement in process efficiency through, for example, Lean Management.

Out target for 2016 was to pay the pension within 4 days of the pension decision. This target was reached.

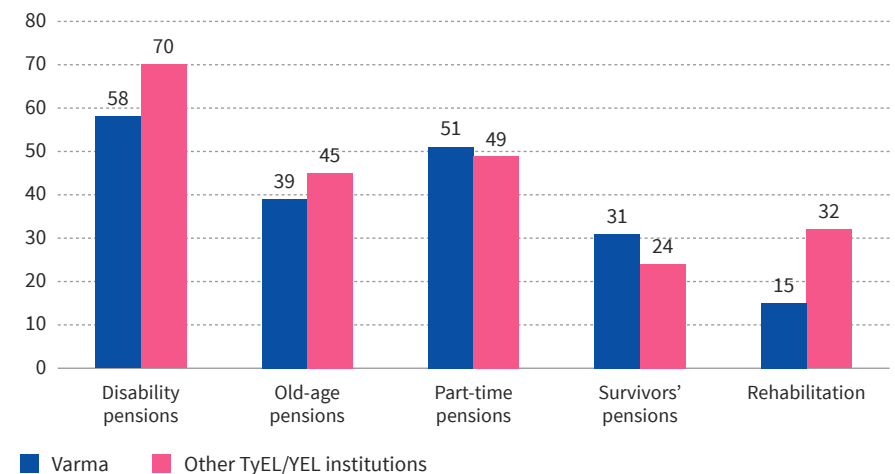
We developed and increased communication on pension cover in 2016. Our customers require clear and practical pension information, especially when life situations change. We informed our customers on topics related to pension cover and pension reform through factual articles, personal stories, blogs and videos on our website and in social media.



### Pension application processing time, days



### Pension application processing time by pension type



## CUSTOMER SERVICE

### All matters can be handled electronically

Our customers can apply for any pension benefit through in our eServices. Our customers have embraced the online service: 54% of all old-age pension applications in 2016 were submitted electronically to Varma, and the volume is strongly increasing every year.

By becoming an eCustomer you can easily find documents related to pensions on our online service. The customer can choose a free SMS notification when documents have arrived in the eServices.

The pension record shows the amount of pension that has accrued up until the end

of the preceding year. Varma's customer can check their pension records in our eServices. Customers who have not opted for an electronic pension record receive the record by mail every three years.

Our insurance customers can also take care of all their insurance matters online, if they so choose. We are firmly involved in digital development and we offer modern tools for, for example, workability management, ordering earnings certificates and certificates to be attached to bids for contracts, and reviewing your contributions.

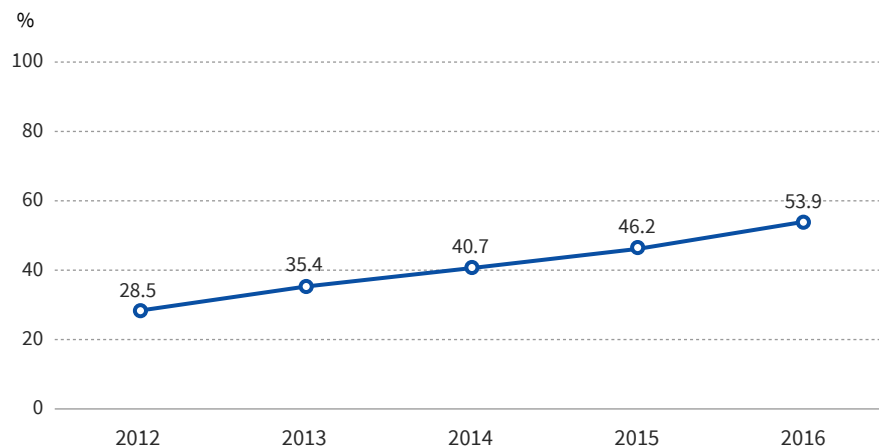
Our Workability Management Information Service assists in the planning of workability management. The service enables

### Net promoter score\*

	2016	2015	
Pension Services' phone service	68.2	-	-
Pension Services' application and payment processing	68	-	-
Client companies' likelihood of recommending Varma as a pension company	64.1	62.3	
Phone service for client companies	64.6	57.5	54
Email service for client companies	39.8	36.9	-
Account and development managers' contact with clients	73.1	70.1	-
Workability management services	54.2	-	-

\* NPS, Net Promoter Score, on a scale of -100 to 100

### Share of electronic old-age pension applications





## CUSTOMER SERVICE

the monitoring, comparison and forecasting of the personnel's age structure, pension amounts and the development of related costs.

Through the [Onnistuyrittäjänä.fi](http://Onnistuyrittäjänä.fi) service our customers can conveniently take care of their earnings-related pension, banking and insurance matters. For new entrepreneurs and those thinking about entrepreneurship, the service provides tools, for example, for drawing up business plans and making profitability calculations. The service was set up together with If P&C Insurance and Nordea Bank.

In addition to comprehensive digital services, we also offer more specific advice by phone and via a chat service. Our customers are very pleased with the chat service.

### Customers commend our services

We monitor the correctness and fairness of our pension decisions, the decisions made by appeals bodies, and the smoothness of our services. While the pension application processing times were reduced, the processing quality remained excellent, as shown by the commendable results of our customer satisfaction survey.

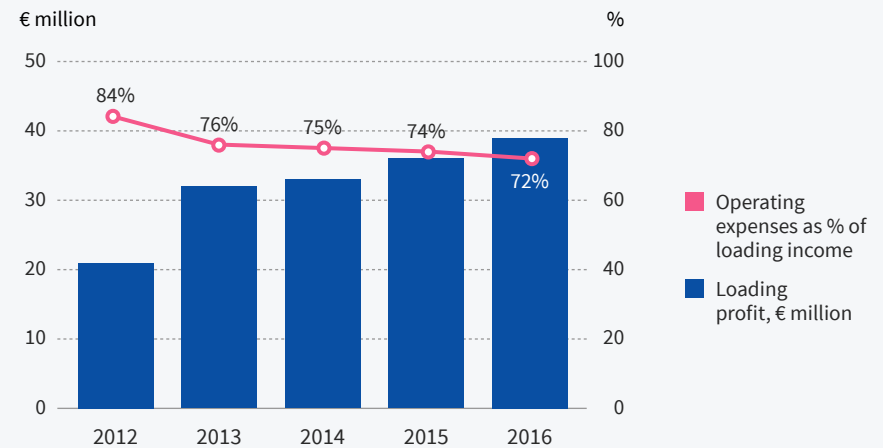
Our customers are very pleased with the services they receive. In 2016, we ranked in the top ten in the national Customer's Voice competition. The Net Promoter Score

### We pay the best client bonuses

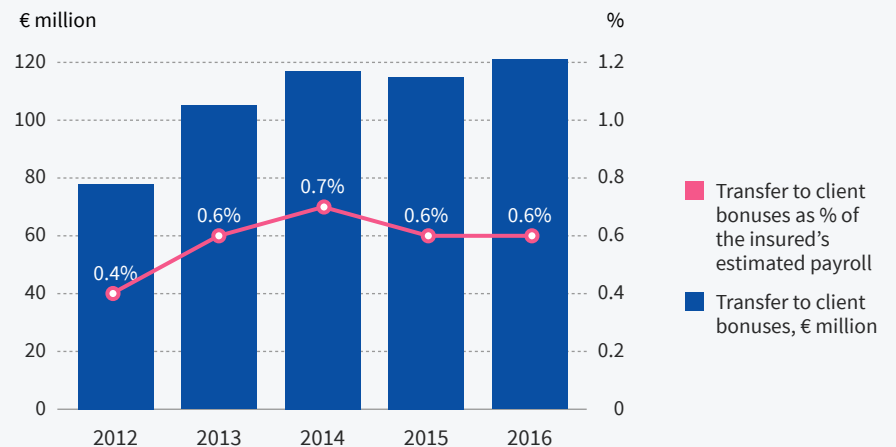
Thanks to our strong solvency, we pay the best client bonuses in the sector, which lowers our clients' final insurance contributions. We reserved EUR 121 (115) million, or 3.6% (3.5%), of the employers' TyEL contribution for client bonuses to be paid for 2016.

Client bonuses are influenced by the earnings-related pension company's solvency and loading profit, a measure of operational efficiency. In 2016, we used 72% (74%) of the expense loading component included in insurance contributions.

#### Loading profit



#### Transfer to client bonuses 2012–2016



## CUSTOMER SERVICE

is used with both client companies and private customers. The results show that our customers' recommendation likelihood was high in 2016. A score of over 60 for the phone service was considered especially good.

### Pension reform took effect in 2017

We have been preparing for the 2017 [pension reform](#). The reforms raises retirement ages by three months per age cohort. Part-time pension is replaced by partial early old-age pension, another new type of pension is the years-of-service pension.

[Read more about pension reform](#)

### We promote entrepreneurship and growth

We support our customers in the challenging economic environment and encourage them to seek growth. We bring together companies of all sizes in our Varmasti events so that they can benefit from one another's competence and success.

In 2016, together with our client companies and Demos Effect, we have been looking into how Varma could best support entrepreneurs' workability. We will develop a service in 2017 to help entrepreneurs assess



In 2016, we paid TyEL and YEL pensions in total

**5.3** billion euro to  
**340,100**  
pensioners.

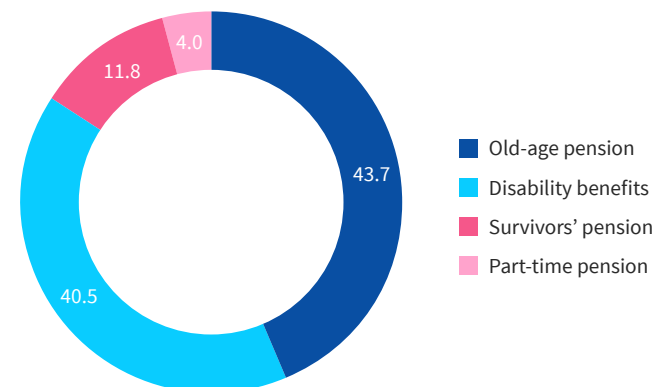
We made

**46,244**  
pension decisions,  
an increase of  
**5%**  
from 2015.

their own workability and get support in both coping at work and securing sufficient pension income.

We are involved in [Kasvu Open](#), a sparing programme for eager-to-grow companies, and the [Kasvuryhmä](#) initiative, where companies spar, challenge and support each other on a growth path.

Pension decisions by pension type, %



## WORKABILITY MANAGEMENT AND REHABILITATION

### Workability management and rehabilitation

Varma is an expert in workability management and rehabilitation. We help our clients to forecast workability challenges and to save in pension and sick-leave costs. Our workability services improve employee well-being and working life at our client companies.

**The goal of workability management is to take timely control of the client's disability risks.**

Workability management promotes companies' competitiveness and productivity and the societal goal of longer careers. Our workability management services include expert services, electronic services and tools. It may also take the form of financial support, targeted at training and coaching supervisors and staff, and personnel surveys. The financial support totalled EUR 13.9 million in 2016.

Workability management promotes good leadership, focuses on company productivity, supports employees' recovery from work and prevents disability. It also

reduces absences due to illness, lowers disability costs and improves well-being at work and productivity.

The goal of workability management is to take timely control of the client's disability risks. Workability management is goal-oriented and systematic. The goals and indicators are tangible, and they can relate to absences due to illness, improving the disability contribution category, the flow of work, and supervisory work.

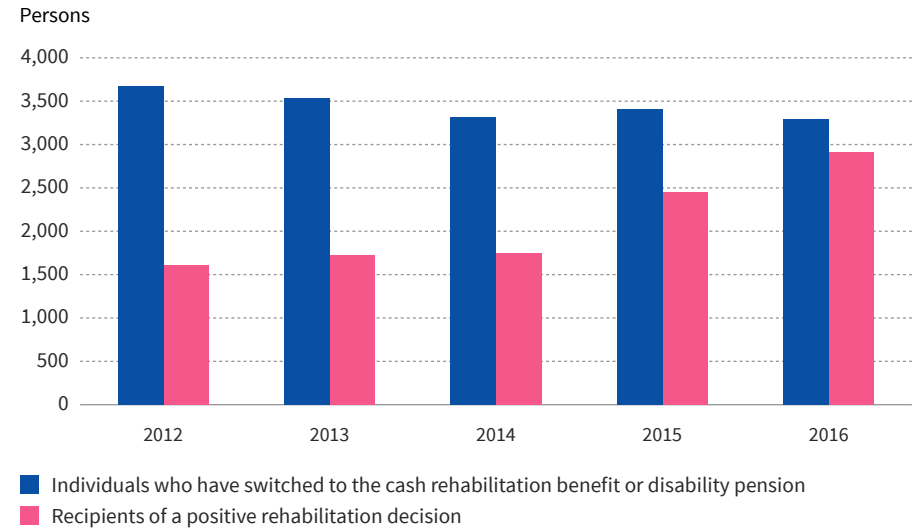
In 2016, we had ongoing workability management co-operation projects in more than 1,020 client companies, and they covered around 400,000 employees and supervisors.

In early 2016, the Financial Supervisory Authority issued guidelines concerning earnings-related pension companies' support for disability risk management projects. These guidelines were integrated into Varma's processes and services.

### Rehabilitation helps people continue in working life

Vocational rehabilitation gives people the opportunity to continue in working life if an illness makes it difficult to continue working as an employee or entrepreneur. It may take the form of work trials, job coaching, vocational training or a business subsidy.

### New disability pensions and rehabilitants



**In 2016, Varma's workability management projects covered around**

**400,000**  
employees and supervisors

## WORKABILITY MANAGEMENT AND REHABILITATION

**Varma's rehabilitation work produces results. 77%, or around 1,230, of Varma's vocational rehabilitation customers returned to working life.**

Varma's rehabilitation work produces results. 77%, or around 1,230, of Varma's vocational rehabilitation customers returned to working life in 2016.

We spent EUR 37.5 million on rehabilitation – which translates to estimated savings in pension expenditure of EUR 399 million.

At Varma, the number of new disability pensions is already lower than the number of people in rehabilitation. Since 2010, the number of rehabilitation applications has doubled, while new disability pensions are down 16 per cent. In 2016, Varma received around 3,000 rehabilitation applications, which represents an increase of 19% over 2015.

In 2016, Varma rejected 31.7% (31.7%) of new disability pension applications. The rejection rate has risen in recent years in all pension companies. The average rejection rate for all earnings-related pension companies was 31.4% in 2016.

Early intervention measures have an effect on the number of disability pensions. For example, more efficient measures by the occupational health care provider in the case of prolonged absences due to illness bring positive results.

The average disability pension contribution category of Varma's client companies was 3.4 (3.5) in 2016.



**Those insured by Varma retire on average at the age of**

**63.6**







# RESPONSIBILITY FOR VARMA EMPLOYEES

Varma's success is based on competent and enthusiastic personnel handling our customers' pension cover. In 2016, we focussed, for example, on developing equality and non-discrimination, and a modern work culture. We also continuously pay attention to keeping supervisory work at a good, uniform level throughout the organisation. A key goal in developing Varma employees' competence is an excellent customer experience.

■ In April 2016, we conducted a personnel survey on the achievement of equality and non-discrimination at the workplace. Based on the results, we identified the three most important areas of improvement and started working on them immediately: flexible work arrangements and a renewal of the work culture, valuing employees of different ages, and revising the pay system. Goals and measures have been drawn up for these priority areas, and these are followed up on regularly by the equality and non-discrimination working group.

The equality and non-discrimination plan is discussed by the co-determination committee, and Varma's Executive Group has approved the plan.

## RESPONSIBILITY FOR VARMA EMPLOYEES

**The development of a flexible and modern work culture goes hand in hand with our renovated premises.**

A modern and attractive work culture gives us a competitive edge. We established a special working group to develop our work culture, and supervisors and experts from different functions were invited to join. The participating supervisors have committed to involving their team in the development work and to challenge the current ways of working. This ensures the involvement of a large number of employees.

The development of a flexible and modern work culture goes hand in hand with our renovated premises. Varma employees will gradually move into the modernised premises in 2017. The new activity-based office takes into account different work situations and the possibility to perform work independent of place. Remote working opportunities also bring flexibility to daily life. We are available for our customers irrespective of place.

At Varma, a flexible work culture also means that balancing work and personal life is easy. In 2016, 9% of Varma employees were working part-time while, for example,

on partial child-care leave or part-time pension.

### Employee satisfaction and supervisory work constantly monitored

We carry out regular employee surveys. The latest results, from November 2016, show

that employees' overall satisfaction is at a good level, at 3.9 on a scale from 1 to 5. Satisfaction has slightly improved since the previous survey.

A key goal for us is to guarantee a high and consistent level of supervisory work for our employees. Varma's supervisors are continuously coached, and feedback on how

performance in managed is monitored in the employee survey. In 2016, performance management was given a good rating of 3.7, which is at the same level as in the previous survey.

Overall, Varma employees are satisfied and have long careers, 15 years on average.



## COMPETENCE DEVELOPMENT

### Competence development

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. An excellent customer experience is at the centre of our development work.

In 2016, our competence development work focussed on changes affecting the operating environment and pension sector. We paid special attention to taking command of the pension reform, increasing our employees' responsibility competence, and preparing for the EU data protection regulation and national income register. Special attention was also given to customer service skills, service design and digital competence.



**Varma employees are satisfied with their work and have long careers, averaging**

**15**  
years

Our experienced experts get to deepen their competence through expert coaching, mentoring and Action Learning programmes.

In 2016, Varma launched a Talent Pool programme, with 6 young talents participating. The year-long programme aims to support their development and career progress and highlight young talents' insights and skills. Talent management also strengthens Varma's future personnel resources. The Talent Pool is now a permanent part of Varma's personnel development.

In 2017, Varma employees' competence relating to, for example, business intelligence and project work skills will be improved.

We make broad use of various new learning methods and tools, such as videos and online learning environments.

In developing our operations, we use the Lean methodology, which helps us assess the added value that our operations bring to the customer. We aim to improve the efficiency of our processes and increase

customer satisfaction. We completed nearly 30 small-scale Lean development projects in 2016.

We also use an electronic tool called 'Viima' to help all Varma employees generate ideas and innovate. In Viima, any member of Varma personnel may record an idea concerning the development of our operations for others to comment on. The best ideas are rewarded. In 2016, more than 300 ideas were entered into Viima, and many of them were also implemented.

## EQUALITY AND NON-DISCRIMINATION

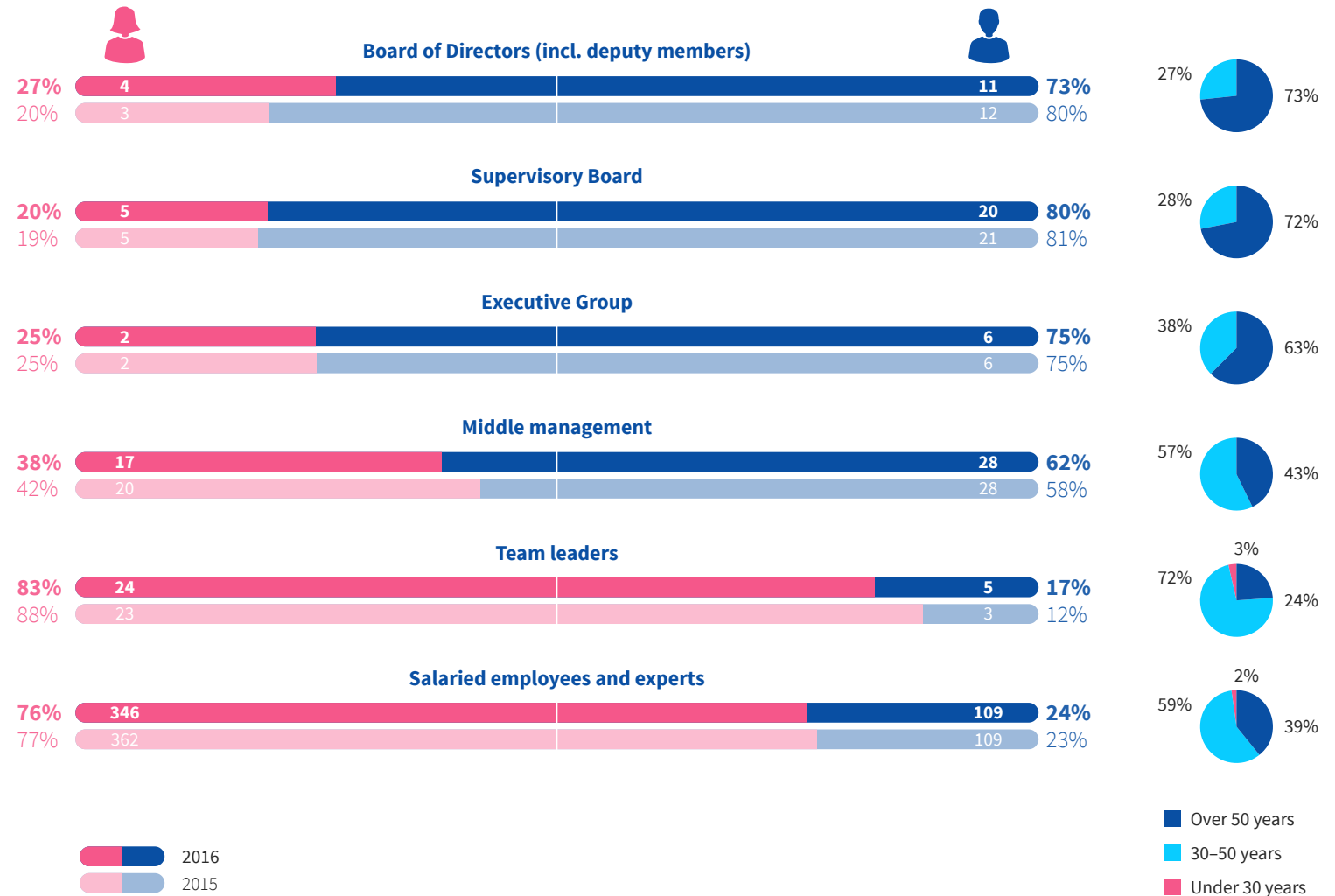
### Promoting diversity and equality

In 2016, Varma joined the [Diversity Charter Finland](#), which encourages Finnish companies to develop their diversity management practices and benefit from the different backgrounds, skills and traits of their employees. We also signed the Diversity Charter Finland, in which we commit to ensuring the fair and equal treatment of our personnel and customers, irrespective of gender, age, ethnic background, political views or other similar factors.

In 2017, Varma will establish a diversity programme that will outline targets for improving gender equality.

In our equality and non-discrimination survey, we also examined the implementation of diversity at Varma. Valuing employees of different ages and improving gender equality emerged as areas in need of improvement. Gender equality is not being realised in the best possible way especially in Varma's management and governing bodies; in the Executive Group, for example, the share of women is 25%. In 2017, Varma will establish a diversity programme that will outline

### Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2015 and 2016





## EQUALITY AND NON-DISCRIMINATION

targets for, for example, improving gender equality in management and administration.

Every two years, we carry out a pay survey to establish whether gender equality is achieved in our pay and reward system. According to the survey conducted in summer 2016, pay equality is achieved reasonably well at Varma when examined by job requirements. However, the higher the job requirements are, the bigger the pay gap between the genders. The company-level differences in the salaries of male and female employees are largely attributable to differences in the demands of the positions. In terms of Varma's performance-based remuneration, gender does not appear to play a role.

We will reform our job requirements system in 2017 in order to increase pay transparency in terms of fairness and equality.

### Women's salaries in relation to men's at Varma in 2016

**Women's  
average salary  
as % of men's  
salary**

Executive Group (excl. the CEO)	74
Rest of the personnel	71

### Responsible employer of summer workers

For several years now, Varma has participated in the Responsible Summer Job campaign, which aims to offer young people a positive first experience of working life.

In the Most Responsible Summer Job 2016 competition, Varma was ranked 11th in summer workers' feedback. The category of major employers had a total of 80 companies. The competition was executed last summer as an online survey, where summer workers got to give feedback, for example, on the recruitment process, meaningfulness of their tasks and induction.

The summer work experience was also given an overall rating on a scale from 1 to 4. The average rating given by Varma's summer workers was 3.72, while the average for all organisations in the survey was 3.59.

### Varma offered an asylum seeker a trainee position

In 2016, we took part in an integration programme that aimed to open the door to Finnish business and working life for asylum seekers. Varma both sponsored the integration programme and offered a two-month trainee position to one asylum seeker.

[The integration programme](#) is co-ordinated by Hanken & SSE Executive Education.

### Personnel

	2016	2015	2014
Personnel	564	568	588
permanent	538	553	567
fixed-term	26	15	21
full-time	516	513	527
part-time	49	55	61
Personnel covered by collective bargaining agreements (%)	89%	88%	88%
Average age	47 y 8 m	47 y 11 m	47 y 10 m
Average age of retirement on old-age pension	64 y 0 m	63 y 8 m	63 y 10 m
Average service period	15 y 4 m	16 y 6 m	16 y 7 m
Personnel turnover rate	4.4%	3.4%	3.5%
Exit turnover rate	8.0%	7.6%	6.1%
Sick days/employee	8.6	9.9	9.6
Occupational accidents	2	2	3
Training days/employee	2.7	2	2.8
Employees covered by performance and development reviews (%)	100%	100%	100%



# MITIGATING CLIMATE CHANGE IN INVESTMENTS

In the climate policy we set ambitious targets aimed at reducing the carbon footprint of our investments. We got off to a good start in 2016, as the carbon footprint of equities declined 22% and that of corporate bonds 25% in a year. In the long term we will be developing our investments such that they are in line with the 2-degree target that was agreed on at the Paris climate conference.

■ Mitigating climate change was the focal point of our responsible investment efforts in 2016. Climate change is one of the most critical factors that investors must prepare for. It will have substantial financial, social and environmental impacts on current and future generations.

In 2015 we already excluded from our direct equity investments electricity companies that generated more than 30% of their electricity with coal.

## MITIGATING CLIMATE CHANGE IN INVESTMENTS

The carbon footprint of our equity investments at the end of 2016 was nearly at the reduction target level set for 2020 and 36% lower than the footprint of the benchmark index.

Varma's climate policy targets are based on a broad analysis that began in autumn 2015 to determine how Varma can best contribute to the mitigation of climate change. In conjunction with the analysis, the carbon footprint of Varma's investments was calculated, and the results showed that the carbon footprint in 2015 was significantly smaller than the benchmark index.

The [climate policy](#), which was published in May 2016, has two clear targets. In the first, the focus is on reducing the carbon footprint over the next five years: the goal is to reduce the carbon footprint of listed equity investments by 25%, that of listed corporate bond investments by 15%, and that of real estate investments by 15% by the year 2020.

### Carbon footprint of Varma's listed equity investments

Varma's listed equities	31 Dec 2016	31 Dec 2015	Change	Benchmark index 31 Dec 2016	Varma vs. index 31 Dec 2016
Market value (EUR bn)	11.8	10.8	9%		
Carbon footprint (tCO <sub>2</sub> e)	1,444,537	1,810,908	-20%	2,391,479	-946,942
Share of disclosing companies (in relation to capital)	84%	85%	-1%	87%	-3%
Carbon footprint in relation to revenue (financed tCO <sub>2</sub> e/€ mill. financed revenue)	186	237	-22%	292	-36%
Carbon footprint in relation to invested capital (tCO <sub>2</sub> e/€ mill. invested)	122	168	-27%	202	-40%
Carbon intensity (weighted emissions tCO <sub>2</sub> e/€ mill. weighted revenue)	123	163	-25%	183	-33%

### Carbon footprint of Varma's listed corporate bond investments

Varma's listed corporate bonds	31 Dec 2016	31 Dec 2015	Change	Benchmark index 31 Dec 2016	Varma vs. index 31 Dec 2016
Market value (EUR bn)	3.1	3.0			
Carbon footprint (tCO <sub>2</sub> e)	1,210,961	1,535,094	-324,133	1,891,058	-680,097
Share of disclosing companies (in relation to capital)	86%	86%		69%	
Carbon footprint in relation to revenue (financed tCO <sub>2</sub> e/€ mill. financed revenue)	163	217	-25%	327	-50%
Carbon footprint in relation to invested capital (tCO <sub>2</sub> e/€ mill. invested)	385	515	-25%	601	-36%
Carbon intensity (weighted emissions tCO <sub>2</sub> e/€ mill. weighted revenue)	118	171	-31%	645	-82%



## MITIGATING CLIMATE CHANGE IN INVESTMENTS

The second target is to integrate the 2-degree target of the Paris climate conference into our investment activities. This will require, above all, a radical reduction in the use of fossil fuels.

In 2016, we joined the [Montréal Pledge](#) initiative, in which investors commit to measure and publicly disclose the carbon footprint of their listed equity investments annually. Varma also signed the [CDP](#), which compiles data on companies' greenhouse gas emissions and other climate-change-related data.

### Carbon footprint of equities plummets

At the end of 2016, the carbon footprint of Varma's equity investments was 186 tCO<sub>2</sub>e in relation to net sales, which is 22% lower than the previous year. This is due to the fact that we have focussed our investments on low-emissions industries and reduced our investments in energy intensive companies.

At the end of 2016, the carbon footprint of our equity investments was nearly at the reduction target level set for 2020 and 36% lower than the footprint of the benchmark index. Due to the low level, the carbon footprint of Varma's equity investments is vulnerable to changes in equity investments in emissions-intensive industries, and it is likely that the carbon footprint may fluctuate even to a great extent from one year to the next.



### Carbon footprint of Varma's direct real estate investments

Varma's direct real estate investments	2016	2015
Market value of the real estate portfolio included in the calculation (EUR bn)	<b>2.1</b>	2.2
Flats' share of the market value	<b>33%</b>	29%
Business premises' share of the market value	<b>67%</b>	71%
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	<b>71%</b>	66%
Carbon footprint (tCO <sub>2</sub> )	<b>54,938</b>	58,050
Flats' share of the carbon footprint	<b>18%</b>	18%
Business premises' share of the carbon footprint	<b>82%</b>	82%
Carbon footprint in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>31.1</b>	33.8
Carbon footprint of flats in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>25.3</b>	27.2
Carbon footprint of business premises in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>32.8</b>	35.6



## MITIGATING CLIMATE CHANGE IN INVESTMENTS

The carbon footprint of listed corporate bonds declined 25% in relation to net sales during the year. We reduced our investments in emissions-intensive companies in several industries, such as energy and mining. The carbon footprint of corporate bond investments was 50% lower than the benchmark.

### A portfolio dedicated to climate change

In 2016 we built a climate-change-themed portfolio made up of companies whose operations benefit from climate change mitigation, for instance, in technology and renewable energy production. Companies that are prepared to make the move to lower-carbon and, in turn, lower-risk operations will also be selected for the portfolio. By year-end, the portfolio was valued at approximately EUR 400 million.

We will continue to integrate our climate policy with the investment processes in

**The Salmisaari office switched to using green hydroelectricity in summer 2016. We also launched a survey on the possibility of installing solar panels on the roof of our office building.**

2017. In terms of our direct investments, this means systematically reviewing climate issues, keeping an eye on the carbon footprint and expanding the analysis of the 2-degree target to many other industries. Where hedge funds and private equity funds are concerned, the goal is that by 2020 more than half of Varma's fund capital has a climate change policy and climate change is an integrated part of the investment process. We will also require that the funds report on their operations.

### Environmental impacts of real estate investments

The goal of Varma's climate policy for real estate is to reduce the carbon footprint 15% from the 2015 level by 2020.

In 2016, the carbon footprint of Varma's real estate investments declined by 8%. This positive development is partly due to the change in Varma's real estate base, but credit also goes to the measures taken to boost energy efficiency in the properties. The comparability between the 2015 and 2016 figures is somewhat weakened by the adjustment of the emissions calculation of a major real property in 2016 such that the consumption of the property users was excluded from Varma's carbon footprint.

We aim to influence GHG emissions by saving energy.

### Solar electricity in Varma's properties

Varma began using solar electricity in its properties in 2016 in order to reduce the carbon footprint of its investments.

The first photovoltaic panels were installed in properties located in Helsinki's Ruoholahti and Lauttasaari in summer 2016. Other potential properties where solar energy could be used were also surveyed, including Varma's own office building in Helsinki's Salmisaari.

For Varma, the photovoltaic panels are a climate-friendly and profitable investment, although the return horizon is fairly long. For these two pilot properties the investment payback period is 13–15 years, taking into account the government energy subsidy.



Project Manager Rea Tiehaara and Maintenance Manager Jussi Wacklin from Caverion inspected the solar panels installed in summer 2016.

## MITIGATING CLIMATE CHANGE IN INVESTMENTS

We are committed to both commercial property and rental flat action plans through the Finnish Energy Efficiency Agreement Scheme for the property sector. The agreement period covers the years 2017–2025.

The Finnish Energy Efficiency Agreement Scheme pursues a 7.5% reduction in the properties' energy consumption by the end of 2025. In its climate policy, Varma set its reduction target for the agreement period to 10%. Varma's residential properties will gradually shift to electricity generated entirely using renewable sources by the beginning of 2019.

The Finnish Energy Efficiency Agreement Scheme for the property sector aims to improve the energy use of commercial properties and rental flats. The previous agreement period for commercial properties ended in 2016. The energy reduction target for the 2011–2016 period was 6%.

**Varma's residential properties will shift to electricity generated entirely using renewable sources by 2019.**

We reached that goal ahead of time, in summer 2015, and by the end of 2016 we had achieved a 7.9% reduction in energy consumption.

The heat, electricity and water consumption of Varma-owned residential and office properties has declined significantly in recent years. The reduction has been especially strong in business premises over the past three years. The positive trend is the result of several measures, such as adjustments to ventilation and heating systems, and replacing lighting with more energy-efficient alternatives.

### BREEAM environmental rating system introduced

We started the certification of our real property in 2016, and 12 office properties owned by Varma were granted BREEAM In-Use environmental certification in that same year. All of the certified properties are located in Helsinki, and they received the rating of 'very good' or 'good' in the assessment.

The BREEAM environmental rating system has also been introduced in our biggest construction projects: the K-Kampus office building project in Helsinki's Kalasatama and the Flamingo Wing hotel development project in Vantaa, among others. The projects aim for a level of at least 'very good'.

BREEAM (Building Research Establishment's Environmental Assessment Method)

### Consumption of heat, water and electricity in Varma-owned properties in 2014–2016

Residential	2016	2015	2014
Weather-normalised heat, MWh	<b>47,849</b>	48,329	45,700
Household water, m <sup>3</sup>	<b>375,312</b>	358,874	352,937
Real estate electricity, MWh	<b>6,299</b>	6,553	6,560
Number of sites included in calculation	<b>62</b>	61	60
Business premises	2016	2015	2014
Weather-normalised heat, MWh	<b>82,820</b>	93,696	96,027
Water, m <sup>3</sup>	<b>188,460</b>	216,985	227,440
Electricity, MWh	<b>68,366</b>	75,039	80,494
Number of sites included in calculation	<b>60</b>	63	64
Business premises and residential, total	2016	2015	2014
Electricity, MWh	<b>130,668</b>	142,025	141,727
Water, m <sup>3</sup>	<b>563,772</b>	575,859	580,377
Weather-normalised heat, MWh	<b>74,664</b>	81,592	87,055
Number of sites included in calculation, total	<b>122</b>	124	124

For residential properties, water consumption includes household water used by the occupants, i.e. not just by the property. The monitoring covers most of the commercial properties managed by Varma.

is an environmental rating system for buildings and building projects to assess the sustainability of buildings using harmonised methods. The rating system covers areas such as energy efficiency systems, waste sorting and recycling opportunities and location, i.e. whether the building is situated

along good public transport routes and how cycling is encouraged in the space solutions, for example.

We aim to have our most important buildings certified primarily according to the BREEAM environmental rating system by 2025.

## ENVIRONMENTAL ASPECTS OF OUR OWN OPERATIONS AND THE SUPPLY CHAIN

The environmental impacts of Varma's own operations are controlled using WWF's Green Office system, which was introduced at the beginning of 2016. Our goal is to reduce the carbon footprint of our own operations by 15% by 2020, which is in line with the target set for real estate investments in our climate policy.

In October 2016, we passed the Green Office audit by WWF, and the Salmisaari office was granted the Green office certificate. Varma's Green Office targets and measures for 2016 related to reducing energy consumption, waste and paper consumption, reducing emissions from commuting, and food waste and purchases.

In 2016, the carbon footprint of our own operations shrunk by 23%.

**In 2017, we will map our supply chain and draw up sustainability requirements for our suppliers.**

The Salmisaari office switched to using green hydroelectricity in summer 2016. We also launched a survey on the possibility of installing solar panels on the roof of our office building. Greenhouse gas emissions from energy consumption at the Salmisaari office were cut by nearly 50% in 2016.

The volume of waste increased from 2015, mainly because waste generated by

the Fazer Amica restaurant, which is located in the building, grew due to a higher number of patrons. On the other hand, paper consumption was reduced by hefty 27% in comparison to the previous year.

We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies. As a first step, we drew up a more environmentally friendly company car policy, where the emissions limit was set at 130 CO<sub>2</sub>/km. Furthermore, Varma offers financial compensation if a Varma employee chooses a very low-emission car (below 110 CO<sub>2</sub>/km) as their company car.

### Supply chain survey and sustainability requirements under way

Our target for 2017 is to carry out a survey on our supply chain and draw up sustainability requirements for our suppliers. This work involves defining how environmental aspects are taken into account in our supply chain.

Our most significant purchases are related to the real estate business, for example to construction and maintenance of buildings, and to IT systems.

Of Varma's purchases in 2016, 98.4% originated from Finland. The remaining 1.6% originated from the US, the UK, and other European countries.

### Environmental data of Varma's operations

	2016	2015	2014
Water consumption, m <sup>3</sup>	4,380	3,659	4,102
Electricity, MWh	2,008	2,102	2,289
Heat, MWh (weather-normalised)	2,361	2,891	3,099
Total waste (tonnes)	60.32	58.90	-
Carbon footprint (tCO <sub>2</sub> )	1,449.94	1,873.72	-



# ETHICAL AND TRANSPARENT BUSINESS

Knowing and abiding by common rules is an essential part of responsibility for Varma employees. In 2016, we updated our Code of Conduct and Insider Guidelines. We also strive to constantly increase the transparency of our operations.

## Varma's compliance function

At Varma, the chief legal counsel is responsible for the legal services of the governing bodies and management, various corporate legal arrangements, contract entities, co-ordinating and monitoring matters relating to insider and competition law, and keeping abreast of legislation relevant to the company.

Varma's different functions monitor legislation relevant to their respective areas. As a Compliance Officer, the chief legal counsel is responsible for organising the Compliance function and co-ordinating co-operation between different functions' Compliance employees and

the authorities. Compliance employees are in charge of implementing the activities in their areas and reporting to the Compliance Officer. The Compliance Officer informs the functions of the relevant decisions of the governing bodies and company's internal guidelines. The functions are, for their part, responsible for implementing decisions by the Board of Directors and management, and conforming to internal guidelines and procedures.

## We updated our Code of Conduct

Varma's way of operating is described in the company's [Code of Conduct](#). The purpose of the Code is to guide Varma employees in behaving with integrity and responsibility. The Code of Conduct is approved by Varma's Board of Directors.

According to the Code of Conduct, we do not accept bribery, we promote equality and non-discrimination between Varma employees, we co-operate in combating the grey economy, and we avoid conflicts of interest.

The Code of Conduct is complemented by other internal guidelines and instructions relating to, for example, data security and data protection, and the identification of money laundering. Every Varma employee is expected to conform to these guidelines. In case of problems and suspected violations,

We updated the Code of Conduct and created a supporting online training course, which every employee is expected to complete.

employees can contact the Compliance Officer.

We updated the Code of Conduct in 2016 and created a supporting online training course, which every employee is expected to complete every two years. The completion rate is monitored and reported to the Board of Directors.

In 2016, the online course was completed by 88% of all Varma employees.

## Insider guidelines renewed

We also renewed our [insider guidelines](#) in 2016. The guidelines provide information on insider information, prohibition on the use and disclosure of insider information, insider obligations, and who to contact if one suspects that inside information is being abused at Varma in securities trading or that other actions have been taken in violation



## CODE OF CONDUCT

of the Securities Markets Act. The insider guidelines have been endorsed by the Board of Directors.

### Data protection and data security

Data protection for us means ensuring the privacy of our customers and employees. When taking care of pension provision, Varma maintains and handles the personal data of the insured and pension recipients. Regulations concerning the handling of personal data within the earnings-related pension system are laid out in the Employees Pensions Act (TyEL) and other insurance and insurance company legislation.

Data security is an essential part of Varma's business, and keeping important information secure is vital for our success and a critical factor in ensuring trust in the pension system.

The targets, responsibilities and means of data security management at Varma are defined in the data security policy. The executive management is responsible for establishing targets for the data security policy and procedures, which are essential in terms of risk management and developing a security mindset at Varma. The chairman of the IT Executive Group reports on matters concerning data security to Varma's Executive Group.

Every Varma employee and those working for Varma are expected carefully to conform to the agreed procedures and written instructions, taking into account data security and the handling of customer data in their activities.

Data security management at Varma consists of planning based on the assessment of data security risks, implementing measures improving data security, reviewing and monitoring the level of data security, and continuous improvement of data security practices. Data security is based on both technical and administrative practices.

One way of maintaining our personnel's data security skills is an online training course, which every employee is expected to complete every two years. The course's attendance rate is monitored. In 2016, the data security online course was completed by 70% of all Varma employees.

In 2016, we did not receive a single complaint concerning customer privacy violations or the loss of customer data.

### Responsible purchasing guidelines in the making

We continuously develop our responsible ways of operating, and a key measure in 2017 will be the drawing up of Varma's responsible purchasing guidelines.

### The 2018 EU data protection regulation

In May 2018, a new data protection regulation will take effect. It will tighten and harmonise the rules concerning personal data processing in the EU. At Varma, we started preparing for the new regulation in autumn 2016, and the processing of personal data will be brought to the required level by the prescribed time.

Both IT systems and practices must meet the requirements of the new regulation. At Varma, we have in place solid practices that conform to current laws, and we have strong experience-based competence, which means we do not need to start from scratch.

We started the preparations by performing a legal pre-study, in which we review our data-protection-related practices with the help of the developed tools. All our functions will review their processes with these tools during 2017.





The guidelines will describe how responsibility is shown in our co-operation with partners and service providers. At the same time, we will draft the Supplier Code of Conduct.

### Transparent and open operations

Open and pro-active communication is one of the priorities of our CSR programme. The increased transparency of our operations helps strengthen trust in Varma.

In autumn 2016, we published on our website Varma's [sponsorship and donation policy](#), which states that we mainly focus on long-term sponsorship contracts. Our goal is to support both the physical and mental workability of Finns by boosting well-being and supporting entrepreneurship. In 2016, our main sponsorship partners were [The Finnish Athletics Federation](#) and [The Finnish National Opera and Ballet](#).

We do not grant financial support to political parties.

We are committed to reporting quarterly on the development of our responsible operations as part of our financial reporting.

**The increased transparency of our operations helps strengthen trust in Varma.**

### Reporting customer transactions

Earnings-related pension companies report on their customer transactions to the Financial Supervisory Authority. The reports include information, for example, on the nature, euro amounts and dates of the transactions.

In autumn 2016, the Financial Supervisory Authority published some of the business transactions reported by earnings-related pension companies. These included real estate transactions, construction contracts and corporate financing transactions, among others. We promote business transparency and wish to reduce uncertainty relating to the use of earnings-related pension companies' assets. In autumn 2016, we published more information on our business transactions, and from April 2017 on, we will begin publishing our new well-being at work contracts.

We comply with the Financial Supervisory Authority's instructions and regulations in all of our operations.

## STAKEHOLDER CO-OPERATION

### Stakeholder co-operation and responsibility networks

As a major Finnish investor and working life expert, Varma has wide-ranging insight into the economy and the Finnish society. This is why we want to engage in open dialogue with different stakeholder groups. Our main stakeholder groups are customers, personnel, members of Varma's governing bodies, authorities and decision-makers, labour market organisations, sector organisations and the media.

**In 2016, our stakeholder groups were especially interested in the pension reform and the state of Finland's economy. Responsibility is an increasingly topical theme.**

Our statutory core task, securing pensions, naturally helps to define our main stakeholder groups; as does the fact that Varma is a mutual company, i.e. owned by its customers. In conjunction with our strategy work, we have had broad discussions about our stakeholder groups and their needs.

We promote open societal interaction and we listen to our customers and other stakeholders. The achievement of these

targets is supported by Varma's five consultative committees: the consultative committees for pension affairs, pensioners, self-employed persons, employers and the insured. The committees have an advisory role. The members of the Consultative Committees are appointed by Varma's Board of Directors. An up-to-date list of [the members of the consultative committees](#) is available on Varma's website.

Typical channels for interaction, in addition to the consultative committees, are different meetings with customers and other groups, briefings, training events, seminars, the website, social media and publications.

In 2016, our stakeholder groups were especially interested in the pension reform and the state of Finland's economy. Corporate social responsibility is an emerging area of interest, and Varma discussed, for example, the climate policy of its investments with the WWF.

We engage closely with interest organisations in the sector. We participate in the working groups of the Finnish Centre for Pensions (ETK), the Finnish Pension Alliance (TELA) and the Federation of Finnish Financial Services.

We are also involved in different networks of responsible business, such as the Finnish corporate responsibility network [FIBS](#) and Finland's Sustainable Investment Forum [Finsif](#).



### Interest organisations' membership fees

	2016	2015	2014
Federation of Finnish Financial Services (FK)	344,000	337,000	361,000
Finnish Pension Alliance TELA	977,000	959,000	984,000



# REPORTING PRINCIPLES

Varma's Corporate Social Responsibility report has been drawn up according to the international Global Reporting Initiative (GRI) standards. We have also reported information relating to Varma's own material topics in accordance with the GRI standards' reporting principles, and we have taken into account the statutory requirements concerning the reporting of information non-financial and diversity data.

The reporting scope is in accordance with the Core level of the GRI standards. Reporting of Varma's material topics is based on the materiality analysis performed in autumn 2015, in which stakeholder groups were asked to assess responsibility aspects relevant to Varma.

The stakeholder expectations were assessed and processed by Varma's Executive Group according to their impact on our business. As a result of the materiality analysis, we identified a total of 11 essential aspects in terms of Varma's responsibility. These aspects and their indicators are described in the report. A comparison between the report content and the GRI standards is provided through the GRI content index.

The indicators for financial responsibility are based on Varma's accounts and

approved financial statements. The indicators relating to our pension services have been obtained from the pension processing systems of Varma and the Finnish Centre for Pensions, and our online service reports. The personnel-related indicators are from Varma's personnel data systems.

The environmental responsibility indicators were obtained from service providers, for example, from their energy management systems. The carbon footprint figures for listed equity and corporate bond investments were calculated by the Swiss South Pole Group. The carbon footprint for Varma's own operations has been calculated using WWF's Climate Calculator.

## Methodology for calculating the carbon footprint of investments

The carbon footprint of Varma's listed equity investments includes both direct listed equity investments and some index-linked equities. The calculation covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The carbon footprint and the key figures based on it have been calculated on the basis of Varma's holdings.

The carbon intensity of the investments is based on the companies' weight in equity investments. The figure is calculated by multiplying the carbon intensity (emissions/revenue) of the company by its weight in equity investments, and adding these up.

The carbon footprint of Varma's listed corporate bond investments includes direct listed corporate bond investments. The carbon footprint covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The corporate bond owned by Varma is proportioned to the company's overall debt, and the emissions are allocated to Varma on the basis of this proportion. The calculation is an approximation, as at the moment there is no standard concerning the calculation of the carbon footprint of corporate bonds. We adjusted the definition of debt used in the calculation in 2016. The comparison figures of Varma's corporate bond investments in 2015 have been updated to correspond to the new calculation method.

The carbon footprint of real estate investments takes into account emissions from energy consumption and, as regard office premises, from water consumption. For electricity and heat, Motiva's emission

factors have been used. The emission factor for electricity is 0.209 tCO<sub>2</sub>/MWh. The emission factors for heat vary depending on the town or city. Motiva has not issued emission factors for district cooling or water. The emission factor used in the calculation of carbon footprint is 0.07 tCO<sub>2</sub>/MWh for district cooling and 2.95 kgCO<sub>2</sub>/m<sup>3</sup> for water. These emission factors have been determined in conjunction with the drawing up of the energy strategy for Varma's real estate. Heat figures are weather adjusted.

## Integrated report

This is Varma's first-ever Corporate Social Responsibility report in accordance with the GRI guidelines. Since responsibility is an integral part of Varma's core task – securing pensions – and all our operations, it was natural for us to combine the traditional annual report contents and CSR information into a single integrated report. The report is published online in Finnish and English.

Varma's parent company's data has been mainly used as the indicator boundaries. Any deviations to the boundaries are mentioned in conjunction with the indicator in the GRI content index.

The report has not been externally assured.



## REPORTING PRINCIPLES

### Varma's CSR focus areas, material topics and boundaries

<b>Varma's CSR focus areas</b>	<b>Material GRI topics and Varma's own material CSR topic</b>	<b>Reporting boundaries</b>
Securing solvency	<ul style="list-style-type: none"> <li>Economic performance</li> <li>Indirect economic impacts</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> <li>Varma's societal impacts</li> </ul>
Disruption-free implementation of pension provision	<ul style="list-style-type: none"> <li>Disruption-free implementation of pension provision<sup>1)</sup></li> <li>Customer service<sup>1)</sup></li> <li>Customer privacy</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> </ul>
Open and pro-active communication	<ul style="list-style-type: none"> <li>Stakeholder engagement</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> </ul>
Promoting workability and longer careers	<ul style="list-style-type: none"> <li>Promoting workability and longer careers in client companies<sup>1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> </ul>
Transparent business and administration	<ul style="list-style-type: none"> <li>Ethical business operations</li> <li>Anti-corruption and anti-bribery</li> <li>Public policy</li> <li>Socioeconomic compliance</li> <li>Supplier social assessment</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> <li>Supply chain</li> </ul>
Responsibility in investment operations	<ul style="list-style-type: none"> <li>Responsible investment<sup>1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Varma's investments</li> </ul>
Mitigating climate change in investments	<ul style="list-style-type: none"> <li>Mitigating climate change in investments<sup>1)</sup></li> <li>Energy</li> <li>Emissions</li> </ul>	<ul style="list-style-type: none"> <li>Varma's investments</li> </ul>
Taking into account environmental impacts in Varma's own operations and the supply chain	<ul style="list-style-type: none"> <li>Energy</li> <li>Water</li> <li>Waste</li> <li>Supplier environmental assessment</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> <li>Real property owned by Varma</li> <li>Supply chain</li> </ul>
Varma employees' well-being at work and competence	<ul style="list-style-type: none"> <li>Employment</li> <li>Occupational health and safety</li> <li>Training</li> <li>Diversity and equal opportunity</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> </ul>
Preventing the grey economy	<ul style="list-style-type: none"> <li>Anti-corruption and anti-bribery</li> <li>Supplier social assessment</li> </ul>	<ul style="list-style-type: none"> <li>Varma's own operations</li> <li>Supply chain</li> </ul>
Supporting entrepreneurship	<ul style="list-style-type: none"> <li>Indirect economic impacts</li> </ul>	<ul style="list-style-type: none"> <li>Varma's societal influences</li> </ul>

<sup>1)</sup> Varma's own material CSR topic

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## GRI CONTENT INDEX

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GRI 102	<b>102-2</b> Activities, brands, products, and services	• Varma in brief, p. 3	
GRI 102	<b>102-3</b> Location of headquarters		Salmisaarenranta 11, 00180 Helsinki
GRI 102	<b>102-4</b> Location of operations	• Varma in brief, p. 3	
GRI 102	<b>102-5</b> Ownership and legal form	• Varma in brief, p. 3	
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GRI standard	Contents	Location	Additional information and deviations
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GRI 102	<b>102-48</b> Restatements of information		We are reporting for the first time in accordance with the GRI guidelines
GRI 102	<b>102-49</b> Changes in reporting		We are reporting for the first time in accordance with the GRI guidelines
GRI 102	<b>102-50</b> Reporting period		1 Jan–31 Dec 2016
GRI 102	<b>102-51</b> Date of most recent report		We are reporting for the first time in accordance with the GRI guidelines
GRI 102	<b>102-52</b> Reporting cycle		The report is published annually
GRI 102	<b>102-53</b> Contact point for questions regarding the report		viestinta@varma.fi
GRI 102	<b>102-54</b> Claims of reporting in accordance with the GRI standards	• Reporting principles, p. 44	
GRI 102	<b>102-55</b> GRI content index	• GRI content index, p. 46–50	
GRI 102	<b>102-56</b> External assurance		The report has not been assured.

## GRI-INDEX

GRI standard	Contents	Location	Additional information and deviations
<b>MATERIAL TOPICS</b>			
<b>Management approach</b>			
GRI 103	<b>103-1</b> Explanation of the material topic and its boundary	<ul style="list-style-type: none"> <li>Responsible Varma, p. 12-14</li> <li>Responsible investment, p. 20-21</li> </ul>	
GRI 103	<b>103-2</b> The management approach and its components	<ul style="list-style-type: none"> <li>Responsible Varma, p. 12-14</li> <li>Responsible investment, p. 20-21</li> </ul>	
GRI 103	<b>103-3</b> Evaluation of the management approach	<ul style="list-style-type: none"> <li>Responsible Varma, p. 12-14</li> <li>Responsible investment, p. 20-21</li> </ul>	
<b>Economic topics</b>			
<b>Economic performance</b>			
GRI 201	<b>201-1</b> Direct economic value generated and distributed	<ul style="list-style-type: none"> <li>Responsibility for pension assets, p. 15-17</li> </ul>	
<b>Indirect economic impacts</b>			
GRI 203	<b>203-2</b> Significant indirect economic impacts	<ul style="list-style-type: none"> <li>Responsibility for pension assets, p. 15-17</li> </ul>	
<b>Anti-corruption and anti-bribery</b>			
GRI 205	<b>205-2</b> Communication and training about anti-corruption policies and procedures	<ul style="list-style-type: none"> <li>Ethical and transparent business, p. 40</li> </ul>	
<b>Environmental topics</b>			
<b>Energy</b>			
GRI 302	<b>302-1</b> Energy consumption within the organisation	<ul style="list-style-type: none"> <li>Responsibility for the environment – mitigating climate change, p. 38</li> <li>Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 39</li> </ul>	
GRI 302	<b>302-4</b> Reduction of energy consumption	<ul style="list-style-type: none"> <li>Responsibility for the environment – mitigating climate change, p. 38</li> <li>Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 39</li> </ul>	
<b>Water</b>			
GRI 303	<b>303-1</b> Water withdrawal by source	<ul style="list-style-type: none"> <li>Responsibility for the environment – mitigating climate change, p. 38</li> <li>Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 39</li> </ul>	



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GRI standard	Contents	Location	Additional information and deviations
<b>Emissions</b>			
GRI 305	<b>305-2</b> Energy indirect (Scope <sup>2</sup> ) GHG emissions	• Responsibility for the environment – mitigating climate change, p. 35–36	
GRI 305	<b>305-4</b> GHG emissions intensity	• Responsibility for the environment – mitigating climate change, p. 35–36	
<b>Effluents and waste</b>			
GRI 306	<b>306-2</b> Waste	• Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 39	
<b>Supplier environmental assessment</b>			
GRI 308	<b>308-1</b> New suppliers that were screened using environmental criteria	• Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 39	Supply chain will be surveyed and sustainability requirements drawn up in 2017. The percentage share of screened suppliers was not reported.
<b>Social responsibility</b>			
<b>Employment</b>			
GRI 401	<b>401-1</b> New employee hires and employee turnover	• Responsibility for Varma employees, p. 33	
<b>Occupational health and safety</b>			
GRI 403	<b>403-2</b> Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	• Responsibility for Varma employees, p. 33	
<b>Training and education</b>			
GRI 404	<b>404-1</b> Average hours of training per year per employee	• Responsibility for Varma employees, p. 33	
GRI 404	<b>404-2</b> Programs for upgrading employee skills and transition assistance programs	• Responsibility for Varma employees, p. 31	
GRI 404	<b>404-3</b> Percentage of employees receiving regular performance and career development reviews	• Responsibility for Varma employees, p. 33	
<b>Diversity and equal opportunity</b>			
GRI 405	<b>405-1</b> Diversity of governance bodies and employees	• Responsibility for Varma employees, p. 32–33	
GRI 405	<b>405-2</b> Ratio of basic salary and remuneration of women to men	• Responsibility for Varma employees, p. 33	
<b>Public policy</b>			
GRI 415	<b>415-1</b> Political contributions	• Ethical and transparent business, p. 42	

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GRI standard	Contents	Location	Additional information and deviations
<b>Socioeconomic compliance</b>			
GRI 419	<b>419-1</b> Non-compliance with laws and regulations in the social and economic area		No incidents in 2016
<b>Supplier social assessment</b>			
GRI 414	<b>414-1</b> New suppliers that were screened using social criteria	<ul style="list-style-type: none"> <li>Ethical and transparent business, p. 41</li> </ul>	Supply chain will be surveyed and sustainability requirements drawn up in 2017. The percentage share of screened suppliers was not reported.
<b>Customer privacy</b>			
GRI 418	<b>418-1</b> Substantiated complaints concerning breaches of customer privacy and losses of customer data	<ul style="list-style-type: none"> <li>Ethical and transparent business, p. 41</li> </ul>	
<b>Varma's own material CSR topics</b>			
<b>Responsible investment</b>			
	Engaging with investment objects on environmental, social and governance matters	<ul style="list-style-type: none"> <li>Responsible investment, p. 21</li> </ul>	
	Reviewing investment objects' compliance with standards	<ul style="list-style-type: none"> <li>Responsible investment, p. 21</li> </ul>	
<b>Disruption-free implementation of pension provision</b>			
	Pension application processing time	<ul style="list-style-type: none"> <li>Responsibility for customers, p. 23</li> </ul>	
<b>Customer service</b>			
	Net promoter score	<ul style="list-style-type: none"> <li>Responsibility for customers, p. 24</li> </ul>	
<b>Promoting workability and longer careers at client companies</b>			
	Effectiveness of rehabilitation	<ul style="list-style-type: none"> <li>Responsibility for customers, p. 28</li> </ul>	
<b>Mitigating climate change in investments</b>			
	Carbon footprint of Varma's listed equity investments	<ul style="list-style-type: none"> <li>Responsibility for the environment – Mitigating climate change in investments, p. 35</li> </ul>	
	Carbon footprint of Varma's listed corporate bond investments	<ul style="list-style-type: none"> <li>Responsibility for the environment – Mitigating climate change in investments, p. 35</li> </ul>	
	Carbon footprint of Varma's direct real estate investments	<ul style="list-style-type: none"> <li>Responsibility for the environment – Mitigating climate change in investments, p. 36</li> </ul>	

