

A young woman with long brown hair, wearing a grey zip-up hoodie, is shown in profile, looking out over a body of water. Her hair is blowing in the wind. In the background, a man in a light blue shirt and dark pants is walking on a path. The scene is outdoors, likely near a lake or river, with trees and a clear sky in the distance.

VARMA

ANNUAL AND
CSR REPORT 2018

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DEAR READER,

Our task is to ensure that you receive pension in the future, too. This role requires responsibility from us. You are reading Varma's combined Annual Report & Corporate Social Responsibility Report 2018, which contains both the traditional annual report and a CSR report that is in line with GRI standards. Here, we report on how we did in terms of taking care of pension assets, our customers, Varma employees and the environment in 2018. This year, we are reporting on climate risks for the first time with the help of the TCFD framework.

The Report of the Board of Directors and Financial Statements 2018, as well as the Corporate Governance Report, are available as separate pdf files at varma.fi/annualreport.



VARMA IN BRIEF

Our core task is to secure pensions. We invest the assets collected as pension contributions profitably and securely for current and future pensions. Corporate responsibility is an essential part of all our operations.

Varma's core task is to secure pensions. We take care of the statutory earnings-related 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. Varma is a responsible and solvent investor; the value of our investments is EUR 44.0 billion.

We pay pensions to approximately 343,400 people, and we provide reliable and useful information about pension insurance. We are responsible for the pension cover of some 900,000 Finns.

Our services in workability management and rehabilitation help client companies to save in pension and sick-leave costs.

As a real-estate investor we focus on offering high-quality business premises and rental flats with good traffic connections in growth centres. We also offer corporate financing to our customers.

Varma is a mutual company, owned by its client companies and self-employed customers, 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 532 employees. The slogan for our modern work culture is Varma employees – agile responsibility bearers. Our success is based on our competent employees, who are passionate about their work.

Corporate responsibility is an integral part of Varma's core task and work culture.



THE YEAR IN BRIEF

The unstable performance of global equity markets in the final quarter of the year pushed Varma's investment returns for the full year into negative territory. At year-end, the market value of Varma's investments stood at EUR 44.0 (45.4) billion. Efficiency improved further to an all-time record high. Varma used 60% (67%) of the insurance contributions meant for operating expenses.

Last quarter weighed on otherwise strong year

The return on Varma's investments was -2.0% (7.8%). The last quarter of 2018 was an especially challenging period in the equity market, pushing Varma's strong returns from the early part of the year into negative territory.

Real estate 5.5% (4.9%) and hedge funds 1.6% (8.5%) yielded the best returns of Varma's investments, and helped diversify the equity and fixed-income market risk. The return on fixed income investments was negative, at -1.8% (3.7%). The return on equity investments was -3.6% (11.4%), and several equity indices started to fall clearly at the end of the year. Of equity investments, the highest return was generated by private equities, at 17.5% (7.9%).

The financial crisis of ten years ago has been followed by a period of very strong investment returns for Varma. Our solvency, which serves as a risk buffer, is still at a strong level.

Varma was the most efficient company in the earnings-related pension sector

Varma used 60% (67%) of the insurance contributions meant for operating expenses. Varma was already by far the most efficient earnings-related pension insurance company in 2017, when earnings-related pension insurance companies used an average of 82% of the loading profit. The smaller the percentage is, the more efficient the company is. Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system.

Solvency capital declined to EUR 9.6 (11.5) billion. Solvency capital was on a sustainable level, i.e. 1.6 times the solvency limit. Varma's pension assets in relation to technical provisions were 127.5% (133.5%). Varma will refund EUR 153 (161) million to its clients as client bonuses, thanks to its efficiency and solvency. This means insurance contribution deductions.



The year in brief

In 2018, Varma prepared for the introduction of the national Incomes Register. As of 2019, employers have been reporting paid salaries to the Incomes Register, and Varma receives the information from the register in close to real time. The Incomes Register will speed up the processing of insurance contributions and pension decisions.

Pension processing accelerated

Varma paid out pensions in the amount of EUR 5.7 (5.5) billion to 343,400 (342,600) people. A total of 22,476 (24,507) new pension decisions were made during the year. Premiums written increased to EUR 5.1 (4.9) billion. The number of insured also increased, and stood at 559,981 (537,241) people at the end of the year.

Varma processes applications for all pension benefits faster than average in the sector. The good momentum carried over from the previous year. The average processing time for pension applications shortened from 37 days to 31 days, which is nine days quicker than the average for the sector.

Of individual pension benefits, the biggest change took place in disability pensions, which took an upward turn. The number of those who retired on disability pension increased by around 10% at Varma in 2018. New disability pensions increased the most among those over 60 and under 45.

Read more about the investment year and market developments in the section [Responsibility for pension assets](#) (p. 23) and about our customer work in the section [Responsibility for customers](#) (p. 29).

Return on investments



-2.0%

Value of investments



€44.0 bn

Solvency



€9.6 bn

Premiums written



€5.1 bn

Pensions paid



€5.7 bn

Key figures 2018

| | 2018 | 2017 |
|-------------------------------------------------------------------------|-----------------|----------|
| Premiums written, € million | 5,118.0 | 4,867.4 |
| Pension payments to pensioners, € million ¹⁾ | 5,668.0 | 5,544.0 |
| TyEL insured 31 December | 523,270 | 501,320 |
| YEL policies | 36,700 | 35,900 |
| Pensioners | 343,400 | 342,600 |
| Investments, € million | 44,015.2 | 45,409.4 |
| Investment income, € million | -902.3 | 3,342.7 |
| Net return on invested capital, % | -2.0 | 7.8 |
| Total result, € million | -1,741.0 | 1,523.8 |
| Loading profit, € million | 55.8 | 44.7 |
| Operating expenses as % of loading income | 60.4 | 66.7 |
| Transfer to client bonuses, € million | 153 | 161.0 |
| % of TyEL payroll | 0.75 | 0.83 |
| Technical provisions, € million | 36,521.4 | 36,696.2 |
| Solvency capital, € million ²⁾ | 9,618.6 | 11,534.4 |
| in relation to solvency limit | 1.6 | 1.7 |
| Parent company staff 31 December | 532 | 524 |
| Personnel expenses, € million | 48.3 | 48.8 |
| Donations, € million | 0.01 | 0.02 |
| Membership fees in sectoral organisations, € million | 1.0 | 1.2 |
| Purchases from service providers and suppliers, € million ³⁾ | 51.3 | 52.1 |

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

²⁾ Calculated according to the regulations valid at the time (same principle applies to other solvency indicators)

³⁾ Excluding costs for investment operations (such as development purchases)



Risto Murto, President & CEO

EFFICIENCY AT RECORD LEVEL

For Varma, 2018 was a year of fluctuating investment returns, preparing for the Incomes Register and further-improving efficiency.

President & CEO's Review

For Varma, 2018 was a year of fluctuating investment returns, preparing for the Incomes Register and further-improving efficiency.

Varma is clearly the most efficient company in the earnings-related pension sector. Last year, our efficiency rose to a record-high level. We used 60% of the amount reserved for operating expenses. Good operating efficiency together with strong solvency benefits our customers. We will pay the best client bonuses in the sector for 2018. The bonuses will lower the insurance contributions paid by our clients.

The return on Varma's investments fluctuated during 2018. Share prices sank especially towards the end of the year, and Varma's return for the full year was rendered negative by the last quarter. For a pension investor, the situation is nothing out of the ordinary. The financial crisis of ten years ago was followed by a period of very good

investment returns, and our solvency, which serves as a risk buffer, is at a strong level.

Varma did well in client acquisitions in 2018, and premium income increased. Small companies in particular increased our new customer base. We prepared, together with our customers, for the introduction of the Incomes Register at the beginning of 2019. This major change in how income is reported will require new ways of operating both from us and from our customers.

As regards pensions, the biggest change last year was the increase in the number of disability pensions. What has happened in Finnish working life? Following a long period of positive development, both younger and older employees are increasingly retiring on disability pension. We need a broad analysis of the underlying reasons as well as measures to put a stop to this trend.

Responsibility is a part of Varma's core task, strategy and daily operations

Responsibility is an integral part of Varma's core task, strategy and daily operations. In 2018, we carried on our work to mitigate climate change. As a major investor, we have an obligation to promote the responsible investment of pension assets and set an example of how investing can be used to reduce emissions.

Our efforts also paid off in an external assessment, as we were ranked among the best in a global climate comparison of investors. We encourage our investees to take climate risks into account and to report on them in accordance with the TCFD framework. Varma follows these recommendations, and our first climate risk report is included in this publication.

Responsibility for our personnel is one of the cornerstones of Varma's CSR.

Committed and motivated employees are the key to customer satisfaction and Varma's success. That is why we have been developing our work culture with a long-term view and paying special attention to equality and non-discrimination.

In 2019, we at Varma will keep working for efficiency and strong solvency. We will develop our processes with the help of digitalisation and software robotics, and high-quality customer service will not be forgotten. We want to be the best workability management partner for our customers.

I wish to thank our customers for their trust in us and Varma employees for their good work.

Risto Murto
President & CEO

The financial crisis of ten years ago was followed by a period of very strong investment returns, and our solvency, which serves as a risk buffer, is at a strong level.



STRATEGY AND GOALS

We invest companies' and employees' savings so that their returns will guarantee our shared future. Our objective is to secure high-quality and efficient pension provision for our customers, foster strong solvency and guarantee the positive development of premium income.

STRATEGY BUILDS ON OUR CORE TASK

Varma's core task is to secure pensions.

Varma's strategy is based on our core task, i.e. securing pensions. Our strategy for 2016–2020 builds on the following themes: One Varma for the customer, Promoting entrepreneurship, Responsible Varma and Courage to try new things.

'One Varma for the customer' means introducing new expertise and determination to customer service, 'Encouraging entrepreneurship' means increasing understanding of entrepreneurship and improving services for entrepreneurs, while 'Responsible Varma' means developing responsible investments and business so that we are the most responsible operator in the sector. In line with the 'Courage to try new things' theme, we are developing our ways of operating flexibly in daily work.

Our objectives

In 2018, Varma's targets related to providing high-quality pension services, improving premium income and efficiency, and securing strong solvency. Varma did well with respect to these goals.

Pension application processing times, which is a measure of the quality of pension services, were significantly shortened during the year. Pensions were processed 9 days faster than average in the sector and 6 days faster than our processing times a year earlier.

Premiums written increased to EUR 5,118 (4,867) million. We received new customers, especially small and medium-sized companies.

Our solvency remained strong, although our solvency capital declined from the previous year to EUR 9.6 (11.5) billion at year-end. Varma has been the most solvent earnings-related pension company in Finland since the financial crisis ten years ago.

Varma handles pension cover very cost-effectively. In 2018, our efficiency was at a record high: we used 60% (67%) of the amount reserved for operating expenses. Varma is by far the most efficient earnings-related pension insurance company, which, combined with our strong solvency, guarantees the most competitive client bonuses in the sector.

Focus areas of our operations

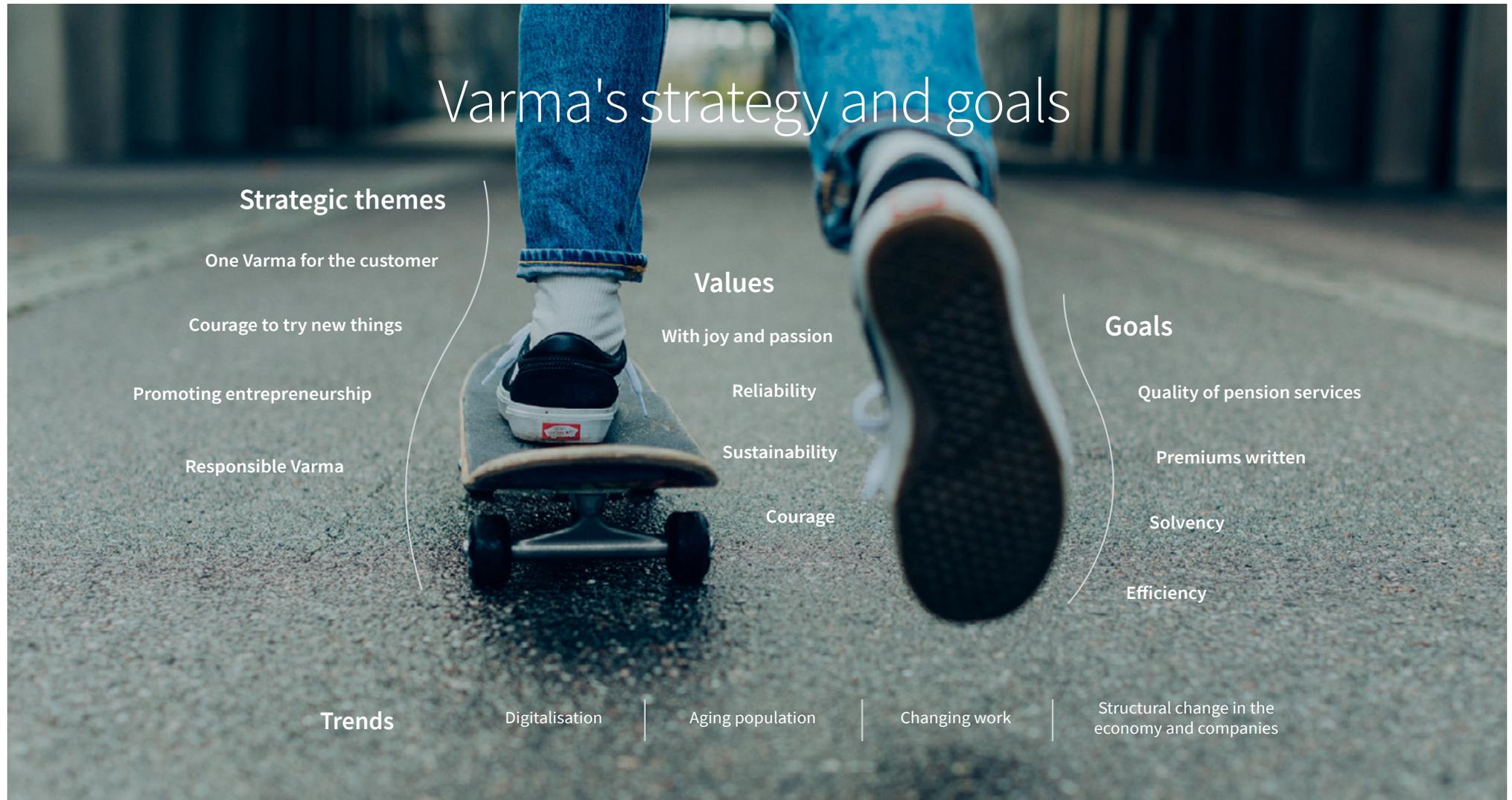
The focus areas for our operations in 2018 were: developing digital services and robotics, preparing for the Incomes Register, and investing in small and growing companies as part of our customer work.

We introduced more digital services for various customer groups and or improved our operational efficiency with the extensive introduction of software robotics. We prepared for the Incomes Register, which is maintained by the Tax Administration and was introduced at the beginning of 2019, by developing our ways of operating and IT systems, and by training our customers. For small companies, we increased our insurance and workability management services. We strengthened our position as an insurance provider for small companies.

[Read more in the section
Responsible Varma](#)



Varma is a solvent and efficient earnings-related pension insurance company. We offer our customers the best client bonuses in the sector.



Our values

We are guided in our work by our values: courage, reliability and sustainability – with joy and passion.

Courage: We boldly find new ways of working, together with our customers. Our courage stems from trust, co-operation and strong competence.

Reliability: We work openly and with integrity. We keep our promises to clients, partners and each other.

Sustainability: We continuously develop our responsible ways of operating. For us, sustainability means making long-term choices to secure pensions and improve operational efficiency.

We work and live our values every day with joy and passion.

[Read more in the section Responsibility for Varma's personnel](#) >

OPERATING ENVIRONMENT

Risks in the economic operating environment intensified towards the end of the year

The first three quarters of the 2018 economic year were highly favourable for a pension asset investor, but the year ended in a climate of market restlessness. The global economy seems to have topped out, and the outlook in the eurozone and China weakened. This is explained not only by normal business cycles, but also by trade policy conflicts and the ensuing uncertainty, which weighed on expectations and outlooks during the year. The strong and broad growth of Finland's economy continued, though at a somewhat slower pace than the previous year.

The central banks are making changes to their monetary policy stance in demanding circumstances. The US central bank, the Fed, hiked its benchmark rate four times during the year. The next steps are expected to be more conservative. The European Central Bank announced that it would be winding down its bond purchase programme. The basic monetary policy setup in the eurozone continues to promote economic growth.

There was a change in market direction at the end of the year, as negative risks started to gain more prominence in the future outlook. The last quarter pushed investment returns into the negative. Varma's invested assets and solvency buffers are both at near-record levels as a result of long-term growth in asset values since the financial crisis ten years ago.

Varma's strong solvency secures good operating conditions in the capital markets also in demanding circumstances.

The EU has been preparing a package of measures on sustainable finance which, if implemented, will be reflected in pension investors' operating environment. Concrete steps towards responding to climate change were taken in December, when a broad international understanding was reached in Katowice on common rules for all countries concerning how they report their emissions, pledges and financing. Varma is committed to the targets of the Paris Agreement and to developing ways of assessing the risks and identifying the new investment opportunities relating to climate change in its investment activities. Varma has received international recognition for its activities in the responsible investment of pension assets.

Finland's economy has topped out

Finland's economy gained momentum late compared to our competitor countries. In 2018, employment improved at a record rate. The labour market was increasingly characterised by a mismatch between demand and supply and difficulties in finding competent workforce.

Finland is a small, open economy. Economic prosperity and potential to finance well-being are largely dependent on how well Finnish companies succeed in the global market. Increased



Operating environment

geopolitical uncertainty, problems in Europe, and expected slower growth weaken our export outlook. Economic growth is expected to continue, although at a slower pace, and the employment level is set to improve further. If the low investment rate and muted development of production cannot be turned around, they will undermine the economy's productive potential in the long run. The strengthening of the productive potential is vital also for the financing of earnings-related pensions.

The state of public finances has markedly improved, thanks to accelerated economic growth and adjustment measures. In the coming years, the increasing costs due to the aging population will allow less latitude, and the window for preparing for it will close.

The birth rate has been declining for several years in a row. Changes in the expected development of the population structure have had an impact on the estimates on the sustainability gap in public finances and will also be reflected in the earnings-related pension system in the long term.

Longer careers needed to finance pensions

The recovery of employment and the sustained positive trend in the capital markets support the financing of pensions, a moderate level of pension contributions and the long-term sustainability of the earnings-related pension system. Longer careers are needed to secure the financing of pensions and sustainability of public finances.

The number of new disability pensions increased during the year. Varma strives for longer careers by co-operating with customers in workability management. The importance of work productivity and competence will be highlighted in the future as the population ages and the labour supply declines.

Earnings-related pension system

Pension accrues from all work and self-employment

In Finland, pension cover consists of statutory pension for employees and entrepreneurs, and of national pension and guarantee pension, which supplement the statutory pensions. The amount of national pension is adapted according to the amount of earnings-related pension. Earnings-related pension accrues from all work and self-employment.

Earnings-related pension is based on a defined benefit scheme, which means that pensioners receive their earned pension amount from the moment of their retirement for the rest of their lives. The level of pensions being paid is not affected by, for example, changes in the pension assets' investment returns. Pensions are paid in the promised amount regardless of economic cycles.

Defined benefit pensions serve as automatic economic stabilisers, since pensions paid in the promised amount uphold consumption and support economic growth also in times of otherwise muted demand.

The earnings-related pension scheme is partially fund-based

The majority of pensions that are currently being paid are financed directly through pension contributions paid by employees and employers. Part of the pension contributions is set aside in funds for future pensions.

The financing of earnings-related pensions is dependent on economic growth, a

high employment rate and investment returns. Successful investment activities stem from the need for higher pension contributions. Strong solvency of earnings-related pension insurance providers is important for the success of investment activities, since it affects risk-taking opportunities and facilitates the timing of investment decisions in fluctuating market conditions. Pensions are well secured under the Finnish statutory earnings-related pension system.

Demographic development, immigration issues, and fairness between generations are strongly reflected in the pension debate in Finland as well as elsewhere in Europe. Finland's earnings-related pension legislation was last reformed at the beginning of 2017. The objective of the reform is an economically and socially sustainable pension system. This requires longer careers. To help achieve this goal, earnings-related pension insurance companies offer the insured vocational rehabilitation when their workability is threatened. Workability management services, on the other hand, aim to prevent disability in collaboration with employers.

Earnings-related pension insurance companies are in competition with each other

The earnings-related pension insurance system is decentralised. This means that earnings-related pensions and pension assets set aside in funds for their payment are managed by several pension companies and pension funds.

Private sector earnings-related pension insurance companies are jointly liable in a situation where, for example, an insurance provider goes bankrupt. This is why the companies' solvency levels and risk-taking in investments are regulated.

Earnings-related pension insurance companies compete with each other in terms of investment activities, efficiency and the quality of their services.

In 2018, a working group established by the Ministry of Social Affairs and Health explored the conditions for integrating the private and municipal pension insurance systems.

The Finnish earnings-related pension system is strong

In 2018, the Finnish pension system's ranking improved two places, from fifth to third place, in an annual international pension system comparison. The Melbourne Mercer Global Pension Index compares pension systems based on the adequacy of pensions, integrity of governance and sustainability of the pension system. Finland was ranked number one in terms of the reliability and transparency of governance for the fifth time in a row.

The ranking of Finland's pension system improved to third place in an international comparison.

Operating environment

Changes and opportunities in the operating environment

| Varma's goals | Quality of pension services | Solvency | Premiums written | Efficiency |
|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>CHANGES</p>  | <ul style="list-style-type: none"> Private customers' expectations for broader digital services that are closer to real time. Need for high-quality personal customer service. Some elderly private customers or those in a challenging life situation have no access to digital services. Impacts of the change in working life and the rising retirement age on workability. | <ul style="list-style-type: none"> Negative development of the global equity market. Low interest rates. Increasing market volatility and uncertainty caused by the reduction in expansionary policy measures. Additional measures required by the Intergovernmental Panel on Climate Change (IPCC) to combat climate change. Increasing regulation of institutional investors. | <ul style="list-style-type: none"> Structural change in working life and companies: entrepreneurial work is increasing, and most new jobs will be created in SMEs. The Incomes Register, maintained by the Tax Administration and introduced at the beginning of 2019, where employers submit earnings information. The development of Finland's age structure: the number of working people will decline. | <ul style="list-style-type: none"> The changing competitive situation in the earnings-related pension insurance sector highlights efficiency requirements. Operational efficiency is highlighted in the determination of client bonuses. The real-time information made possible by the Incomes Register improves insurance processes. |
| <p>OPPORTUNITIES</p>  | <ul style="list-style-type: none"> Speeding up and improving customer services through automation and software robotics. Using digitalisation to develop services based on customer needs. Developing service models to be able to offer high-quality personal services in cases where digital services do not meet customer's needs. | <ul style="list-style-type: none"> Identifying new alternative investments. Broad diversification between asset classes and utilising market cycles. Wide-scale use of data in responsible investment. | <ul style="list-style-type: none"> The Incomes Register makes it possible to develop real-time insurance services. The opportunities of digitalisation in the development of workability management services. Use of data in workability management. | <ul style="list-style-type: none"> Digitalisation Automation and software robotics Changing ways of working: an agile and self-managed way of operating Efficient and agile IT system development |

Operating environment

This is how we did

Varma's goals

Quality of pension services

Solvency

Premiums written

Efficiency

SUCCESSES



- Pension applications processed 9 days faster than the sector average and 6 days faster than a year earlier.
- Extending the use of software robotics to different processing stages of pension applications.
- Best personal customer service in pension matters in Finland (Bisnode's Voice of the Customer survey).
- Private customers' use of digital services up 16%.
- 76% of those who received rehabilitation returned to work.
- A comprehensive digital service path for rehabilitation customers and a new service model created with rehabilitation partners.

- Strong solvency.
- Diversification of investments into different asset classes, especially in non-liquid investments.
- Fifth place in an international comparison by the Asset Owners Disclosure Project (AODP), which assessed the 100 largest pension funds' approach to climate-related risks and opportunities.
- Implementation of TCFD (Task Force on Climate-Related Financial Disclosures) framework for reporting climate risks as part of financial reporting in listed equity and fixed income investments.

- Positive trend in premiums written, up 5.1%.
- Stronger position as an insurance provider for small companies.
- Preparing for the introduction of the Incomes Register.
- Workability management information service; survey tools.

- Varma is by far the most efficient company in the earnings-related pension sector: we used 60% of the assets reserved for operating expenses.
- Development of our work culture: Varma's PeoplePower index rose to the AA rating, propelling Varma to the list of Finland's Most Inspiring Workplaces (Corporate Spirit's employee survey).
- Improving processes through the Lean methodology.

CONTINUING IN 2019



- Ensuring uninterrupted income for the customer: swift processing of pension applications, and fast payment of pension after the pension decision is made.
- Development of digital services for private customers.
- Extending the use of automation and software robotics further.
- Developing operational models for rehabilitation.
- Fine-tuning service models together with client companies as regards employees' workability challenges.

- Investment risk diversification, market forecasting, and active risk level management.
- Developing responsibility in index investing.
- Active implementation of the ownership policy.
- Participation in co-operation initiatives related to responsible investment.
- Development of portfolio management tools.

- Development of insurance service processes related to the Incomes Register.
- Development of a multi-channel service model by listening to our customers.
- Workability management services for different customer groups.

- Continuous development of operating ways, processes and work culture.

A young boy with red hair, wearing a blue and white plaid shirt, is climbing a rope ladder structure. He is upside down, with his head near the bottom of the frame and his feet near the top. He is smiling and looking towards the camera. The rope ladder is made of thick blue ropes and is attached to a metal pole. The background is a bright, overcast sky.

RESPONSIBLE VARMA

Owing to our societal role, our responsibility for managing pension assets, and for our customers, Varma employees and our shared environment spans far into the future. Responsibility is part of our strategy. Our goal is to be the most responsible company in the pension sector.

RESPONSIBLE VARMA

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

For Varma, responsible operations mean first and foremost securing solvency, smooth implementation of pension provision and promoting workability.

Corporate social responsibility is 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, efficient operations and business ethics.

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.

Responsibility has been chosen as a key theme 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 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 associations in the pension sector, labour

market representatives, legislators, Varma employees and representatives 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 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.

A lot has happened in the responsibility environment and the related regulation since we drew up our CSR programme in 2015. Therefore, we carried out a new stakeholder survey in 2018, which was used as the basis for updating our CSR programme. Since the work was still in progress at the turn of 2018–2019, this report has been drawn up using the materiality assessment of 2015. You can read more about the new [CSR programme](#) on page 18.

The CSR programme is always approved by Varma's Board of Directors.

In 2018, a number of Varma employees from all parts of the organisation were involved in developing the responsibility of customer work.

Responsible Varma

CSR is visible in the organisation

CSR issues are represented in Varma's Executive Group by the Senior Vice President of HR, CSR and Communications. The Executive Group discusses all major 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. For example in 2018, the Board approved Varma's updated Principles for Responsible Investment.

Varma's CSR Development Manager co-ordinates CSR measures and communication. Furthermore, a director of responsible investment and an analyst work in Investment Operations. The director of responsible investment co-ordinates and develops responsible investment in different asset classes and is in charge of investment decisions for the sustainable equity portfolio.

Furthermore, 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, as necessary; for example in 2018, a number of Varma employees from all parts of the organisation were involved in developing the responsibility of customer work.

Varma has two working groups that focus on developing responsible ways of operating: the Green Office team and

Responsible Varma

- ETHICAL AND TRANSPARENT BUSINESS
- COST-EFFECTIVE USE OF ASSETS
- OPEN AND PRO-ACTIVE COMMUNICATION
- RESPONSIBILITY FOR VARMA EMPLOYEES
- RESPONSIBILITY IN INVESTMENT OPERATIONS
- MITIGATING CLIMATE CHANGE

Varma secures pensions

- Securing solvency
- High-quality implementation of pensions
- Promoting workability and longer careers

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.

Varma's Board of Directors discusses the company's main responsibility policies.

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

Working for future generations

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

Mitigating climate change

Promoting workability and a good working life

Ethical business and open communication

Responsibility for Varma employees

New CSR Programme to be introduced in 2019

In autumn 2018, we carried out an extensive survey to find out what kind of expectations our stakeholders' have concerning responsibility themes and the communication thereof at Varma. The online questionnaire was sent to a total of 47,000 people, and we received 1,974 replies.

We also performed 17 interviews with members of Varma's Board of Directors, ma-

nagement and experts, among other people.

The results show that, above all, our stakeholders expect us to secure solvency and provide smooth pension services – in other words, to take first class care of our responsible core task of securing pensions.

In our stakeholders' view, climate change mitigation and responsible investment are other issues that rate high in importance

for a company like Varma. We are also expected to provide insight into and means for improving good working life. Responsibility for Varma employees has always been at the very core of the CSR programme, and this will not change going forward.

We updated our CSR programme on the basis of the materiality assessment, and it was introduced at the beginning of 2019.

In our stakeholders' view, climate change mitigation and responsible investment are other issues that rate high in importance for Varma.



RESPONSIBILITY FOR PENSION ASSETS

We invest companies' and employees' savings so that their returns will guarantee our shared future. By fostering our strong solvency and through responsible investments we make sure that we are able to bear our responsibility for pensions through all economic cycles.

STRONG SOLVENCY SECURES PENSIONS

Securing our strong solvency is a cornerstone of our corporate social responsibility work. We safeguard our solvency in order to ensure that pension liabilities are covered as required by legislation.

Responsibility for pensions extends well into the future. Our task is to strive for the best possible return on our investments through controlled risk-taking in order to secure the payment of pensions. Strong solvency upholds confidence in pension cover and 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.

Steady development of premiums written secures pension payments

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 development of premium income plays an important role in securing pensions.

Varma's premium income totalled EUR 5.1 (4.9) billion in 2018, representing an increase of 5.1% from the previous year.

During 2018, EUR 5 million in premiums written were transferred to Varma from other earnings-related pension companies, and EUR 60 million in new TyEL policies were sold. Varma did especially well in the small company segment.

Earnings-related pension is an essential part of the Finnish social security system. In 2018, Varma paid EUR 5.7 (5.5) billion in pensions to approximately 343,400 (342,600) recipients.

Strong solvency upholds confidence in pension provision and enables the targeting of higher investment returns.

Solvency 2009–2018



15 largest equity investments

| | € million | Varma's holding of shares, % |
|-------------------------|-----------|------------------------------|
| Sampo Plc | 851.0 | 4.01 |
| Nordea Bank Abp | 473.2 | 1.61 |
| Wärtsilä Corporation | 426.8 | 5.20 |
| Nokia Corporation | 337.5 | 1.19 |
| UPM-Kymmene Corporation | 292.8 | 2.48 |
| Kojamo Oyj | 247.7 | 12.3 |
| Neste Corporation | 231.9 | 1.35 |
| Elisa Corporation | 186.6 | 3.10 |
| Terveystalo Oyj | 177.2 | 17.30 |
| Fortum Corporation | 163.1 | 0.97 |
| Huhtamaki Group | 127.3 | 4.38 |
| KONE Corporation | 124.5 | 0.61 |
| Atrium Ljungberg AB | 120.2 | 6.09 |
| Tornator Oy | 107.6 | 15.32 |
| Stora Enso Oyj | 105.5 | 1.22 |

Strong solvency secures pensions

We invest EUR 10.9 billion in Finland

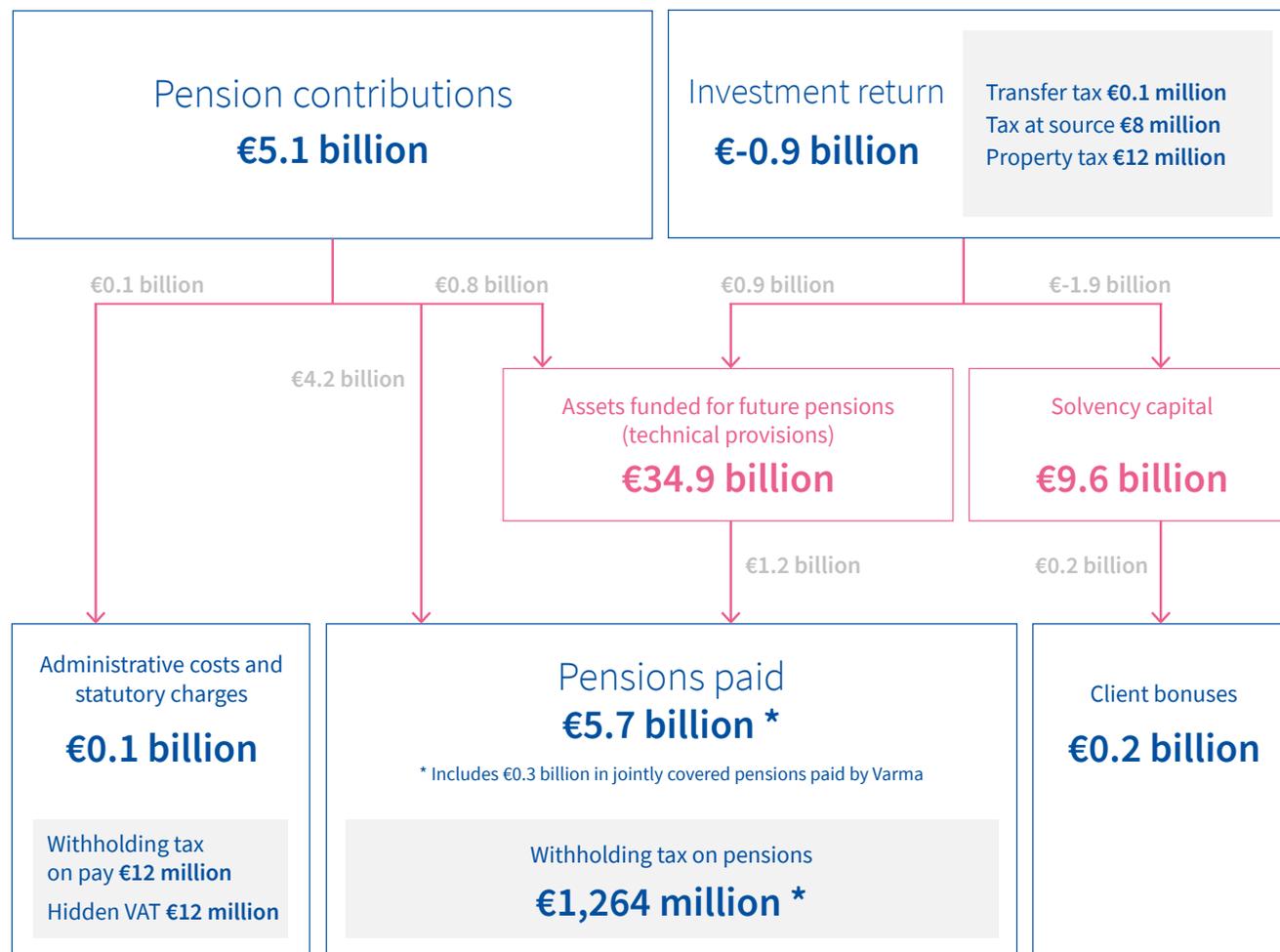
Of Varma's total investments, 26%, or EUR 10.9 billion, has been invested in different ways in Finnish society. Varma is an important investor in Finnish companies and in this way promotes and enables the long-term development of Finnish companies. Varma invests in companies' shares and provides financing through different loan instruments. Varma also owns real property.

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

Of Varma's total investments, 26%, or EUR 10.9 billion, has been invested in different ways in Finnish society.

[Read the latest financial information on our website](#) >

Varma's cash flows from pension contributions and investment returns



VARMA'S TAX FOOTPRINT

Our tax footprint is made up of, in addition to Varma's operations, the taxes paid by the companies we invest in.

In 2018, Varma paid out pensions in the amount of EUR 5.7 billion, and pensioners paid EUR 1.3 billion in income taxes on those pensions as withholding tax. We paid EUR 12 million in withholding tax on our employees' salaries.

Varma's taxes relating to investments totalled EUR 20.1 million in 2018, including EUR 0.1 million in transfer tax, EUR 12 million in real estate tax for lots and buildings, and EUR 8 million in tax at source for foreign dividend income.

Hidden VAT included in operating expenses totalled EUR 12 million. These are taxes that Varma has paid on its purchases without being able to deduct VAT on them. The operations of earnings-related pension insurance companies are primarily free of VAT.

Tax transparency essential

Our Principles for Responsible Investment 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. Varma does not engage in aggressive tax planning.

In investments, we comply with the tax policies of the country in question and are guided by international tax

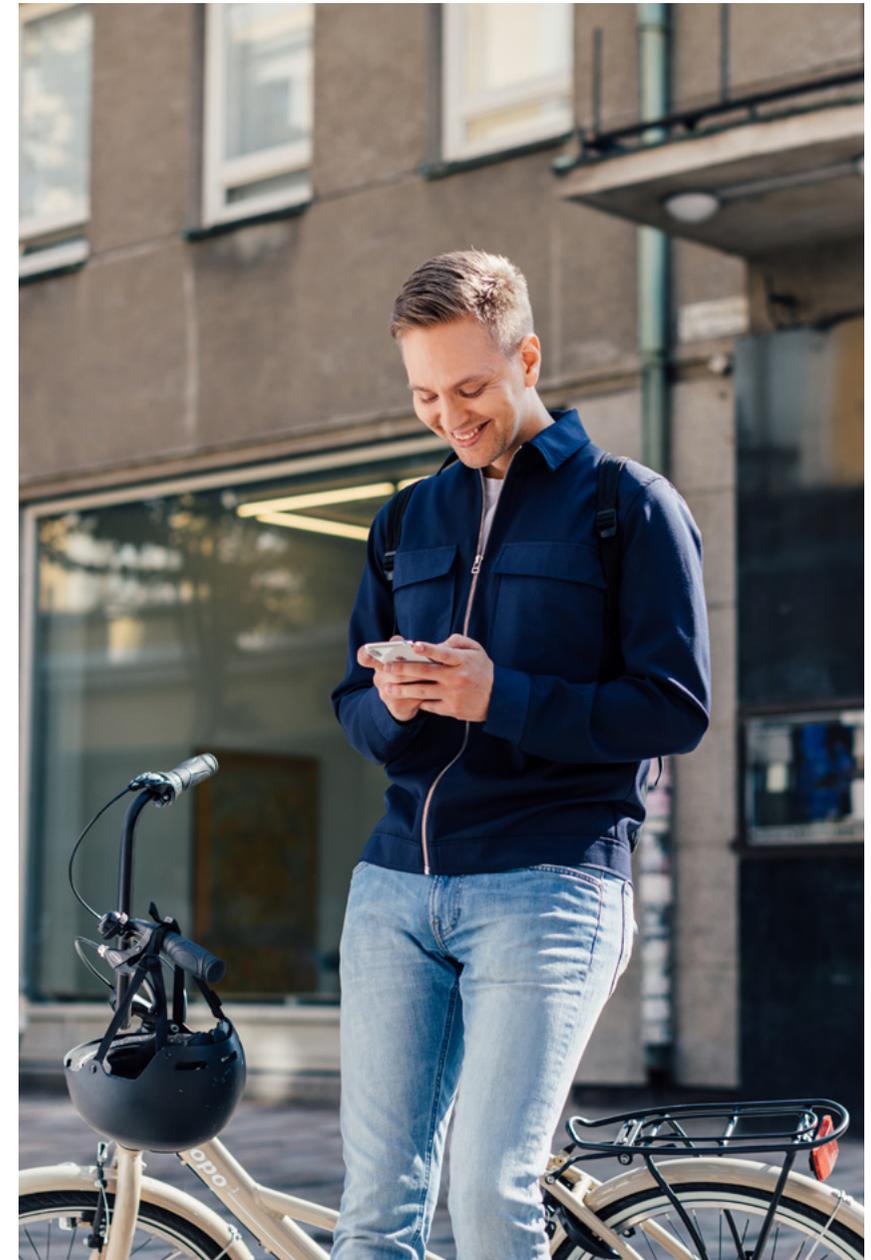
regulations. In the absence of clear guidance by tax legislation, our leading principles are caution and tax transparency.

Our principle is also to avoid double taxation on investment returns in different countries; it would lead to lower investment returns and create pressure to raise pension contributions. Avoiding double taxation is common practice and in line with international tax regulations. In fund investments, this 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.

International tax regulation and automatic exchange of information provide governments with better tools to collect corporate taxes. Nearly 80 countries, including Finland, have signed the OECD's Multilateral Convention to Prevent Base Erosion and Profit Shifting (BEPS) which aims to prevent tax avoidance and tax evasion. The goal is to increase openness and information exchange at an early stage.

The BEPS regulation does not apply to earnings-related pension companies, but listed companies report on their corporate taxes by country already in their 2017 financial statements. Varma pays income tax only to Finland, as we provide earnings-related pension insurance only in Finland.

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INVESTMENT YEAR 2018

Last quarter weighed on Varma's otherwise strong year

At the end of 2018, the value of Varma's investments totalled EUR 44.0 (45.4) billion. Share prices sank especially towards the end of the year, which pushed Varma's return for the full year into negative territory, at -2.0% (7.8%).

Following the positive sentiment in the early part of the year, uncertainty over economic growth increased in the last quarter of the year and market turbulence picked up significantly. Inflation was moderate, but central banks' monetary policies tightened slightly, headed by the Fed.

Market performance was exceptionally weak, and as a result, the returns on almost all asset classes were negative. Broad diversification of investments into, for example, unlisted asset classes, lessened the impacts of market movements.

Varma's solvency capital declined to EUR 9.6 (11.5) billion, i.e. to 127.5% (133.5%) of the technical provisions. Varma's solvency is still at a strong level.

Fixed-income investments accounted for 24%, equity investments

for 41%, real estate investments for 9% and other investments for 23% of the investment allocation. The impact of derivatives was 3%.

Private equity investments benefitted from strong earnings development

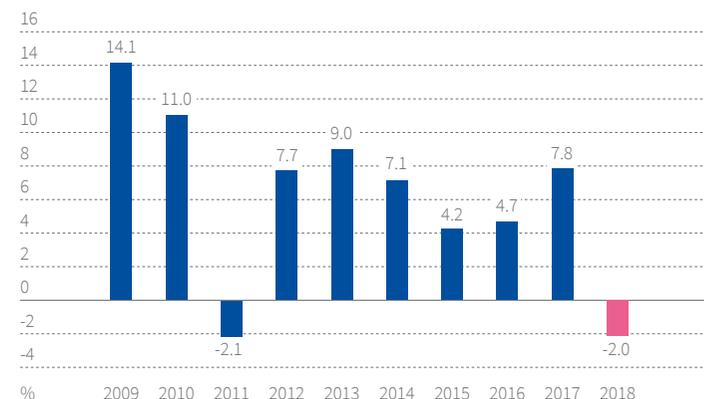
The return on Varma's investments was -2.0% (7.8%). The best returns were generated by private equity investments, at 17.5% (7.9%), which benefited from the ongoing strong earnings development. Listed equities generated a weak return of -8.3% (11.6%).

The return on fixed income investments was -1.8% (3.7%) as a result of currency movements in the emerging markets and the widening of corporate bond risk premiums. The return on the loan portfolio was steady, at 3.7% (2.2%), while public sector bonds yielded -4.2% (4.0%), other corporate bonds -2.0% (6.2%) and other money-market instruments -0.1% (-1.9%).

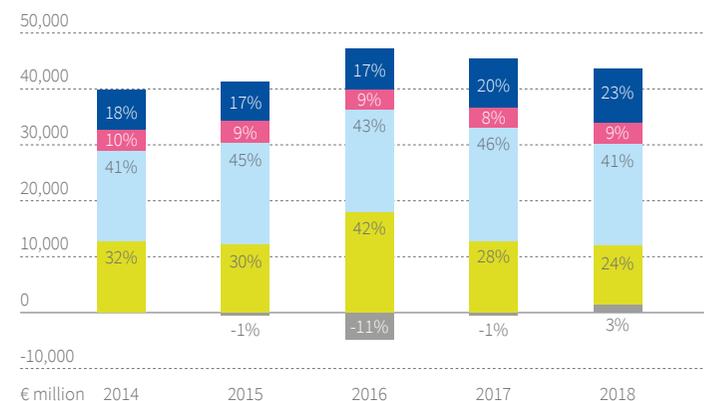
The return on real estate investments rose to 5.5% (4.9%), and direct real estate investments yielded 3.9% (2.9%). Good returns were generated especially

The return on real estate investments rose to 5.5%. Rental activity was at a high level, and the portfolio's occupancy rate was excellent.

Investment returns (%)



Investment portfolio (€ million)



- Impact of derivatives
- Other investments
- Real-estate investments
- Equity investments
- Fixed-income investments

Investment year 2018

by direct housing investments and real estate investment funds, at 10.6% (12.0%). Rental activity was at a high level, and the portfolio's occupancy rate was excellent. During the year, the real estate portfolio was further developed through transactions, new development projects in Finland and investments abroad. For example, the construction project of the Uusikumpu school in Espoo was started during the year.

The return on other investments was -1.4% (9.3%). They mainly consist of hedge funds and a small commodities position. Due to the weak year -end, the return on hedge funds fell to 1.6% (8.5%). Over a long period, the return on Varma's hedge investments has been very good and volatility has been very low. Alternative risk premium investments, included in other investments, were negatively affected by the simultaneous fall in the equity, fixed-income and credit risk markets and the rise in market volatility at the end of the year.

Pension assets are invested with a long-term view. Solvency capital serves as a risk buffer, ensuring that, even in a bad investment year, pension assets set in funds do not need to be touched.

Varma has US-dollar-denominated investments particularly in equities and hedge funds, and in corporate bonds. In accordance with Varma's investment policy, part of the currency risk is hedged. The strengthened US dollar supported Varma's performance in 2018. The exchange result is included in the investment returns of the asset classes.

Pension assets are invested with a long-term view. Solvency capital serves as a risk buffer, ensuring that, even in a bad investment year, pension assets set in funds do not need to be touched.

Long-term investment returns remain at a good level. The average nominal investment return over five years was 4.3%, and over ten years 6.0%. The corresponding real returns were 3.7% and 4.8%.

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

Global economic growth slowed down, political risks increased

Compared to the strong previous year, global economic growth slowed down in most major economies in 2018. The US swam against the tide, and President Trump's tax reforms supported economic growth and companies' earnings development. Despite the stronger labour markets, inflationary pressures remained moderate.

Political uncertainty heightened as the trade war escalated, the fiscal policy of Italy's new government endangered the country's debt sustainability, and the UK's Brexit process started to look even messier. Political risks were reflected in the investment markets more than the previous year in the environment of slower economic growth.

Growth in Europe eased compared with the top growth rates lasting several years. This was especially due to weaker external demand. Finland's economy slowed down as the outlook for export demand and construction became more muted. In Europe, political pressure increased as Italy's new government defied earlier budget agreements with the EU, as the UK's prime minister tried to navigate the choppy waters

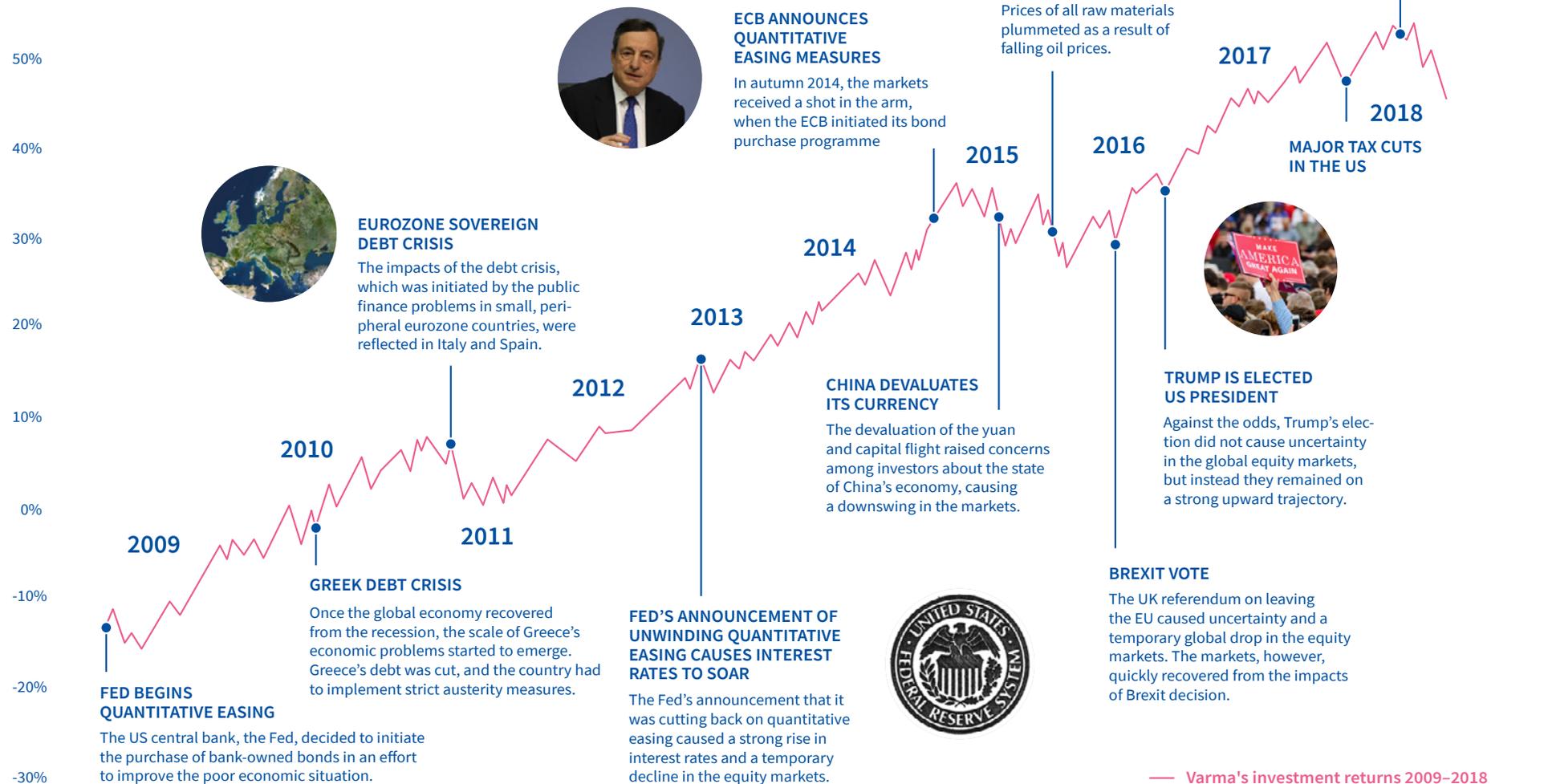
caused by pressure from the home front and EU partners, and as internal policy pressures in France erupted into largescale riots. On the periphery of Europe, Turkey's defiant economic policy turned into financial and currency market turbulence, which subsided at the end of the year.

The central banks' highly expansionary policies tightened slightly. Global normalisation of monetary policies continued, headed by the Fed, which raised its benchmark rate four times during 2018 and continued the moderate reduction of its balance sheet. Towards the end of the year, the Fed's communication became more cautious, and it lowered its expectations on the need for a future rate hike.

The ECB ended its quantitative easing measures at the end of the year, and forecasted that its first benchmark rate hike could take place in the latter half of 2019. Market expectations are, however, clearly more cautious, and there are strong doubts about whether benchmark rates will be raised in 2019. Government bond interest rates in the eurozone remained remarkably low, with the exception of Italy, and money market interest rates remained clearly in the negative.

Decade in brief

Global political and financial phenomena have an impact on investments. In 2008, the world was hit by a financial crisis and even now, a decade later, investments are sensitive to economic trends and political risks. Varma's investments, however, have shown an upward trend in the last decade.



RESPONSIBLE INVESTMENT

Responsibility is a part of Varma's strategy and an integral part of our investment operations.

Responsible investment means taking into account, in addition to return expectations, environmental, social and corporate governance (ESG) criteria in investment operations.

As a long-term investor and earnings-related pension company, responsibility is an important target for us, as the investment decisions we make shape the operational conditions of companies and other investment objects.

From an investor's perspective, making allowances for responsibility does not conflict with return expectations. For us, responsibility is rather a means of securing long-term investment returns while making sure that risks and opportunities are taken broadly into account when making investment decisions.

In 2018, we updated our [Principles for Responsible Investment](#), which cover Varma's investment assets in their entirety. The principles are applied differently depending on the asset class and type of investment. The principles have been approved by Varma's Board of Directors.

Negative screening on ethical grounds and in the name of climate change

We have defined the areas that Varma will not invest in as well as the kind of

companies that are subject to enhanced ESG monitoring. For ethical reasons, we have excluded from our direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons.

In the name of climate change mitigation, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 30% of their net sales.

Varma has also identified industries with a need for enhanced ESG screening. Investments in these industries are subject to special scrutiny by our portfolio managers. More comprehensive ESG monitoring and analysis concerns, for example, industries that have a high exposure to climate risks, such as the oil and gas industry.

Portfolio managers must also apply enhanced ESG analysis when the investment concerns alcohol, gambling, adult entertainment, cannabis and the arms industries.

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

From an investor's perspective, responsibility and returns go hand in hand.



Responsible Investment

In 2016, we published a climate policy for our investments. You can read more about the policy in the section Responsibility for the environment – mitigating climate change on p. 42.

Compliance with international agreements and standards

In addition to local legislation, we expect listed companies to comply with international standards and agreements. This means 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 conventions 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. Furthermore, portfolio managers have real-time access to companies’ daily information.

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. If a company breaches any of the CSR standards, our first priority is to engage with the company to rectify the detected breaches and change their operating methods. If our

efforts to engage with the company are unsuccessful in the long run, our option is to exclude the company from our portfolio.

In September 2018, the norms-based screening covered 34% of all of Varma’s investments. At the end of the year, listed equity investments and listed corporate bond investments included one company with a confirmed environmental violation. Varma is involved in a class action lawsuit against the company in question.

Responsibility management and organisation in Investment Operations

The Principles for Responsible Investment, which are approved by Varma’s Board of Directors, form the foundation for our responsible investment activities.

On a company-wide level, the CIO is in charge of monitoring the responsibility of investments. The head of each asset class is in charge of the day-to-day application of the Principles of Responsible Investment. Additionally, Varma’s director of responsible investment develops and co-ordinates, together with his/her team, responsible investment in different asset classes, and is in charge of investment decisions for the sustainable equity portfolio. The Investment Operations management team regularly discusses matters relating to responsible investments.

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 | 45% |
| Review coverage of Varma's entire investment portfolio | 34% |

If a company breaches any of the CSR standards, our first priority is to engage with the company to rectify the detected breaches and change their operating methods.

Responsible Investment

Responsible also visible in the ownership policy

Varma is a major shareholder in Finnish companies. Our [ownership policy](#) describes the expectations Varma has of companies in which it is a major shareholder. The policy covers Varma's equity holdings both in Finland and abroad. Our activities are focussed on companies and themes in which we estimate our expertise can be put to the best use and in which we have significant opportunities to exercise influence.

The ownership policy also includes CSR requirements. In addition to compliance with international norms, we expect the companies in which we have a holding to comply with clear assessment and transparent reporting practices on the impacts of climate change on their business operations, now and in future. We expect reporting, for example, on how climate change is included in the company's governance, strategy and risk management, especially in emissions-intensive industries.

In 2018, we amended our ownership to specify that we analyse and report on climate-related risks in accordance with the recommendations of the [Task Force on Climate-related Financial Disclosures](#) (TCFD), and we encourage our investees to do the

same. Read Varma's TCFD report in the section [Responsibility for the environment – Mitigating climate change](#), p. 42.

Responsible 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 nomination boards.

Participating in the work of nomination boards is a major means of influencing, since Varma influences its investee companies mainly through the appointment of boards of directors. From the owner's viewpoint, the board of directors' role in the company's strategy, risk management and choice of CEO is becoming increasingly important.

Varma was represented in 23 nomination boards in 2018. Memberships in nomination boards are given on [our website](#).

Varma's representative normally also participates in the annual general meetings of Finnish companies in which we have a holding. [We publish our voting decisions in annual general meetings](#).

We expect clear assessment and transparent reporting practices on the impacts of climate change on companies' business operations, now and in future.

'S' stands for socially sustainable investments

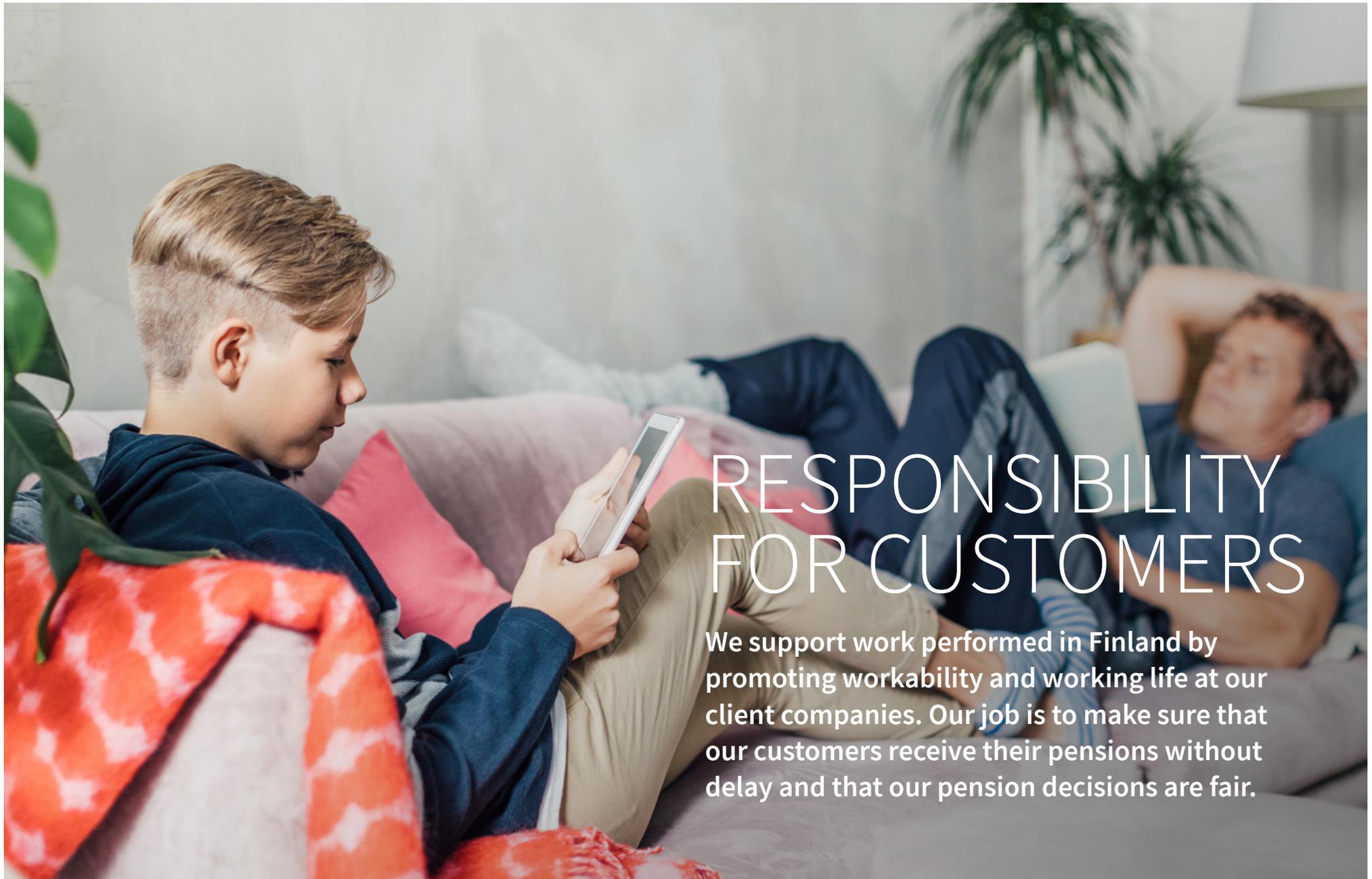
Improving access to medicine is one example of how responsibility for society and social themes – i.e. the 'S' in ESG – shows in investing.

In 2018, Varma joined the group of investors supporting the [Access to Medicine index](#). Access to Medicine is an independent, non-profit organisation whose purpose is to guide pharmaceutical companies to do more to give people in low-income countries better access to medicine.

Product development in the pharmaceutical industry has focussed on the treatment of Western diseases, such as cancer. Developing countries, however, are ravaged by other diseases, such as malaria and HIV, and the index encourages pharmaceutical companies to find cures for those diseases, too.

By the end of 2018, a total of 82 investors had pledged their support to the independent research by signing the Access to Medicine Index Investor Statement. Together, these investors manage assets in excess of USD 11.0 trillion.

[Read more about mitigating climate change in investments](#) >



RESPONSIBILITY FOR CUSTOMERS

We support work performed in Finland by promoting workability and working life at our client companies. Our job is to make sure that our customers receive their pensions without delay and that our pension decisions are fair.

CORRECT PENSIONS ON TIME

Smooth implementation of pension cover is our core task and the cornerstone of our CSR programme.

We pay pensions correctly and on time to a growing number of pensioners

We aim to provide our pension and rehabilitation customers with expert advice and sufficient information, and with swift and correct pension decisions. 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.

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.

We process pension applications swiftly

Varma has been improving the processing of pension applications in order to speed up the process. Our efforts have proved very successful in recent years. In 2015–2018, the average processing time has been shortened from 60 days to 31 days. That is 9 days quicker than the average for the sector.

In 2018, applicants received an old-age pension decision from Varma on average in three weeks. The decision can be made within a few days, if all the required information is submitted with the application.

The smooth processing of pensions is based on a process which has been fine-tuned using the Lean methodology, an efficient IT system, automation, software robotics, and our specialists' competence.

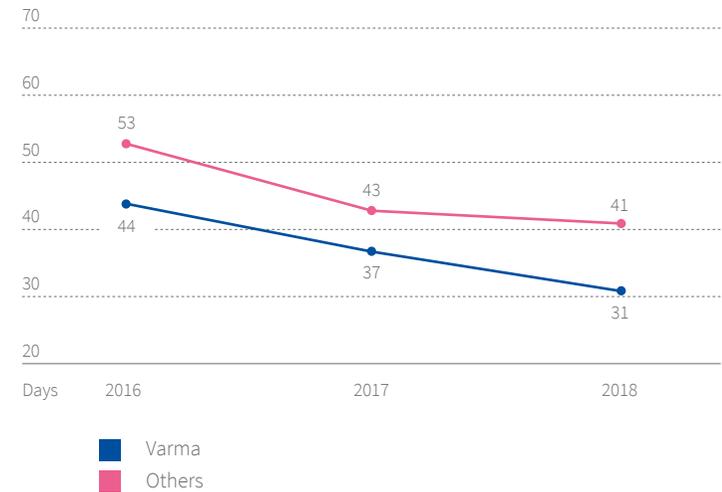
Pension reform introduced two new types of pensions

Pension reform took effect in 2017. The reform raises retirement ages by three months per age cohort. Part-time pension was replaced by partial early old-age pension, and another new type of pension is the years-of-service pension.

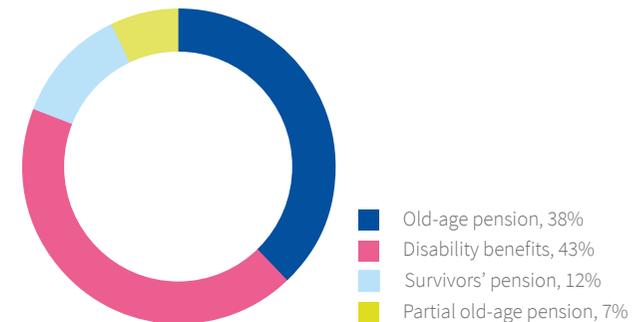
Those retiring on partial old-age pension may receive part of their pension before the actual retirement age, at the earliest at the age of 61. This will, however, reduce the amount of the person's final pension. The popularity of the partial early old-age pension levelled out from the peak in 2017: the number of applications totalled 1,980 (2,705) in 2018.

Positive years-of-service pension decisions at Varma totalled 10 in 2018. The stringent criteria for the years-of-service pension include, for example, a 38-year-long career performing physically or mentally strenuous work, and workability must be reduced by illness.

Pension application processing in days



Pension decisions (%)



Pension decisions are made 9 days quicker than the average for the sector.

CUSTOMER SERVICE

All matters can be handled electronically

Varma’s private and corporate customers have a wide range of online services for different needs at their disposal.

We offer all pension applications in digital format. Our customers have embraced the online service: 63% of all old-age pension applications in 2018 were submitted electronically to Varma, and the volume is strongly increasing every year.

Our pension and rehabilitation customers can choose the e-customer option, which allows them to check their pension or rehabilitation decision in our eServices. 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. Pension records can also be checked in our eServices. Customers who have not opted for an electronic pension record receive the record by mail every three years.

In 2018, we became the first private earnings-related pension insurance company to offer an electronic employee pension card to our pensioners. The employee pension card serves as

proof of retirement and entitles the holder to pensioner discounts. Customers can save the employee pension card on their smart phone or tablet, eliminating the need to carry a separate plastic card on them.

If an employee customer of ours feels that his/her workability has deteriorated, he/she can assess their own situation and possibilities using our online tool. The tool is meant for customers who, for example, have been frequently sick or on sick leave.

Our rehabilitation customers now have a revamped digital service at their disposal. The service starts with steering an employee who is experiencing workability problems to apply for rehabilitation, and it covers the entire path until the end of the rehabilitation.

Varma has also launched a peer support service for its rehabilitants for sharing their rehabilitation experiences with others. The purpose of the service is to help people who are in a similar situation. A story shared by a fellow rehabilitant may help someone else to understand the kinds of situations where rehabilitation is beneficial.

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. The electronic insurance application was revised so as to meet the requirements of the Incomes Register.

Our Workability Management Information Service assists in the planning of workability management. The service enables e.g. the monitoring, comparison and forecasting of the personnel’s age structure, pension amounts and the development of related costs.

Through the OnnistuYrittäjänä.fi service our customers can conveniently take care of their 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 chat.

In 2018, Varma made preparations to align its digital services with the requirements of the European Accessibility Act. Our online services were audited by a third party, who assessed

Net Promoter Score (NPS), on a scale of -100 to +100

| | 2018 | 2017 | 2016 |
|-------------------------------------------------------------------------|------|------|------|
| Pension Services’ phone service | 71 | 71.8 | 68.2 |
| Pension Services’ application and payment processing | 62.8 | 64.4 | 68 |
| Client companies’ likelihood of recommending Varma as a pension company | 62.1 | 65.3 | 64.1 |
| Phone service for client companies | 71.7 | 71.4 | 64.6 |
| Email service for client companies | 47.3 | 48.9 | 39.8 |
| Account and development managers’ contact with clients | 79 | 76 | 73.1 |
| Benefits of Workability Management Services | 52.8 | 52.7 | 54.2 |
| Business property customers | 57 | 52 | 51 |
| Residential tenants | 47 | 51 | 53 |

Varma’s private customers can influence our service development as part of a customer jury. Jury members can assess our services and propose development ideas.

Customer Service

the extent to which our digital service fulfil the accessibility requirements. The accessibility deficiencies identified in the audit will be rectified by September 2020, as required by law.

Best customer service in Finland

We monitor the correctness and fairness of our pension decisions, the decisions made by appeals bodies, and the smoothness of our services. While pension applications are processed faster, the processing quality has remained excellent, as reflected in the commendable results of our customer satisfaction survey.

Our customers are very pleased with the service we provide. For the second time, Varma's phone service for pension customers was ranked number one in the large companies' category of the 2018 Voice of the Customer survey (in Finnish). Varma's Insurance Services for companies and entrepreneurs also fared well in the survey.

The Net Promoter Score is used with both client companies and private customers. The results show that our customers' recommendation likelihood was high in 2018. A score of over 60 for the phone service is considered especially good.

Varma's private customers can influence our service development as part of a customer jury. We started to assemble the customer jury in 2018. We invite members of the jury to take part in surveys where they can rate our services and share their experiences and ideas for improving the services. Customers can sign up for the jury online.

We pay the best client bonuses

Thanks to our strong solvency and efficiency, we pay the best client bonuses in the sector, which lower our clients' insurance contributions. EUR 153 million, or 4.3% (4.7%) of employers' TyEL contributions, will be paid out as client bonuses for 2018.

The loading profit for 2018 will be returned in full to customers as client bonuses, in accordance with the common regulations in the sector. In 2018, we used 60% (67%) of the expense loading component included in insurance contributions.

The principles for allocating client bonuses were changed in 2018. In future, Varma will allocate the loading profit to the client groups that generate the surplus.

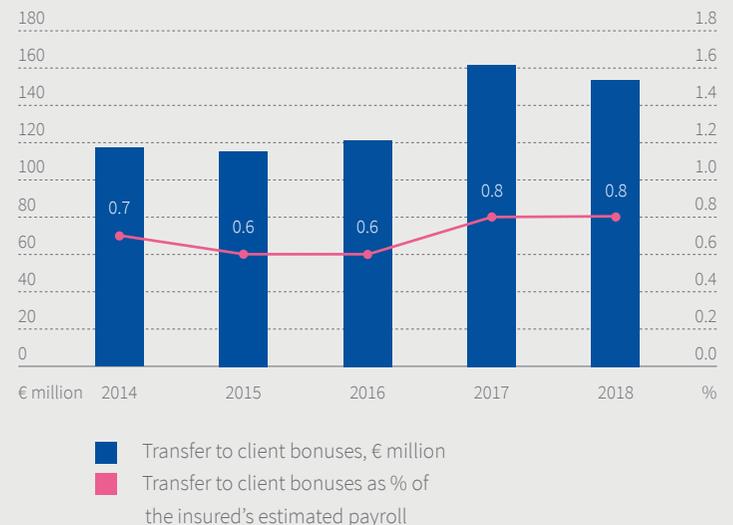
The client-specific bonus is affected by the TyEL payroll insured with Varma and the fund accumulated from the TyEL insurance contributions paid to Varma. Varma will continue to reward long-term customer relationships with better client bonuses.

Varma is by far the most efficient earnings-related pension insurance company, which together with good solvency, guarantees the best client bonuses in the sector.

Loading profit (€ million)



Transfer to client bonuses 2014–2018 (€ million)



Customer Service

Our customers submit earnings information to the Incomes Register

The Incomes Register is maintained by the Finnish Tax Administration, and it was introduced at the beginning of 2019. The Incomes Register concerns all those who pay salaries.

In future, employers will report earnings in close to real time and only to the Incomes Register. Varma will receive consistent and up-to-date earnings information from the Incomes Register, which will enable smoother payment of pension contributions. Employers can adjust the invoicing frequency through Varma's eServices.

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

Varma has been carefully preparing for the Incomes Register. Varma employees have been training themselves to help customers adapt to the changes and new operating models. Training our customers and communication have been important in terms of getting prepared.

Read more about the [Incomes Register](#).

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 and webinars so



that they can benefit from one another's competence and success.

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

The Incomes Register was introduced at the beginning of 2019. It concerns all those who pay salaries.

Responsible customer work a development area in 2018

What is responsible customer work and how could we further improve in this area?

These are questions we discussed in our business areas in 2018. The workshops examined the elements of good and responsible customer work from the perspective of lessees of flats and business premises, and in terms of pensioners' and corporate customers' services.

In future, we will pay attention to, among other things, how we could improve dialogue with our customers and how we could, together with our customers, operate more environmentally friendly. We will also share tried and tested CSR practices and tips relating to, e.g. work culture and personnel diversity, with our corporate customers.

WORKABILITY MANAGEMENT AND REHABILITATION

Taking control of disability risks on time

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.

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 5.9 (10.5) million in 2018.

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 2018, we had ongoing workability management co-operation projects in nearly 600 client companies, and they covered around 296,000 employees and supervisors.

In 2016, the Finnish Financial Supervisory Authority issued guidelines on how earnings-related pension companies' should provide services for managing disability risks. These guidelines were integrated into Varma's processes and e-services. As of April 2017, Varma has published information on its new well-being at work contracts on its [website](#).

Varma works in close co-operation with occupational health-care providers. Together with the private health-care clinics Terveystalo and Mehiläinen, we have developed tools for knowledge-based management which bring together Varma's and service providers' data. This allows more efficient management of workability risks.

In 2018, we added new questionnaire tools to the Workability Management Information Service. The tools help identify various risks relating to workability and workability management well in advance, even 5–7 years before they start to show in sick leave and workability statistics. The new questionnaire tools are suitable for both small employers and large corporations.

Some of our corporate customers piloted new sensor technology as a tool for workability management. The pilot involved monitoring employees' muscle strain in different tasks through smart clothing.

Rehabilitation helps people continue in working life

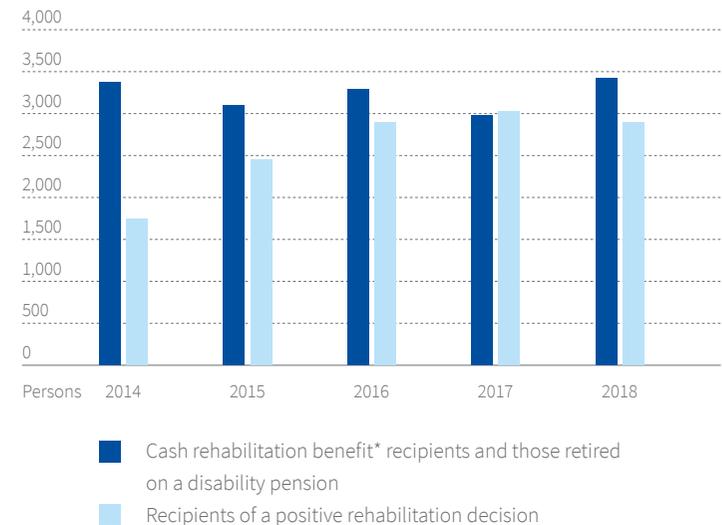
Vocational rehabilitation gives people the opportunity to continue in working life if an illness makes it difficult to continue working as an employee or entrepreneur. It may take the form of work trials, job coaching, vocational training or a business subsidy.

Varma's rehabilitation work produces results. In 2018, 76% of those who received rehabilitation returned to working life. We spent EUR 45.7 million



Approximately 76% of our rehabilitation customers returned to working life in 2018.

New disability pensions and rehabilitants (persons)



* Fixed-term disability pension

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

Workability management and rehabilitation

on rehabilitation – which translates to estimated savings in pension expenditure of EUR 494.4 million.

In 2018, we introduced a new model for returning to working life aimed at mental health rehabilitants. The model is intended for rehabilitants who are returning to work after a period of receiving the cash rehabilitation benefit. There are several options where the work trial can take place, and the rehabilitant can be eased back into work. He/she will be appointed a personal job coach who will provide support throughout the journey.

Disability pensions have been declining in the past 10 years, but in 2018, there was a turn, and the number of new applications increased 12%. Potential explanations for this are the so-called active model for unemployment security, workability challenges appearing as a result of the improved employment rate, and changing work life. As regards the reasons for disability, mental health disorders are on the rise, both among those under 45 and over 60 years of age.

Since 2010, the number of positive rehabilitation decisions has doubled. In 2018, Varma made around 2,900 positive rehabilitation decisions, which represents an increase of 16% from the previous year. Varma’s support helped 1,400 rehabilitants return to working life.

In 2018, Varma rejected 33% (33.4%) of new disability pension applications. The rejection rate for all earnings-related pension companies was 31.5% (33.7%) in 2018. The Pension Appeal Board chan-



ged Varma’s disability pension decisions in 13.9% (13.1%) of the cases it handled. The corresponding rate for the entire private sector was 13.2% (14.1%).

Early intervention measures have an impact on the number of disability pensions. As an example, occupational

health-care providers can contribute by more readily intervening in prolonged absences due to illness.

In 2018, the average disability pension contribution category of Varma’s client companies was 3.7 (3.7).

Vocational rehabilitation helps people continue in working life if their workability is jeopardised by an illness.

RESPONSIBILITY FOR VARMA EMPLOYEES

Our success is based on our competent employees, who take care of our customers' pension cover. For us, responsibility for our employees means a flexible and modern work culture, continuous competence development, equal treatment and taking care of workability.



AN AGILE WORK CULTURE THAT FOSTERS RESPONSIBILITY

In 2018, we focussed on developing self-management skills and diversity, and introducing a new compensation system, among other things. 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.

We believe that a good employee experience is the key to customer satisfaction and Varma's success.

A modern and attractive work culture gives us a competitive edge. The slogan for our work culture is "Agile responsibility bearers", which builds on a foundation of mutual trust and bearing responsibility for the productivity of our work. Flexible working-hour arrangements improve efficiency and allow employees to influence their day-to-day lives. Work is performed wherever one achieves the best results.

In various employee surveys, Varma employees have expressed an interest in flexible working hours, remote working opportunities and an independent approach to working. We have been developing our work culture with determination and a long-term view. Almost all Varma employees have participated in workshops aimed at developing the

work culture of their function and team together with colleagues.

The development of a flexible and modern work culture has gone hand in hand with the renovation of our premises. Salmisaari's activity-based office takes into account different work situations, easy personal interaction and the possibility to perform work independent of place. For our customers we are available regardless of place.

In 2018, our work culture efforts focussed on clarifying the roles of specialist and supervisors, and developing leadership. In Varma's work culture, specialists are behind the wheel, and they are responsible for getting the job done, while supervisors are the co-drivers, anticipating, monitoring progress, and giving feedback.

There is a lot of debate in the financial sector about the effects of robotisation and artificial intelligence, and the

We credit our new work culture with reducing employees' brief absences due to illness by 18% in one year.

Personnel

| | 2018 | 2017 | 2016 |
|--------------------------------------------------------------|-----------|----------|----------|
| Personnel 31 Dec. | 553 | 554 | 564 |
| * permanent | 529 | 532 | 538 |
| * fixed-term | 24 | 22 | 26 |
| * full-time | 515 | 511 | 515 |
| * part-time | 38 | 43 | 49 |
| Women/men (%) | 71/29 | 72/28 | 72/28 |
| Personnel covered by collective bargaining agreements (%) | 88 | 88 | 89 |
| Average age | 47 y 2 m | 47 y 3 m | 47 y 8 m |
| Average age of retirement on old-age pension | 63 y 10 m | 63 y 7 m | 64 y 0 m |
| Average service period | 14 y 5 m | 14 y | 15 y 4 m |
| Personnel turnover rate (%) | 8.1 | 8.8 | 4.4 |
| Exit turnover rate (%) | 8.5 | 8.6 | 8.0 |
| Sick days/employee | 7.1 | 8.0 | 8.6 |
| Occupational accidents | 4 | 4 | 2 |
| Training days/employee | 2.5 | 2.2 | 2.7 |
| Employees covered by performance and development reviews (%) | 100 | 100 | 100 |

An agile work culture that fosters responsibility

loss of certain job profiles. In response to this, we developed coaching for our specialists to encourage each of them to build a future-proof work identity: to assume greater responsibility for the development of their competence and for ensuring their market value.

Something that we credit our new, flexible work culture with is the fact that Varma employees' brief absences due to illness were reduced by 18% in one year.

At Varma, a flexible work culture also means being able to effortlessly balance work and personal life. In 2018, seven per cent of Varma employees were working part-time while they were on, for example, partial child-care leave or part-time pension.

Employee experience and supervisory work continuously monitored

We carry out an employee survey every year. The latest results, from December 2018, show that the PeoplePower Index, measuring employee satisfaction and engagement, rose to 72.2 (71.4), which

equals a good AA rating. This propelled Varma to the list of Finland's Most Inspiring Workplaces.

According to the results, Varma employees are satisfied with their working environment, remote work opportunities, introduction and change management. There is trust in the company's management and future prospects are seen as bright. As areas in need of improvement, personnel considered fair and equal treatment, fairness of compensation, and units' work arrangements.

A key goal for us is to guarantee a high and consistent level of supervisory work for our employees. Varma's supervisors receive continuous training, and feedback on supervisory work is systematically collected through employee surveys. In addition to the annual employee survey, we monitor the development of the employee experience during the year through two Pulse surveys.

Overall, Varma employees are satisfied and have long careers, 14 years on average.

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. Our goal for summer 2018 was to offer as many students as possible their first summer job in their field of study. We invited 100 young adults to group interviews in order to give as many as possible a taste of and guidance in their future job-seeking efforts.

We also want to help young people with disabilities find work. We partnered with the [Vamlas Foundation's](#) project which aimed to find summer work for 101 young people with disabilities in 2018. Vamlas promotes diversity and inclusion of young people with disabilities in schools, studies, hobbies and working life. Varma also employed a disabled young person during the year.

In addition to the annual employee survey, we monitor the development of the employee experience during the year through two Pulse surveys.

COMPETENCE DEVELOPMENT

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. Responding to expectations raised by the transformation of work and providing an excellent customer experience are the focus of our development work. Our specialists are now supported by robotics.

In 2018, 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 and preparing for the EU's new General Data Protection Regulation (GDPR) and the national Incomes Register. Special attention was also given to customer service skills and digital competence.

The entire personnel received training in paying special attention to the requirements of the GDPR. Varma employees have also been coached to identify money laundering and other situations of misconduct in the earnings-related pension insurance business.

The Incomes Register changes the work related to the earnings-related pension sector, and Varma employees were offered diverse training in customer service skills as well as in the systems. We want to ensure a positive customer experience also during the Incomes Register era.

The transformation of work challenges all of us. We want to support Varma's specialists in meeting any future competence requirements.

The ability to learn will be one of the most important tools in a specialist's career. We encouraged Varma's specialists to create future-proof work identities for themselves through special Survivors 2030 coaching.

Some Varma employees have had the opportunity to learn how to work with a robot, as we have extended the use of automation and software robotics in the company. The software robots perform routine tasks in, for example, initial phases of pension application processing and free up time for specialists to broaden their skills in expert tasks and customer service.

We make broad use of various learning methods and tools, such as videos and online learning environments. On-the-job learning and job rotation are efficient ways of developing one's skills and learning new ones.

Varma uses Viima software, a community development tool intended to promote shared and open ideas and innovations. Any Varma employee can enter ideas in Viima concerning the development of our operations for others to comment on. The best ideas are rewarded.

The ability to learn new things is one of the most important tools of a specialist.



EQUALITY AND NON-DISCRIMINATION

Promoting diversity and equality

Fostering equality and non-discrimination is a vital part of Varma's corporate social responsibility.

Every two years we conduct a survey to assess the state of equality and non-discrimination at Varma. On the basis of the results of a survey carried out in spring 2018, transparency and fairness in compensation, promoting gender equality in career development, equal treatment of Varma employees of different ages and at different career stages, increasing diversity and reinforcing zero tolerance for inappropriate conduct were identified as key areas of improvement. 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 priority areas identified together with the employees are used to draw up an equality and non-discrimination plan, which is discussed by the co-determination committee and approved by Varma's Executive Group.

In spring 2018, the Regional State Administrative Agency performed a routine inspection of non-discrimination practices and plans at Varma. The inspector gave us positive feedback on a non-discrimination plan that reflects Varma as a company and is tailored to the needs of the organisation.

Job evaluation method adds transparency to remuneration

Our employee surveys indicate that Varma employees would like a more transparent and fair system of compensation. We have been developing our pay system and its transparency with determination and a long-term view over the last two years.

In 2017, we introduced a new job evaluation method, which forms the basis for transparently determining an employee's pay level. In addition to the requirement level of the job, the compensation level is influenced by the employee's performance.

The new system of compensation was introduced in 2018, and the criteria were reviewed with each employee. In the discussions, the criteria for the person's job requirement level were reviewed, and his/her performance was assessed using common criteria. The goal has been to increase both personnel's understanding of how their pay is formed and the transparency of compensation. This long-term work has started to pay-off, since in the 2018 employee survey, Varma employees' satisfaction with the competitiveness of their pay level was an area that showed the biggest improvement.

Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2017 and 2018



Women's salaries in relation to men's at Varma in 2018

| Category | Women's average salary as % of men's salary |
|---------------------------------|---------------------------------------------|
| Executive Group (excl. the CEO) | 74 |
| Rest of personnel | 73 |

Equality and non-discrimination

Instructions and steadfast intervention promote a harassment-free work community

Varma employees' observations and experiences of inappropriate conduct are regularly explored through both employee surveys and equality and non-discrimination surveys. In 2018, we underlined Varma's zero tolerance policy towards inappropriate conduct through guidance, training and communication. This means inappropriate conduct is not permitted under any circumstances and that HR and supervisors intervene steadfastly in all cases that are brought to their attention.

Together with their teams, all function and department heads reviewed the guidelines on how to proceed if one experiences or observes inappropriate conduct. We also added information and instructions to the online course on ethical behaviour concerning how to act in harassment situations. The course is compulsory for all Varma employees.

Gender equality being monitored

Varma is a member of FIBS' 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 have signed the Charter, 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.

Equal representation of both genders has not been realised in the best possible way in recent years, especially in Varma's management and governing bodies; in the Executive Group, for example, the share of women has been markedly lower than that of men.

In 2017, we agreed on targets and measures for promoting equality at Varma. Our target is to have a minimum of 40% representation of either gender in Varma's Executive Group and middle management by 2022. We aim to achieve this, for example, by ensuring that when new persons are recruited to the Executive Group or middle management, both genders are represented in the final three candidates according to the 'comply or explain' principle. This recruitment policy is also applied to other recruiting activities, and it is reported on annually.

The equality targets and measures seem to be working, as in 2018 women's share in middle management rose to 38%. The gender distribution in the Executive Group is also becoming more balanced.

Support for non-discriminatory career development is also taken into account in the leadership coaching and talent management project for

specialists, which will be launched in 2019.

Every two years, we carry out a pay survey to determine whether gender equality is being implemented in our compensation system. The company-level difference between the average salaries of male and female employees at Varma are largely attributable to the fact that the number of women is proportionally higher in jobs with lower requirement levels.

An analysis carried out in autumn 2018 showed that there is still a clear gap between the average salaries of men and women, but also that we have been heading in the right direction over the last two years. When salaries are viewed by job requirement category, pay equality is achieved to a clearly higher degree. There are no clear differences between genders in performance-based remuneration.

Equal remuneration is developed, for instance, by paying special attention to female employees' pay level and pay development, especially in more demanding positions. The new compensation system also promotes equality.

Striving for a diverse workplace that values individuality

One of our goals in 2019 is to increase diversity at Varma – this is something that Varma employees have called for in our equality and non-discrimination

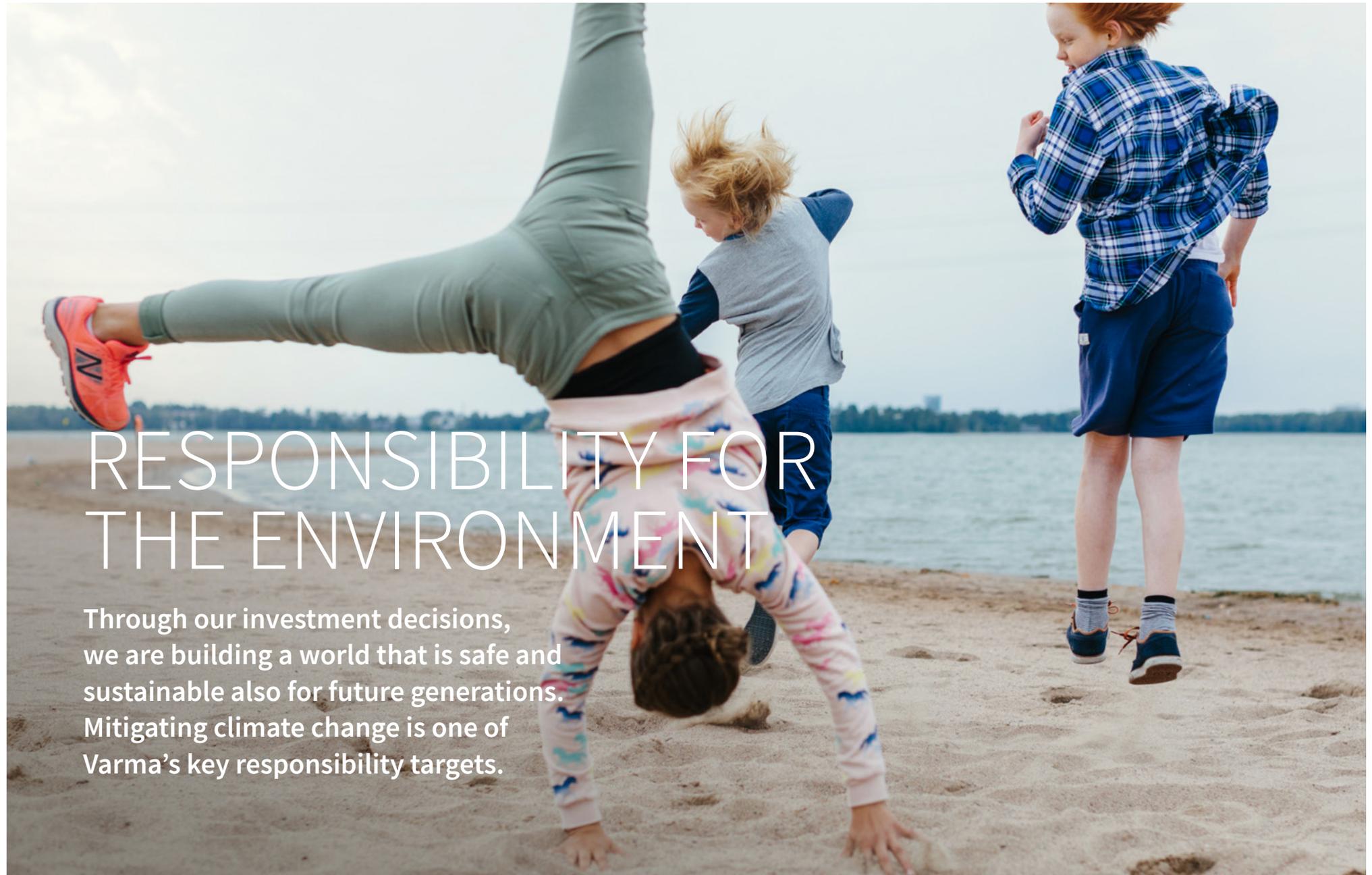
surveys. For us, diversity means taking into account different backgrounds, skills and abilities. We believe that when you can be your true self at work, you have better chances of reaching your full potential.

Compared to other companies operating in the Helsinki metropolitan area, the number of ethnic minorities employed with Varma is low. This is in part due to Varma's national character as an earnings-related pension company and the fact that our work language is Finnish.

Increasing diversity means that we offer job opportunities, for example, to disabled people and other minorities. We also strengthen Varma's culture of open dialogue and, as part of this, employees' courage to express their views and disagree with their supervisor.

Our goal is to foster a corporate culture that values diversity in the workplace and where everyone is free to be themselves. We are also an official partner of Helsinki Pride, and in 2018 we organised training on taking sexual and gender minorities into account at the workplace for our employees.

We believe that when you can be your true self at work, you have better chances of reaching your full potential.



RESPONSIBILITY FOR THE ENVIRONMENT

Through our investment decisions, we are building a world that is safe and sustainable also for future generations. Mitigating climate change is one of Varma's key responsibility targets.

MITIGATING CLIMATE CHANGE IN INVESTMENTS

Mitigating climate change is one of Varma's key responsibility targets. Our efforts have paid off: the carbon footprint of our investments is now clearly smaller, and we were ranked among the best in a global climate comparison. The environmental impacts of Varma's own operations are also closely monitored.

Climate change is one of the most critical factors that investors must prepare for. It will have substantial financial, social and environmental implications for current and future generations. Climate change is also shaping the business opportunities of different industries and influencing future investment valuations.

In 2018, Varma came in fifth place in an international comparison by the Asset Owners Disclosure Project (AODP), which assesses the world's 100 largest global pension funds' approach to climate-related risks and opportunities.

AODP is an international, independent organisation that assesses the world's largest institutional investors by their capacity to respond to climate-related risks and opportunities. The climate index ranks the world's 100 largest global pension funds.

Varma came in fifth place in an international climate index, which assessed the world's 100 largest global pension funds' approach to climate change.



CLIMATE RISKS AND OPPORTUNITIES ACCORDING TO THE TCFD RECOMMENDATIONS

Varma is committed to supporting TCFD (Task Force on Climate-related Financial Disclosures), which outlines and develops methods for companies to report on the financial impacts of climate change. This section includes information on Varma's climate risks according to TCFD.

From an investor's perspective, climate change entails both physical and transition risks, which have an impact on the value of investments. Physical risks are divided into acute and chronic risks, which refer to the challenges that climate change poses to companies and society, such as unexpected damage caused by extreme weather events or the depletion of natural resources in the longer term. Transition risks refer to changes, for example, in regulation, technology and consumer behaviour that the transition to a lower-carbon economy entails.

On the other hand, climate change also presents investors with opportunities. For instance, companies developing technologies to mitigate climate change or solutions to facilitate the transition to a low-carbon economy may offer investors good return opportunities.

Climate risk management and strategy

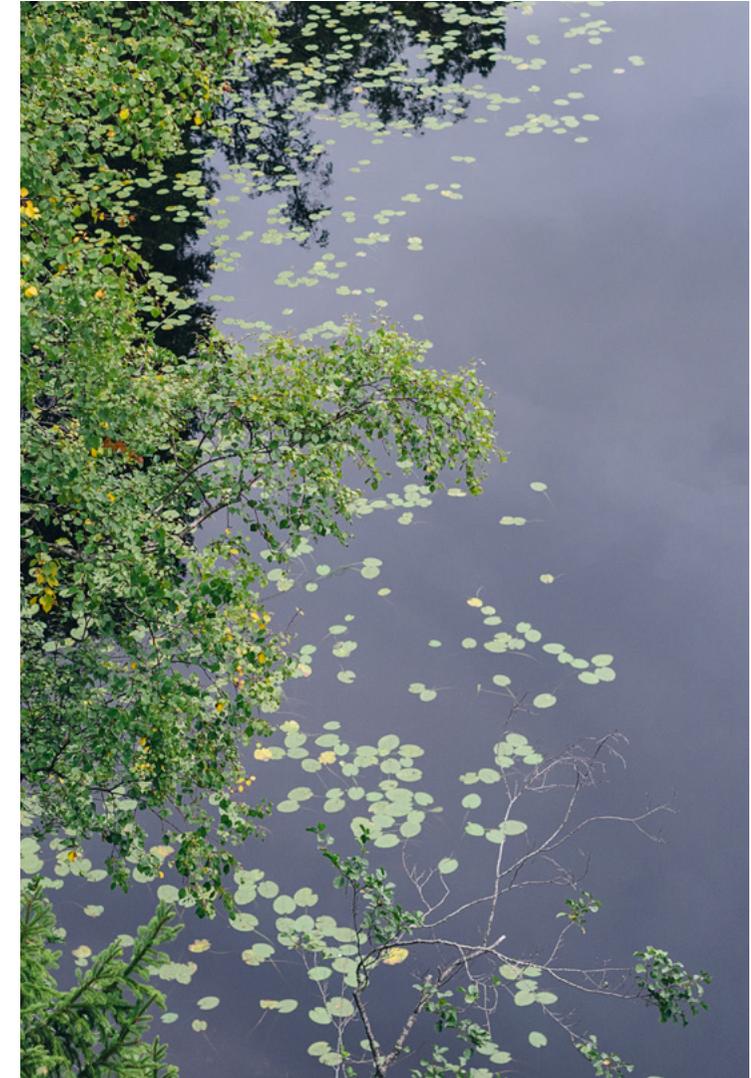
Responsibility is a strategic theme for Varma, and mitigating climate change is

one of the company's key responsibility targets. Climate issues are a key focus when CSR issues are annually reported to Varma's Board of Directors. The Executive Group also discusses CSR issues at least once a year.

On a company-wide level, the CIO is in charge of monitoring the climate impacts of investments. The head of each asset class is in charge of the practical application of the responsible climate targets. Additionally, Varma's director of responsible investment develops and co-ordinates, together with his/her team, responsible investment and climate change mitigation in different asset classes, and is in charge of investment decisions for the sustainable equity portfolio. The Investment Operations management team regularly discusses matters relating to responsible investments.

Climate risks are handled in both the investment plan and the risk and solvency assessment. Investment activities are also steered by the [climate policy for investments](#), in which we have committed to developing our

Companies developing solutions to facilitate the transition to a low-carbon economy may offer investors good return opportunities.



Climate risks and opportunities according to the TCFD recommendations

investment operations so that our investments are aligned with the target of the Paris Agreement. We have also set targets for reducing the carbon footprint in our direct investments. Separate climate targets and actions have been set for each asset class, and these are reported on annually in our CSR report.

Information on climate-related policies – e.g. exclusions and enhanced ESG monitoring – is also given in Varma's [Principles for Responsible Investment](#), which have been approved by Varma's Board of Directors.

Our goal for 2019 is to update our climate targets and publish a revised climate policy.

Engaging with investees

For an investor, one means of managing climate-related risks is to engage with the investees. In our [ownership policy](#), we guide companies to report transparently on the current and future impacts of climate change on the company's operations and growth potential. In essence, we are guiding the companies to report according to the TCFD recommendations. They should report on how the impacts of climate change are included in the company's

governance, strategy and risk management, especially in emissions-intensive industries. Reporting on the targets and indicators set by the investee company makes it easier to monitor the company's progress.

A typical channel for engagement is meetings with investee companies. We have around 500 company meetings annually, and in the meetings, we explore how they take climate change mitigation into account in their operations.

In addition to direct contacts, we engage globally, together with other investors, through various collaborative initiatives and pledges. In 2018, for example, we joined the [Climate Action 100+ initiative](#) where investors collectively engage on a global scale with the largest corporate greenhouse gas emitters to ensure that the targets of the Paris Agreement are met. We also joined the PRI Oil and Gas Engagement initiative for institutional investors. The initiative aims to influence oil and gas companies to take the Paris Agreement into account in their operations.

Varma has joined the Montréal Pledge initiative, in which investors commit to measure and publicly disclose the carbon footprint of their listed

equity investments annually. We have also signed the [CDP](#), which compiles data on companies' greenhouse gas emissions and other climate-change-related data.

In 2018, we were active in various networks that fight climate change. Examples of these are the [Climate Leadership Coalition](#) and [Climate Partners](#).

Climate targets, indicators and measures

Negative screening and enhanced ESG monitoring

On the basis of mitigating climate change, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 30% of their net sales. We also do not invest in coal mining operations, and our holdings in oil stock are negligible, at 0.34%.

We also apply enhanced ESG monitoring to industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat production, and the automotive, mining, concrete and transport industries. The enhanced ESG analysis also applies to companies with coal- or lignite-based operations generating 15–30% of their net sales.

TCFD is a framework for reporting climate issues

In 2017, the Task Force on Climate-Related Financial Disclosures expert group published its recommendations concerning improved identification of climate-related risks and opportunities by financial markets. The TCFD group was commissioned by the Financial Stability Board (FSB), which was established by the G20 countries. The FSB monitors and makes recommendations on the global financial system.

The TCFD framework promotes the harmonised disclosure of climate-related risks and opportunities by businesses. According to the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

Varma constantly analyses the financial risks and opportunities brought by climate change, and develops its reporting on climate risks in accordance with TCFD's recommendations. We encourage the companies in which we have a holding to do the same.

Varma has excluded companies that rely on coal- or lignite-based operations for more than 30% of their net sales.

Climate risks and opportunities according to the TCFD recommendations

Tracking the carbon footprint of investments

A key indicator in the management of climate risks is the carbon footprint, which is measured for direct equity investments, listed corporate bonds and direct real estate investments. The goal stated in our climate policy for investments, which was published in 2016, is to reduce, by 2020, the carbon footprint of our equity investments by 25%, that of our corporate bond investments by 15%, and that of our direct real estate investments by 15% from the 2015 level. We also compare our carbon footprint to the benchmark index. Our long-term goal is to align our investments with the targets of the Paris Agreement.

In 2018, the carbon footprint of equity investments was down 17%, the carbon footprint of corporate bond investments was down 28%, and the carbon footprint of real estate investments was down 17% from the 2015 level. Compared to the benchmark index, the carbon footprint of equity investments was 27% lower and that of corporate bonds 47% lower.

The significantly lower carbon footprint of corporate bonds is due to the divestment of the largest emitters in the portfolio and investments in more climate-friendly companies.

The carbon footprint of Varma's equity investments is vulnerable to changes in equity investments in emissions-intensive industries, and the carbon emissions of equities did rise in 2018, due to, for example, the slightly lower share of low-emissions industries in Varma's equity portfolio and an increase in the share of higher-emitting industries, such the forest and construction industries.

The significantly lower carbon footprint of corporate bonds is due to the divestment of the largest emitters in the portfolio and investments in more climate-friendly companies.

The carbon footprint of real estate slightly increased as a result of the higher emission factor for heat. The higher factor is due to the increased proportion of fossil fuels in the generation of district heat that we use.

As of 2019, we will monitor and report on the carbon footprint of our investments in accordance using the indicator recommended by TCFD, i.e. we will examine the weight of different companies in Varma's portfolio.

The carbon footprint of Varma's investments

| Listed equity investments | 31 Dec 2018 | 31 Dec 2015 | Change | Varma vs. index |
|--------------------------------------------------|------------------|-------------|--------|-----------------|
| Carbon intensity | 124 | 163 | -24% | - |
| Carbon footprint in relation to revenue | 196 | 237 | -17% | -27% |
| Market value (EUR bn) | 11.1 | 10.8 | 3% | - |
| Carbon footprint (tCO ₂ /e) | 1,431,053 | 1,810,908 | -21% | -29% |
| Carbon footprint in relation to invested capital | 129 | 168 | -23% | -29% |
| Weighted carbon intensity (TCFD) | 189 | - | | |

| Listed corporate bonds | 31 Dec 2018 | 31 Dec 2015 | Change | Varma vs. index |
|--------------------------------------------------|------------------|-------------|--------|-----------------|
| Carbon intensity | 96 | 171 | -44% | - |
| Carbon footprint in relation to revenue | 156 | 217 | -28% | -47% |
| Market value (EUR bn) | 3.7 | 3 | 23% | - |
| Carbon footprint (tCO ₂ /e) | 1,118,218 | 1,535,094 | -27% | -53% |
| Carbon footprint in relation to invested capital | 306 | 515 | -41% | -44% |
| Weighted carbon intensity (TCFD) | 106.00 | - | | |

| Direct real estate investments | 31 Dec 2018 | 31 Dec 2015 | Change |
|---------------------------------------------------------------------------------------------------------------------|---------------|-------------|--------|
| Carbon footprint (tCO ₂ e) | 43,579 | 58,050 | |
| Share of flats | 20% | 18% | |
| Share of business properties | 80% | 82% | |
| Carbon footprint in relation to gross square metres (CO ₂ kg/gross m ²) | 27.9 | 33.8 | -17% |
| Carbon footprint of flats in relation to gross square metres (CO ₂ kg/gross m ²) | 22.6 | 27.2 | -17% |
| Carbon footprint of business premises in relation to gross square metres (CO ₂ kg/gross m ²) | 29.7 | 35.6 | -17% |
| Market value of the real estate portfolio included in the calculation (EUR bn) | 2.2 | 2.2 | |
| Share of flats | 36% | 29% | |
| Share of business premises | 64% | 71% | |
| Sites included in the calculation as % of the market value of the entire direct real estate portfolio | 76% | 66% | |

Climate risks and opportunities according to the TCFD recommendations

Share of industries exposed to increased climate related risk in the investment portfolio

From the perspective of carbon intensity, we have identified the oil & gas industry, electricity & heat production, and the automotive, metals and mining, construction materials and transport industries as industries that are significantly exposed to the climate risk. We have analysed the proportion of these high-risk industries in our listed equity and fixed income investments. At the end of 2018, the total share of high-risk industries in these asset classes was smaller than in the global equity market.

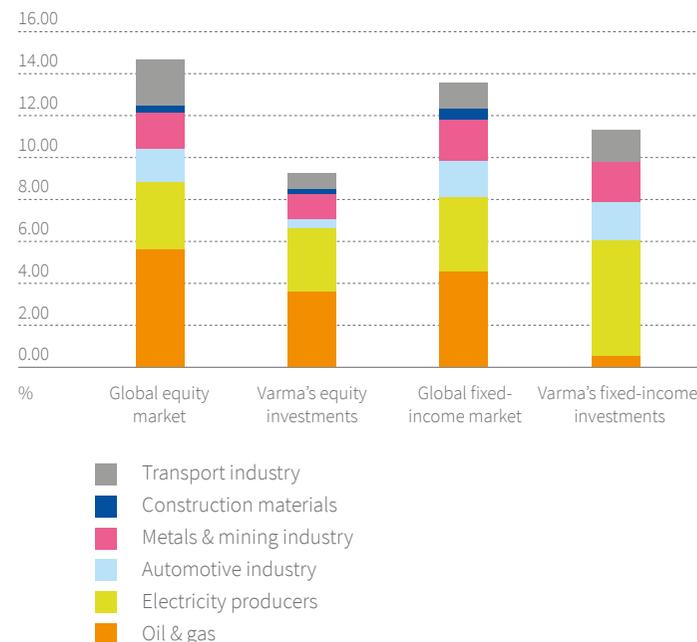
Of the total market value of Varma's investments in listed companies, the share of emission-generating fossil-fuel production was 1.05% in direct equity

and ETF investments and 0.3% in direct corporate bond investments. The corresponding figure for the global equity market was 4.8% in equities and 4.2% in bonds.

Our goal in 2019 is to expand our risk industry analysis to other asset classes and lower the weight of industries that are exposed to the climate change risk in relation to the global equity index. As regards private equity funds, for example, our future goal is for the share of oil and gas companies to not exceed their share in the global equity market. The long-term target is also to align private equity investments with the target of the Paris Agreement.

Targets and actions for climate risk management will be specified in more detail when we revise our climate policy in 2019.

Share of industries exposed to increased climate related risk in the investment portfolio



Our objective is to lower the portfolio weight of industries that are exposed to the climate change risk in relation to the global equity index.

Climate risks and opportunities according to the TCFD recommendations

Scenario analysis

We have determined how well our investment portfolio is aligned with the targets of the Paris Agreement with the help of two scenario analyses. In one analysis, we determined how well our listed equity investments are aligned with different temperature scenarios. The analysis made use of the International Energy Agency's (IEA) scenarios for climate warming (2.7, 2.0 and 1.75 degrees). The results indicate that our portfolio is in line with the under-1.75-degree target, but staying on the right track means lowering the carbon emissions of our investments in the long run.

The other scenario analysis covered different industries in listed companies and bonds. An external service provider determined the extent of Varma's holdings in these asset classes in relation to the International Energy Agency's 1.75°C warming scenario. The analysis showed that in terms of coal, Varma was in line with the climate targets of the Paris Agreement, because Varma has no investments in coal production in direct equity or fixed income investments.

Analysing climate risks in real estate investments

We also had a climate risk analysis carried out on our direct real estate investments in autumn 2018. Of the

real property owned by Varma, 70% is located in the Helsinki metropolitan area. Practically all the buildings are located within a radius of approximately 10 kilometres from the seashore, and thus their climate burden is higher than average. In addition to the risk of a sea flood, slanted rain and strong winds may cause problems in controlling moisture levels in the buildings. In the climate models, the estimate is that the amount of slanted rain on the coastline will increase by 34% by 2100. We take this into account in building condition surveys and facade solutions for new buildings.

Our real estate portfolio was also analysed for sea flood risk. The results show that the risk in Varma's real estate portfolio is low. Varma takes the sea flood risk into account especially in new development projects and when purchasing new buildings.

Climate-change-related opportunities and impact on investment returns

Responsible investment and mitigating climate change apply to all of Varma's asset classes and investment processes.

Varma also has a separate sustainable equity portfolio. It is made up of companies whose operations benefit from climate change mitigation, for instance in technology and renewable energy production. Companies that

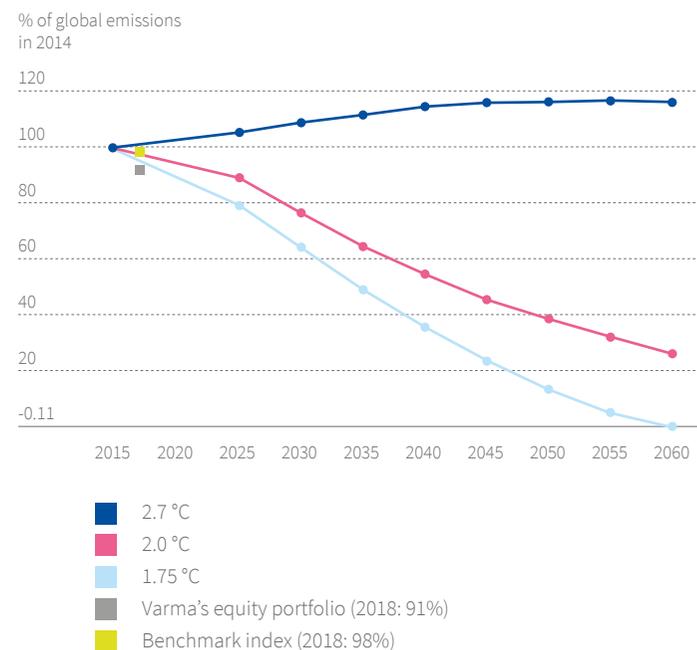
are prepared to make the move to lower-carbon and, in turn, lower-risk operations are also selected for the portfolio.

Varma has also been investing in green bonds. The debt capital raised through the issuance of a green bond is allocated to environmentally friendly investments. By the end of the year, our green bond portfolio was valued at approximately EUR 390 million, accounting for roughly 4.2% of our liquid bond investments.

For investors, modelling the direct impact of climate risks and opportunities on investment returns remains difficult. As the availability of information improves and analysis tools develop, it will also become easier to validate the financial impacts.

When it comes to mitigating climate change, it would also be important for global index investors to shift their focus towards lower-carbon investments. The limited options, especially in listed companies, are making investments in renewable energy more difficult.

Temperature scenarios: level of total global emissions if global equities had the same composition as Varma's equity portfolio



This chart shows the level of total emissions that the global economy would have if it had the same composition as the equity parts of the portfolio and compared this to the global emissions numbers expected under the scenarios that lead to increases of 2.7, 2 and 1.75 degrees Celsius in the global average temperature.

Source: Engaged Tracking

ENVIRONMENTAL IMPACTS OF REAL ESTATE INVESTMENTS

Buildings account for more than 40% of Finland’s GHG emissions. Varma’s goal is to reduce the carbon footprint of its real estate by 15% between 2015 and 2020. By 2025, the goal is to reduce CO₂ emissions by 20%.

The carbon footprint of real estate investments diminished by 17% between 2015 and 2018. 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. In 2018, there was practically no decline in emissions, due to a higher emission factor for heat. This was in part due to the increased proportion of fossil fuels in the generation of district heat that we use.

The carbon footprint of Varma’s residential properties has declined in recent years as a result of switching to green real estate electricity. Our target was to gradually switch to 100% renewable real estate electricity in residential properties by 2019. By the end of 2018, 68% of Varma’s rental flats had switched to green real estate electricity. The conversion rate has been delayed by the fact that the premature termination of some existing electricity contracts has not been possible.

In buildings, carbon dioxide emissions are mainly caused by energy con-

sumption arising from electricity and heat production, which can be reduced by improving the energy efficiency of the buildings. We are committed to both commercial property and rental flat energy efficiency action plans through the Finnish Energy Efficiency Agreement Scheme for the property sector. The agreement period covers the years 2017–2025. Varma pursues a 10% reduction in the properties’ energy consumption by the end of 2025. We have set an intermediate target of 4% consumption savings by the end of 2020.

The consumption of heat and electricity in Varma-owned properties has declined significantly since 2015, while water consumption has risen, mainly as a result of changes in the monitored real estate base. The consumption figures for different years are not fully comparable with each other.

We have been monitoring the waste volumes of the business premises and the carbon dioxide emissions calculated on the basis of this data as of 2018. The calculation includes 32 sites, the total waste volume of which was 3,164 tonnes, and the related carbon dioxide emissions were 865 tonnes of CO₂e.

We also provide our tenants with guidance on sustainable living. We sent all our flat tenants a guidebook on

Consumption data for Varma’s real estate in 2016–2018

| | 2018 | 2017 | 2016 |
|---------------------------------------------------------------|----------------|---------|---------|
| Residential | | | |
| Weather-normalised heat, MWh | 44,590 | 40,845 | 47,849 |
| Water, m ³ ¹⁾ | 339,024 | 292,318 | 375,312 |
| Electricity, MWh | 5,662 | 5,735 | 6,299 |
| Number of sites included in calculation | 58 | 55 | 62 |
| Business Premises ²⁾ | | | |
| Weather-normalised heat, MWh | 106,864 | 118,723 | 82,820 |
| Water, m ³ | 251,391 | 239,634 | 188,460 |
| Electricity, MWh | 85,671 | 89,791 | 68,366 |
| Number of sites included in calculation | 53 | 62 | 60 |
| Business premises ²⁾ and residential, total | | | |
| Weather-normalised heat, MWh | 151,454 | 159,568 | 130,668 |
| Water, m ³ | 590,415 | 531,952 | 563,772 |
| Electricity, MWh | 91,333 | 95,526 | 74,664 |
| Number of sites included in calculation, total | 111 | 117 | 122 |

¹⁾ For residential properties, water consumption includes household water used by the occupants. Water consumption was monitored for 53 flats in 2017.

²⁾ Sites managed by the tenant are not included in monitoring.

Environmental impacts of real estate investments

sustainable living, including concrete tips on saving energy, and recycling and sorting waste.

38 properties have environmental certification

Our climate policy states that our most important buildings will be certified according to the BREEAM environmental rating system by 2025. Environmental ratings are a concrete way to develop the sustainability of real estate.

The quality system is particularly aimed at improving how energy efficiency is monitored and verified. The goal is to achieve a rating of at least “Good” or “Very Good”.

In 2018, fifteen buildings owned by Varma were granted BREEAM In-Use environmental certification, among them shopping centres, a spa hotel and office buildings. At year-end 2018, a total of 38 of our real properties had environmental certification, representing 34% of the real estate base under our direct ownership.

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) 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.

Varma's goal is to install more charging points for electric and hybrid cars in properties under its ownership. In 2018, a total of 15 properties were equipped with charging points.

Solar panels on the roofs of 7 properties

In 2018, solar power was installed in two of Varma’s properties. Solar PV panels were installed on the roofs of Shopping Center Rajalla in Tornio and Sports Center Salmisaari in Helsinki. At the end of 2018, a total of seven Varma-owned properties had solar electricity in use or under construction. Energy aid was received from the government for all of the solar power installations.

Solar electricity accounts for different proportions of the electricity consumption of Varma’s real estate. On average, the proportion has been over 8% in May–August, and around 3% for the whole year.

The properties being equipped with solar systems have been chosen according to type of property, free roof surface and optimal electricity consumption such that electricity generated by solar energy can be fully used in the properties.

We began using solar electricity in our properties in 2016 in order to reduce the carbon footprint of our investments. The life-cycle costs of solar power systems have shrunk and their efficiency has improved, which makes solar power a worthwhile option for reducing the carbon footprint. We continuously look for new sites for solar power systems.

GRESB Assessment for 2018

Varma participates for the first time in the Global Real Estate Sustainability Benchmark (GRESB) Assessment for 2018. We are using the GRESB Assessment as a tool to develop the sustainability of our real estate.

GRESB assesses the sustainability of the entire direct real estate portfolio with respect to sustainability-related risks and opportunities, energy and water consumption, greenhouse gas emissions, environmental management systems and broadly the CSR policies and management in the entire company. The reporting period closes in summer 2019, and the results will be published in September.

Waste from business premises ¹⁾

| | 2018 |
|-----------------------------------------------------------------------|---------|
| Amount of waste (t/a) | 3,164 |
| CO ₂ -emissions caused by waste (tCO ₂ eq/a) | 865 |
| Total gross area of sites monitored for waste, gross m ² | 724,807 |
| Total CO ₂ -emissions caused by waste, kg/brm ² | 1.2 |
| Utilised as material | 54% |
| Utilised as energy | 47% |
| Sites monitored | 32 |

¹⁾ The collection of waste data started in 2018, so there are no reference data available

Varma uses the GRESB Assessment to develop the sustainability of its real estate.

ENVIRONMENTAL ASPECTS OF THE SUPPLY CHAIN AND OUR OWN OPERATIONS

Supply chain survey and responsibility requirements

Our responsibility requirements that apply to suppliers are laid down in the [Supplier Code of Conduct](#), which has been approved by Varma's Board of Directors.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the responsibility requirements. Direct suppliers are obliged to ensure that their subcontractors also comply with these responsibility requirements. It also includes a notification requirement and permission for audits performed by Varma. The Supplier Code of Conduct is attached to contracts.

The Supplier Code of Conduct calls for respect for the environment. We require our suppliers to be aware of their environmental impacts and to take them into account in their operations. Environmental legislation must be complied with, without exception. Particular attention must be paid to assessing, minimising and preparing for environmental impacts, in order to prevent environmental risks.

We encourage our suppliers to use a certified environmental system or a documented operating method for managing their environmental matters. We also encourage them to develop

environmentally friendly solutions. Especially in emissions-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.

Our most significant purchases are related to construction and maintenance of buildings, and to IT systems.

Of our purchases in 2018, 98.8% originated from Finland. The remaining 1.2% originated from the US, the UK, and other countries.

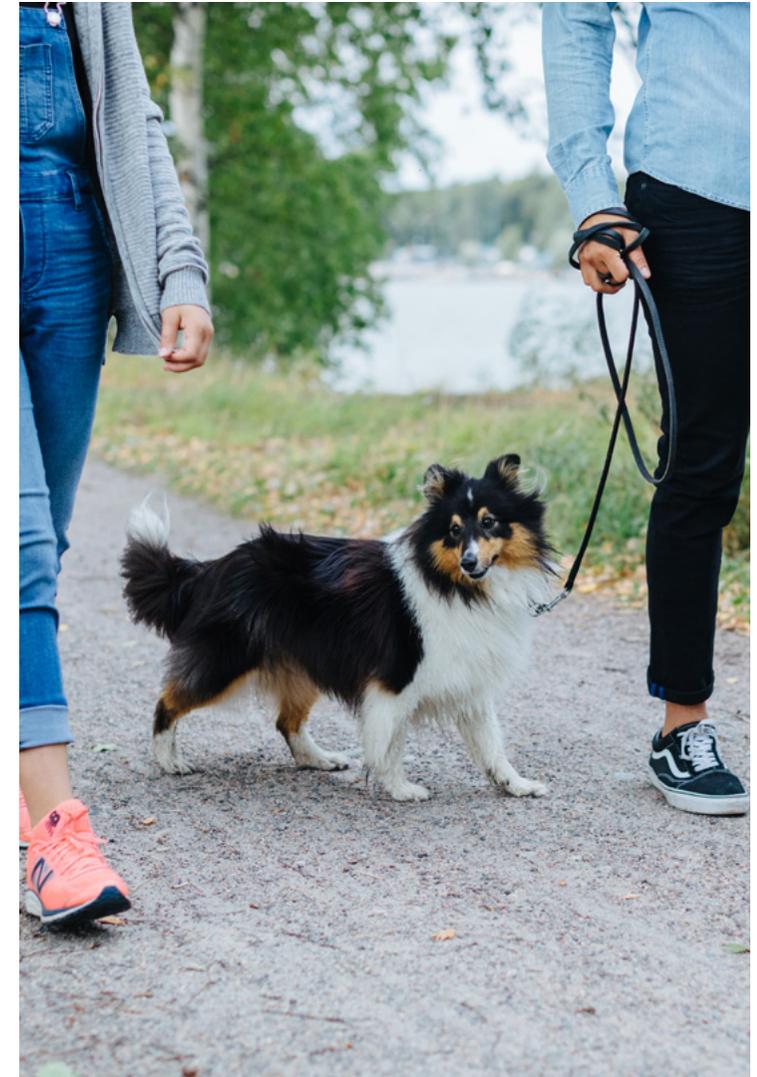
Environmental aspects of our own operations

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 2016, we passed the Green Office audit by WWF, and the Salmisaari office was granted the Green Office certificate. There will be a re-audit in 2019.

Varma's Green Office targets and measures for 2018 related to reducing energy consumption, waste and paper consumption, reducing emissions from commuting, and food waste and purchases.

Especially in emissions-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.



Environmental aspects of the supply chain and our own operations

The carbon footprint of our own operations decreased 34% from the 2015 baseline.

Greenhouse gas emissions from energy consumption at our Salmisaari office were cut by as much as 56% in three years, as a result of switching to green hydroelectricity back in 2016 and having solar panels on the roof of the property. The solar panels generated 6% of all consumed electricity in the summer period, and about 2% during the entire year.

The volume of waste was reduced by nearly 57% over a period of three years. The majority of the waste generated in the building originates from the Fazer Food Service restaurant. The amount of waste from preparing food was reduced as a result of, for example, the restaurant starting to sell its leftovers in 2017.

Paper consumption declined 29% from the previous year. We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies.

Varma has an environmentally friendly company car policy in place, where the CO₂ emissions limit was set at a maximum of 160 g/km under the new Worldwide Harmonised Light Vehicles

Test Procedure (WLTP). Varma offers financial compensation if a Varma employee chooses a low-emission car (below 110 CO₂g/km using WLTP) as their company car.

Eco-friendly motoring is also promoted by the electric-car parking area in Salmisaari's parking facility. It is possible to charge electric or hybrid cars at some 250 parking spots in the parking facility of Varma's head office in Salmisaari, Helsinki. In 2017, Varma and Parking Energy Ltd. installed the charging system, which ranks among the largest in the world. The parking facility houses approximately 250 parking spots, and all spots that can be electrified were connected to the charging system. The smart charging system also withstands the load caused by high-speed chargers. The charging device can be selected according to the user's needs.

Besides Varma, the parking facility is used by other companies in the Salmisaari office campus, e.g. Outokumpu and Wärtsilä.

Varma has arranged good facilities for employees who cycle to work, and encourages the use of public transport for commuting by offering an employee benefit.

EcoVadis assesses Varma's CSR practices as excellent

EcoVadis, an international corporate social responsibility assessment specialist, awarded Varma the CSR Rating Gold in 2018.

Varma's CSR practices were rated as excellent, with its overall score in the top 5% of the 45,000 companies analysed. EcoVadis assesses suppliers of goods and services on their sustainability performance in terms of environment, labour practices, fair business practices and sustainable procurement. The assessment is independent.

Environmental data of Varma's operations

| | 2018 | 2017 | 2016 |
|-----------------------------------|--------------|-------|-------|
| Water consumption, m ³ | 3,316 | 3,500 | 4,380 |
| Electricity, MWh | 1,257 | 1,667 | 2,008 |
| Heat, MWh (weather-normalised) | 2,213 | 1,990 | 2,361 |
| Total waste (tonnes) | 25 | 70 | 60 |
| Carbon footprint tCO ₂ | 1,243 | 1,560 | 1,450 |

The energy consumption of Varma's own operations has declined by as much as 56% in three years, thanks to green electricity and solar panels.



ETHICAL AND TRANSPARENT BUSINESS

Our societally significant role requires transparency from us. Abiding by common rules is an essential part of responsibility for Varma. That is how we ensure that we take care of our core task efficiently and as required by law.

ETHICAL BUSINESS

Knowing and abiding by common rules is an essential part of responsibility for Varma employees. In 2018, Varma employees had refresher training on the Code of Conduct. The entire company also prepared for the EU’s General Data Protection Regulation, which took effect in May 2018.

Varma’s core task, securing pensions, is a significant social mandate that requires a high level of ethics and transparency. 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.

In the Code of Conduct, Varma commits to good insurance practices, making purchases on market terms, combating the grey economy and bribery, and following responsible investment principles, among other things. We are also committed to operating in accordance with the UN’s principles concerning business and human rights and we expect the same from our supply chain. In 2018, we supplemented Varma employees’ Code of Conduct online course with guidelines on what to do if one sees or experiences inappropriate behaviour at the workplace.

The Code of Conduct is complemented by Varma’s other internal guidelines and instructions, which have been drawn up, for example, to guarantee data security and data protection, and to prevent money laundering and

terrorism. Each Varma employee is expected to comply with the principles and guidelines. In case of problems and suspected violations, employees can contact the Compliance Officer.

Responsible supply chain management

In 2017, we surveyed our supply chain to identify responsibility issues. At the same time, we determined the responsibility requirements to be applied to suppliers and drew up the [Supplier Code of Conduct](#).

We require our direct service providers to commit to the responsibility requirements for their own part and also for their entire supply chain.

The Supplier Code of Conduct covers, among other things, good business practices, human rights, occupational safety and health, and respect for the environment. It also includes a notification requirement and a permission for audits. We attach the Supplier Code of Conduct to our contract with suppliers.

Varma’s Compliance function

Through our Compliance function we ensure adherence to laws, the Code of Conduct and other guidelines and to

prevent legal risks from materialising at Varma. As a Compliance Officer, the head of legal affairs is responsible for organising the Compliance function.

Compliance is promoted through the use of online courses, which every Varma employee is expected to complete at the start of their employment and every two years thereafter.

The completion rate is monitored and reported, for example, to the Board of Directors. In 2018, the online Code of Conduct course was completed by 91% and the online IT security course by 94% of Varma’s employees.

Data protection and data security

We process the personal information of the insured, pensioners, rehabilitees and lessees, among others. We tend to the data protection of our private customers by ensuring that the processing of personal data fully conforms to laws, and other rules and regulations. As a Controller, Varma is also responsible for its suppliers’ compliance.

The targets, responsibilities and means of data security management at Varma are defined in the data security policy. Data security management at Varma consists of planning based on

the assessment of data security risks, measures that improve data security, reviewing and monitoring the level of data security, and continuous improvement of data security practices.

In 2018, we did not receive a single complaint concerning customer privacy violations or the loss of customer data.

Preparing for the EU General Data Protection Regulation

The EU General Data Protection Regulation (GDPR) has been applied in the processing of personal data since May 2018.

We prepared for the GDPR by updating our information systems and agreements, documenting our procedures on the processing of personal data, instructing and training our personnel and communicating to our customers how we take the GDPR’s requirements into account in our operations.

We also updated our [online descriptions](#) on the processing of personal data at Varma as required by the GDPR.

Varma has drawn up a Data Protection Policy, approved by the Board of Directors, to steer data protection and data security activities.

Varma’s core task, securing pensions, is a significant social mandate that requires a high level of ethics and transparency.

OPEN COMMUNICATION AND STAKEHOLDER CO-OPERATION

Transparent and open operations

Open and proactive communication is one of the starting points of our CSR programme. The increased transparency of our operations helps strengthen trust in Varma.

The workability activities that earnings-related pension companies offer their clients have raised public discussion in recent years.

As of April 2017, we have published information on our new well-being at work contracts on our [website](#) (in Finnish). The contracts are published quarterly. Varma complies with the Financial Supervisory Authority's guidelines issued in 2016 on how earnings-related pension companies can provide services for managing disability risks.

We report quarterly on the development of our responsible operations as part of our financial reporting. We have also taken into account the statutory requirements concerning the reporting of non-financial and diversity data and published a report on non-financial data as part of the Report of the Board of Directors. In 2018, we also introduced the [TCFD framework](#) as a tool for reporting on climate risk management at Varma.

Securing pensions is a responsibility that is based on trust. Protecting our good reputation is important to us, and we continuously monitor the development of our reputation in T-Media's Reputation & Trust survey. The 2018

results show that Varma's reputation is at a solid average level of 3.32 (3.42). The same survey measures the general public's view of Varma's corporate responsibility. The score in this area was 3.25 (3.42). Our goal is to continuously strengthen our reputation and develop our responsible operations.

In our sponsorships, we primarily focus on long-term co-operation agreements. We provide information on our sponsorship and charitable donation principles on our [website](#).

We do not grant financial support to political parties.

Stakeholder co-operation and responsibility networks

As a major Finnish investor and working life expert, Varma has excellent insight into the economy and Finnish society. This is why we want to engage in open dialogue with different stakeholder groups.

In autumn 2018, we carried out an extensive survey to find out what kind of requests our stakeholders' have concerning our responsible operations and related communication. Above all, our stakeholders expect us to secure pensions and combat climate change. Further information on the survey results is presented in the section [Responsible Varma](#).

Our main stakeholder groups are customers, personnel, members of Varma's governing bodies, authorities

and decision-makers, labour market organisations, sector organisations, non-governmental organisations and the media. Our statutory 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 autumn 2018, we also increased the dialogue with young people by taking part in the Ydinvesti event for students of journalism and communication. Together with the students we explored ways to increase young people's interest towards matters related to pension cover and their trust in the pension system.

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. 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, webinars, the website, chat, social media and publications.

In 2018, our stakeholder groups were interested in the pension reform, the Incomes Register, corporate responsibility and the economic outlook, among other topics. Uncertainties relating to the global economy and politics, as well as Finland's declining birth rate, also raised debate. Climate change and the transformation of working life are areas of ever-increasing interest. We engaged with non-governmental organisations on topics such as mitigating climate change and developing diversity at the workplace.

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

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. We have also joined the Climate Leadership Council and Climate Partners, both of which fight to mitigate climate change.

Together with the students we explored ways to increase young people's interest towards matters related to pension cover and their trust in the pension system.

Interest organisations' membership fees

| | 2018 | 2017 | 2016 |
|-------------------------------|---------|---------|---------|
| Finance Finland (FF) | 311,103 | 376,026 | 344,000 |
| Finnish Pension Alliance TELA | 707,875 | 831,050 | 977,000 |

In 2019, we will also be an official partner of [Helsinki Pride](#). Our aim is to develop non-discrimination and diversity in working life together with the Helsinki branch of Seta, the Finnish LGBT rights organisation.

Communication vision: to be a bold pioneer

In 2018, we worked on the contents of our communication strategy. As the outcome of this work, we aim to be profiled as a bold pioneer.

Varma is a major influencer on the economic, socio-political and business scene. We have a wealth of knowledge, competence and insight into important societal themes, and we strive for more open and bold dialogue. This means that Varma's experts will be expressing their views and interpretations and will propose new initiatives.

In 2019, Varma is an official partner of Helsinki Pride. Our aim is to develop non-discrimination and diversity in working life together with the Helsinki branch of Seta, the Finnish LGBT rights organisation.





REPORTING PRINCIPLES

We ensure the transparency of our operations by regularly and comprehensively reporting on our business and CSR efforts. This Corporate Social Responsibility report has been drawn up according to the GRI standards. Additionally, we report on climate risks in accordance with the TCDF framework.

REPORTING PRINCIPLES

Our Corporate Social Responsibility report has been drawn up according to the GRI standards. The contents of the report are based on a materiality assessment, which was used to identify the most important responsibility factors for Varma.

Varma's Corporate Social Responsibility report has been drawn up according to the international Global Reporting Initiative (GRI, 2016) 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 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.

Stakeholder expectations were assessed and processed by Varma's Executive Group according to their impact on our business, society and the environment. As a result of the materiality analysis, we identified a total of 11 material topics in terms of Varma's responsibility. These topics 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 have been calculated using Bloomberg's tool. The analysis of industries exposed to climate change risk and the temperature scenarios are supplied by Engaged Tracking. The carbon footprint for Varma's own operations has been calculated using the WWF's Climate Calculator.

Climate risks reported according to the TCFD framework

The reporting on climate-related risks follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change

and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

Real estate's sea flood risk analysis is based on the Finnish Environment Institute's (SYKE) data describing the current and future sea flood risk. In the analysis, the real properties were placed on a map on the basis of their location data, and the data concerning the sea flood risk was integrated into the map. Sea level data is based on SYKE's estimate, and ground elevation data on laser scanning.

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 market value of shares owned by Varma is proportioned to the market

value of the entire company, and this ratio is used to allocate the emissions and revenue of the company. Finally, all Varma's shares of the companies' emissions are added together and then divided by the sum of all the shares of the companies' revenues.

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 there is currently no standard concerning the calculation of the carbon footprint of corporate bonds.

In 2018, we also started to monitor the Weighted Average Carbon Intensity as recommended by TCFD. Unlike conven-

Reporting principles

tional carbon intensity calculation, when calculating the Weighted Average Carbon Intensity, the company's carbon intensity is multiplied by its portfolio weight.

The carbon footprint of real estate investments takes into account emissions from energy consumption and, as regards office premises, from water consumption. For electricity and heat, Motiva's emission factors have been used. The emission factor for electricity is 0.164 tCO₂/MWh. The emission factors for heat vary depending on the town or city. In the Helsinki metropolitan area and many other cities where Varma's real estate is located, the emission factor was 0.188 tCO₂/MWh. In Tornio and Hyvinkää, locations of Varma-owned shopping centres, the emission factor for heat was 0.131 tCO₂/MWh. Motiva's factors have been used for electricity and heat. Heat figures are weather-adjusted.

Motiva has not issued emission factors for district cooling or water. In the calculation of the carbon footprint, the emission factor used for district cooling is 15 gCO₂/MWh in Turku and 68 gCO₂/kWh in Helsinki and 2.95 kgCO₂/m³ for water. The emission factors for district cooling were supplied by the local energy companies.

The calculation of the CO₂ emissions of waste takes into account emissions from the collection, transportation, processing, utilisation and final disposal of the waste. Emissions from

the production, distribution and usage of products that end up as waste are not taken into account. Emission factors for the different fractions of waste have been determined according to the Julia 2030 project, in which the factors are based on the Helsinki metropolitan area's waste management system. There is large variation in the emission factors, as 14 different types of waste fractions are monitored. The factors range between 37 and 1405 kgCO₂/waste tonne; the lowest factor is for wood waste and the highest for hazardous waste. Other fractions' emission factors lie somewhere in between.

The scenario analysis is based on IEA's RTS, 2DS and B2DS scenarios, i.e. scenarios for 2.7, 2.0 and 1.75 degrees Celsius.

Integrated report

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.



Varma's CSR focus areas, material topics and boundaries

| Varma's CSR focus areas | Material GRI topics and Varma's own material CSR topics | Reporting boundaries |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Securing solvency | <ul style="list-style-type: none"> Economic performance Indirect economic impacts | <ul style="list-style-type: none"> Varma's own operations Varma's societal impacts |
| Disruption-free implementation of pension provision | <ul style="list-style-type: none"> Disruption-free implementation of pension provision ¹⁾ Customer service ¹⁾ Customer privacy | <ul style="list-style-type: none"> Varma's own operations |
| Open and pro-active communication | <ul style="list-style-type: none"> Stakeholder engagement | <ul style="list-style-type: none"> Varma's own operations |
| Promoting workability and longer careers | <ul style="list-style-type: none"> Promoting workability and longer careers in client companies ¹⁾ | <ul style="list-style-type: none"> Customers |
| Transparent business and administration | <ul style="list-style-type: none"> Ethical business operations Anti-corruption and anti-bribery Public policy Socioeconomic compliance Supplier social assessment | <ul style="list-style-type: none"> Varma's own operations Supply chain |
| Responsibility in investment operations | <ul style="list-style-type: none"> Responsible investment ¹⁾ | <ul style="list-style-type: none"> Varma's investments |
| Mitigating climate change <ul style="list-style-type: none"> in investments in the supply chain in own operations | <ul style="list-style-type: none"> Mitigating climate change in investments ¹⁾ Supplier environmental assessment Energy Emissions Water Waste | <ul style="list-style-type: none"> Varma's investments Supply chain Varma's own operations |
| Varma employees' well-being at work and competence | <ul style="list-style-type: none"> Employment Occupational health and safety Education Diversity and equal opportunity | <ul style="list-style-type: none"> Varma's own operations |
| Cost-efficient operations | <ul style="list-style-type: none"> Cost-efficient operations, loading profit ¹⁾ | <ul style="list-style-type: none"> Varma's own operations |

¹⁾ Varma's own material CSR topic

GRI INDEX

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| GRI 102 | 102-2 Activities, brands, products, and services | Varma in brief, p. 3 | | |
| GRI 102 | 102-3 Location of headquarters | | Salmisaarenranta 11, 00180 Helsinki | |
| GRI 102 | 102-4 Location of operations | Varma in brief, p. 3 | | |
| GRI 102 | 102-5 Ownership and legal form | Varma in brief, p. 3 | | |
| GRI 102 | 102-6 Markets served | Varma in brief, p. 3 | | |
| GRI 102 | 102-7 Scale of the organisation | Varma in brief, p. 3 Key figures, p. 5 | | |
| GRI 102 | 102-8 Information on employees and other workers | Responsibility for Varma employees, p. 37 | | |
| GRI 102 | 102-9 Supply chain | Environmental aspects of our own operations and the supply chain, p. 51 Ethical business, p. 54 | | |
| GRI 102 | 102-10 Significant changes to the organisation and its supply chain | | No significant changes | |
| GRI 102 | 102-11 Precautionary Principle or approach | Risk management (Report of the Board of Directors and Financial Statement), p. 39 | | |
| GRI 102 | 102-12 External initiatives | Responsible investment, p. 26 Climate risks and opportunities according to TCFD, p. 45 | | |
| GRI 102 | 102-13 Memberships of associations | Ethical business, p. 55 | | |
| Strategy and analysis | | | | |
| GRI 102 | 102-14 Statement from senior decision-maker | President and CEO's Review, p. 6–7 | | |
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| GRI 102 | 102-44 Key topics and concerns raised | Open communication and stakeholder co-operation, p. 55 | | |
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| GRI 102 | 102-46 Defining report content and topic boundaries | Reporting principles, p. 60 | | |
| GRI 102 | 102-47 List of material topics | Responsible Varma, p. 17 Reporting principles, p. 60 | | |
| GRI 102 | 102-48 Restatements of information | | No material changes | |
| GRI 102 | 102-49 Changes in reporting | | No material changes | |
| GRI 102 | 102-50 Reporting period | | 1 Jan–31 Dec 2018 | |
| GRI 102 | 102-51 Date of most recent report | | 13 March 2018 | |
| GRI 102 | 102-52 Reporting cycle | | The report is published annually | |
| GRI 102 | 102-53 Contact point for questions regarding the report | | viestinta@varma.fi | |
| GRI 102 | 102-54 Claims of reporting in accordance with the GRI standards | Reporting principles, p. 58 | | |
| GRI 102 | 102-55 GRI content index | GRI content index, p. 61–64 | | |
| GRI 102 | 102-56 External assurance | | The report has not been assured. | |
| MATERIAL TOPICS | | | | |
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| GRI 103 | 103-2 The management approach and its components | Responsible Varma, p. 15–17 Responsible investment, p. 25–28 Climate risks and opportunities according to TCFD, p. 44–45 | | |
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| GRI 203 | 203-2 Significant indirect economic impacts | Responsibility for pension assets, p. 19–21 | | |
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| GRI 302 | 302-4 Reduction of energy consumption | Responsibility for the environment – Climate risks and opportunities according to the TCFD recommendations, p. 46–49 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 51–52 | | |
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| GRI 303 | 303-1 Water withdrawal by source | Responsibility for the environment – Environmental impacts of real estate investments, p. 49 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 52 | | |
| Emissions | | | | |
| GRI 305 | 305-2 Energy indirect (Scope 2) GHG emissions | Responsibility for the environment – Climate risks and opportunities according to the TCFD recommendations, p. 46 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 52 | | |
| GRI 305 | 305-4 GHG emissions intensity | Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 46 | | |
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| GRI 306 | 306-2 Waste | Environmental impacts of real estate investments, p. 50 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 52 | | |
| Supplier environmental assessment | | | | |
| GRI 308 | 308-1 New suppliers that were screened using environmental criteria | Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 51 | | The percentage share of screened suppliers was not reported. The Supplier Code of Conduct includes environmental aspects, and the Code is attached to all new contracts. |
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| GRI 401 | 401-1 New employee hires and employee turnover | Responsibility for Varma employees, p. 37 | | |
| Occupational health and safety | | | | |
| GRI 403 | 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Responsibility for Varma employees, p. 37 | | |
| Education | | | | |
| GRI 404 | 404-1 Average hours of training per year per employee | Responsibility for Varma employees, p. 37 | | |
| GRI 404 | 404-2 Programs for upgrading employee skills and transition assistance programs | Responsibility for Varma employees – competence development, p. 39 | | |
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| GRI 405 | 405-2 Ratio of basic salary and remuneration of women to men | Responsibility for Varma employees – equality and non-discrimination, p. 40 | | |
| Supplier social assessment | | | | |
| GRI 414 | 414-1 New suppliers that were screened using social criteria | Ethical and transparent business, p. 54 | | The percentage share of screened suppliers was not reported. The Supplier Code of Conduct includes environmental aspects, and the Code is attached to all new contracts. |
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| GRI 415 | 415-1 Political contributions | Ethical and transparent business, p. 55 | | |
| Customer privacy | | | | |
| GRI 418 | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | Ethical and transparent business, p. 54 | | |
| Socioeconomic compliance | | | | |
| GRI 419 | 419-1 Non-compliance with laws and regulations in the social and economic area | | No incidents in 2018 | |
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| | Reviewing investment objects' compliance with standards | Responsible investment, p. 27 | | |
| Disruption-free implementation of pension provision | Pension application processing time | Responsibility for customers, p. 30 | | |
| Customer service | Net promoter score | Responsibility for customers, p. 31 | | |
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