

# VARMA

ANNUAL AND  
SUSTAINABILITY REPORT  
2019



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## DEAR READER,

Our task is to ensure that you receive your pension in the future, too. This role requires responsibility from us. You are reading Varma's combined Annual Report & Sustainability Report 2019, which contains both the traditional annual report and a sustainability 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 2019. We also report on climate-related risks and opportunities with the help of the TCFD framework.

The Report of the Board of Directors and Financial Statements 2019, as well as the Corporate Governance Report, are available as separate pdf files at [varma.fi/annualreport](https://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. Sustainability 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 48.7 billion.

We pay pensions to approximately 343,700 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 work ability 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 558 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.

**Sustainability is an integral part of Varma's core task and work culture.**



# THE YEAR IN BRIEF

In 2019, Varma’s investments yielded a record-high return of EUR 5.2 billion, or 12.0% (-2.0%). By year-end, the market value of the investments rose to EUR 48.7 (44.0) billion. Efficiency remained at an excellent level, which means that Varma is able to pay the highest client bonuses ever in the company’s history.

Value of investments

 **€48.7 bn**

Return on investments

 **12.0%**

Solvency

 **€11.6 bn**

Premiums written

 **€5.3 bn**

Pensions paid

 **€5.9 bn**

Insured customers

 **541,926**



### Year of very strong investment returns

Varma's investments yielded a very strong return of 12 (-2.0)%. A major reason for the returns was the intense stimulus measures by the central banks. Towards the end of the year, concerns over the decline of global growth eased, and the final quarter of the year was another very good period in terms of investment returns.

All of Varma's asset classes generated positive returns, driven by equity markets. Listed equities performed the strongest, rising 25.4 (-8.3)%. The return on unlisted equities, at 16.9 (3.8)%, and private equity investments, at 15.1 (17.5)%, was also strong. The return on fixed-income investments was 4.5 (-1.8)%, on real estate 4.1 (5.5)%, and on hedge funds 5.0 (1.6)%.

In the past decade, the value of Varma's pension assets has risen EUR 22 billion. Owing to the ten-year period of good investment returns, our solvency, which serves as a risk buffer, is at a strong level.

### Record-high client bonuses

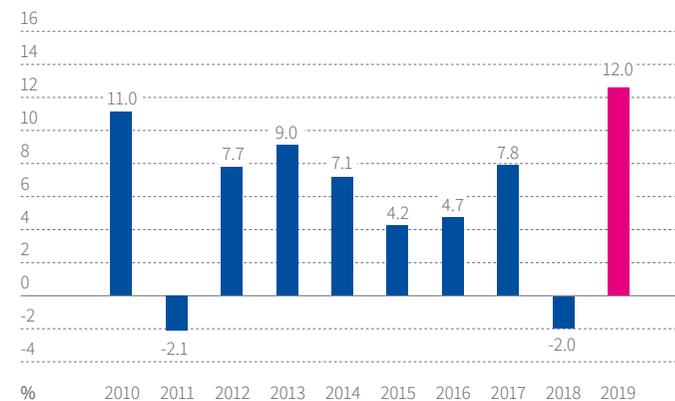
Varma's operational efficiency was at an excellent level. In 2019, administrative costs totalled EUR 86 million, which is 62 (60)% of the expense loading included in the contributions. The smaller the percentage is, the more efficient the company is. Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system.

The good investment returns strengthened Varma's solvency capital, which rose to EUR 11.6 (9.6) billion, i.e. to 1.8 times the solvency limit. Varma's pension assets in relation to technical provisions were 130.8 (127.5)%.

Varma's solvency and efficiency benefit clients in the form of bonuses, which amount to EUR 171 (153) million. We will pay the highest client bonuses in our history. The bonuses are granted as deductions in insurance contributions.

**Owing to the good investment returns, our solvency, which serves as a risk buffer, is at a strong level.**

Investment returns, (%)



Investment portfolio (€ million)



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

## Pension processing accelerated

Varma paid out pensions in the amount of EUR 5.9 (5.7) billion to 343,700 (343,400) people. A total of 51,054 (51,057) new pension decisions were made during the year. Premiums written increased to EUR 5.3 (5.1) billion. At year-end, 541,926 (559,981) people were insured by Varma.

Pension application processing continued to accelerate, and processing times were shorter than the previous year. Varma's total processing time for pension applications was 25 days, which means that Varma's customers received their decisions 10 days faster than the sector average.

Of individual pension types, the number of partial old-age pension applications increased 20.4% and the number of disability pension applications 7.1% from 2018. The most common reasons behind disability pension applications were mental health disorders and musculoskeletal diseases.

The number of rehabilitation applications, at 2,450, was nearly the same as in the previous year. Of our customers who applied for and were accepted to rehabilitation, 77% returned to working life.

Read more about the investments and Varma's solvency in the section [Responsibility for pension assets](#) (p. 20) and about our customer work in the section [Responsibility for customers](#) (p. 27).

**For 2019, Varma will pay the best client bonuses in Varma's history.**

## Key figures 2019

	2019	2018
Premiums written, € million	5,285.6	5,118.0
Pension payments to pensioners, € million <sup>1)</sup>	5,856.1	5,668.0
TyEL insured 31 December	504,131	523,270
YEL policies	37,800	36,700
Pensioners	343,700	343,400
Investments, € million	48,708.9	44,015.2
Investment income, € million	5,240.6	-902.3
Return on invested capital, %	12.0	-2.0
Total result, € million	2,197.5	-1,741.0
Loading profit, € million	52.9	55.8
Operating expenses as % of loading profit	62.0	60.4
Transfer to client bonuses, € million	171	153
% of TyEL payroll	0.81	0.75
Technical provisions, € million	38,608.0	36,521.4
Solvency capital, € million <sup>2)</sup>	11,646.3	9,618.6
in relation to solvency limit	1.8	1.6
Parent company staff 31 December	537	532
Personnel expenses	45.5	48.3
Donations, € million	0.01	0.01
Membership fees in sectoral organisations, € million	1.0	1.0
Purchases from service providers and suppliers, € million <sup>3)</sup>	52.5	51.3

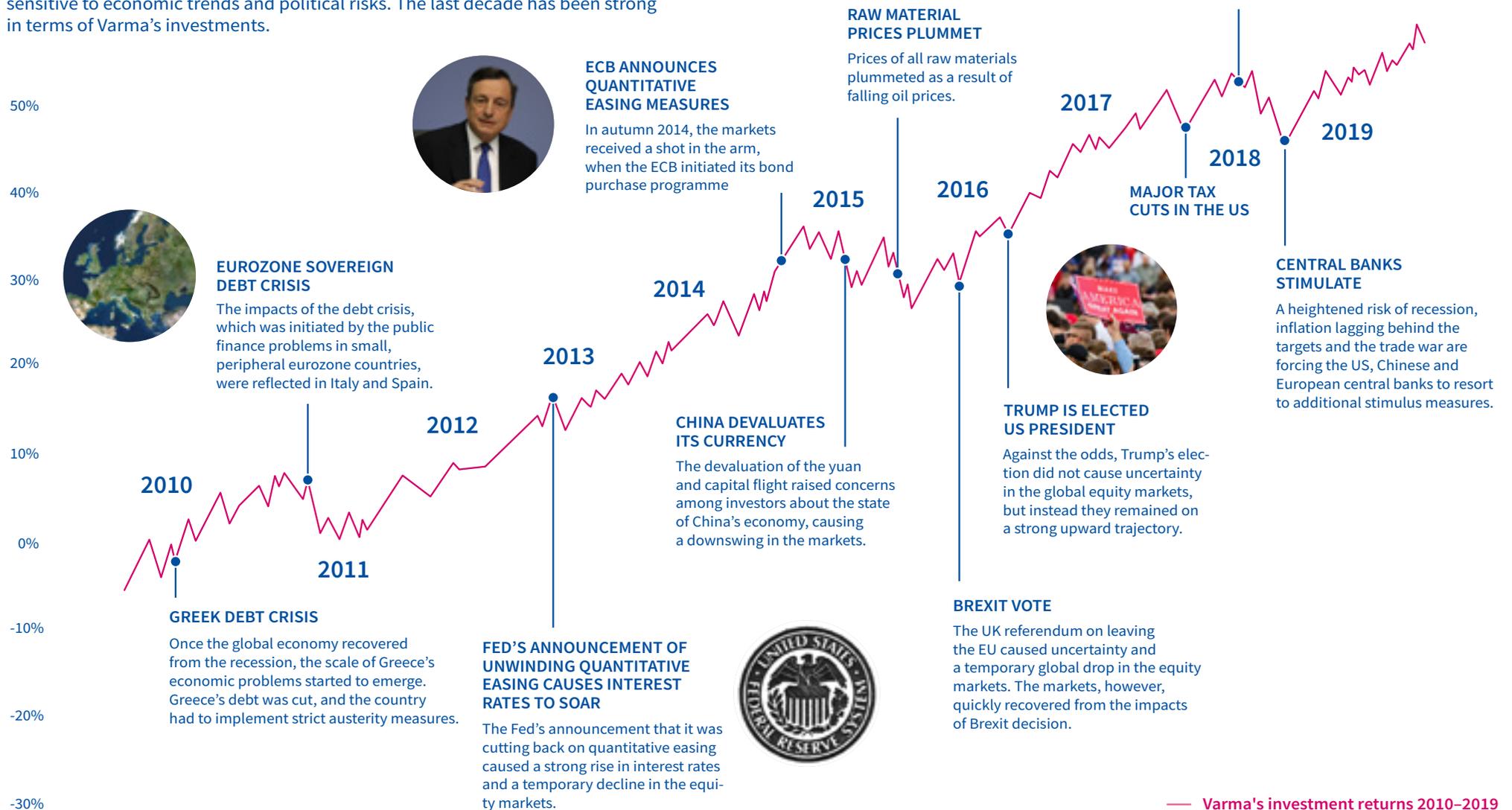
<sup>1)</sup> Before the reduction of received clearing of pay-as-you-go (PAYG) pensions

<sup>2)</sup> Calculated according to the regulations valid at the time (same indicator applies to other solvency indicators)

<sup>3)</sup> Excluding costs for investment operations (such as real estate development purchases)

# Decade in brief

The ten years following the financial crisis have been a period of sustained economic growth, although the recovery has been slow and investment returns have been sensitive to economic trends and political risks. The last decade has been strong in terms of Varma's investments.



President & CEO's Review

# RECORD YEAR IN CLIENT ACQUISITION

For Varma, 2019 was a year of very strong investment returns, successful client acquisition and excellent efficiency.

For Varma, 2019 was a year of strong investment returns and record-high client acquisition.

In client acquisition, we succeeded well in all customer segments. Our efficiency remained at an excellent level. Good operating efficiency combined with strong solvency benefits our customers, and for 2019, we will pay record-high client bonuses that will reduce our customers' insurance contributions.

2019 was also the first year of operation for the Incomes Register. The transfer to the Incomes Register went smoothly, although introducing a new way of operating entailed extra work in our customer service and client companies. The number of calls received by Varma rose by 24,000 in 2019. Towards the end of the year, the situation calmed down, and the Incomes Register has evolved into an everyday tool that makes life easier.

Varma's investments yielded a record-high return of EUR 5.2 billion in 2019. All of Varma's asset classes generated good returns on the heels of strong equity returns. Varma's pensions assets have doubled since the financial crisis.

Thanks to the good returns of the past decade, our pension assets have never been higher than they are now.

The pension system has also been developed well over the years. In Finnish working life, we are also learning more and more how to extend careers, which is positive. The employment rate improved the most in the 55–64 age group in 2019.

This will not, however, be enough if the current zero interest rate environment and low birth rate turn out to be permanent phenomena. In this case, there will be challenges for the pension system. Now would be the time to discuss how the pension system should be developed. There is still time, as changes in the pension system take time to materialise. Before anything else, we should discuss how to increase the return potential of pension assets, for instance, through increased equity weight.

### We updated our climate targets and renewed our strategy

In 2019, we continued with our sustainability work. We updated our climate targets, and our ambitious

goal is to achieve a carbon-neutral investment portfolio by 2035. We will reduce emissions gradually in all asset classes.

Varma was the first Finnish company to join the international Powering Past Coal Alliance (PPCA), which is working to advance the transition away from coal power generation. Our efforts have been bearing fruit in external assessments. In an international comparison, the UN-supported PRI included Varma in the PRI Leaders' Group for its responsible investment work.

Sustainability is an integral part of Varma's core task, strategy and daily operations, and it includes responsibility for our personnel. We have been developing our work culture with a long-term view and paying special attention to equality and non-discrimination. Committed and motivated employees are the key to customer satisfaction and Varma's success. We are pleased that last year we achieved the best-ever rating for our pension services' phone service.

We renewed our strategy in 2019. Varma's strategy is based on our core

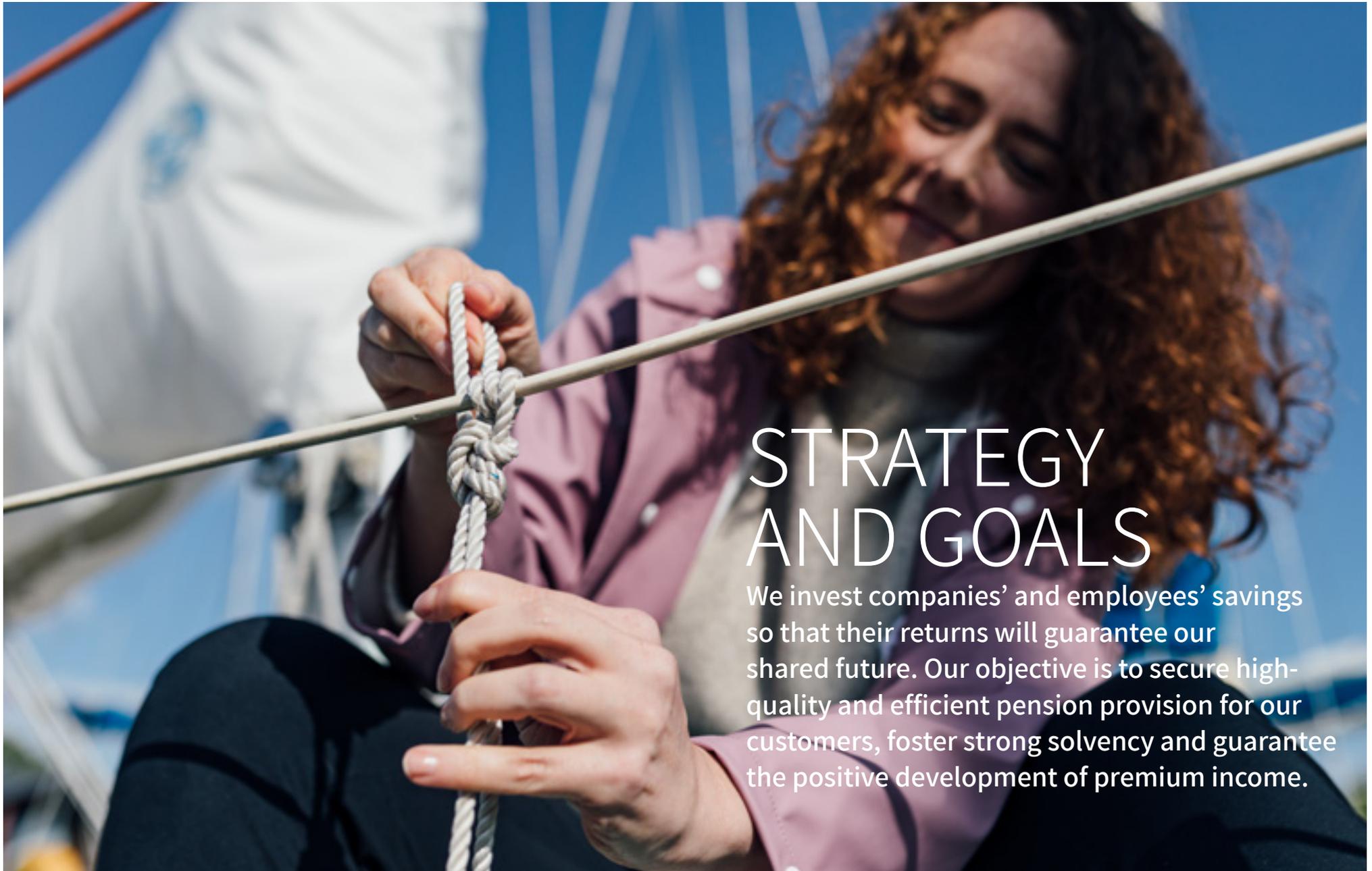
task, securing pensions and responsibility for our customers. In accordance with our vision, we provide safety and stability to our insured in an incredible change that is reshaping the structures of our society. In five years' time, the world might be quite different than it is now.

In 2020, 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 we will not forget high-quality customer service or more effective services for managing the disability risk.

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

**Risto Murto**  
President & CEO

**Good operating efficiency combined with strong solvency benefits our customers, and we will pay record-high client bonuses for 2019.**



# 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. We are responsible for making sure that the pension funds our customers entrust us with are secure. We renewed our strategy in 2019.

**V**arma’s strategy is based on our core task, i.e. securing pensions. Varma’s operations in 2019 were guided by three focal areas of development work: digital services, disability risk management services and services for small companies.

## Our objectives

In 2019, Varma’s targets related to the quality of pension services, the development of premium income, efficiency and solvency. We did very well with respect to these targets.

In terms of our pension-service quality targets, we measure the smoothness of pension applications processing and the uninterruptedness of our customers’ income. Our target was for 85% of new pension applicants to have their pension paid during their first month of retirement. This target was also met, at 86.5%.

Premiums written increased to EUR 5,286 (5,118) million. We received new client companies of all sizes.

Varma’s solvency capital is at a strong level, and solvency capital increased to EUR 11.6 (9.6) billion from the previous year. Varma is the most solvent earnings-related pension company in Finland.

Varma manages pension cover very cost-effectively. In 2019, our efficiency was the best in the earnings-related pension insurance sector: we used 62% (60%) of the amount of contributions reserved for operating expenses. Our efficiency, coupled with our strong solvency, guarantees the most competitive 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.

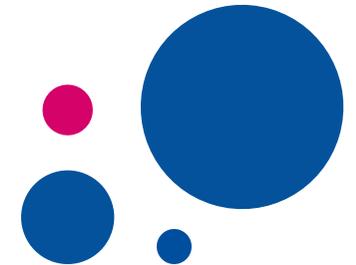
## We renewed our strategy in 2019

At the end of 2019, we implemented a new strategy, which guides our operations until 2025. The strategy is based on our enduring values and, in keeping with our core task, we are responsible for making sure that the

pension funds our customers entrust us with are secure. Our vision is: We support you in a world that is going through incredible change.

We prove that we are worth our customers’ trust by being the most solvent, efficient and influential earnings-related pension insurance company. We provide the best client bonuses, smooth digital services and high-quality pension insurance services. We are a sustainability pioneer in what we do. Our strategy is implemented through change programmes related to customers, improving efficiency and Varma’s internal renewal.

[Read more about our strategy >](#)



**Varma is the most solvent and efficient pension insurance company. We offer our customers the best client bonuses in the sector.**

# Incredible change!

## CORE FUNCTION



## VISION

We support you in a world that's going through incredible change.

## STRENGTHS

Best client bonuses	Pioneer in sustainability	Enabler of good financial standing	The most effective partner for developing work ability	Smooth digital solutions and high-quality pension insurance services
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## VALUES

With joy and passion  
Reliability  
Sustainability  
Courage

**Changes and opportunities in the operating environment**

Varma's targets	Quality of pension services	Solvency	Premiums written	Efficiency
<p><b>CHANGES</b></p> 	<ul style="list-style-type: none"> <li>Private customers' expectations for broader digital services that are closer to real time.</li> <li>Need for high-quality personal customer service. Some elderly private customers or those in a challenging life situation have no access to digital services.</li> <li>Impacts of the change in working life and the rising retirement age on work ability.</li> </ul>	<ul style="list-style-type: none"> <li>The equity market's rapid recovery from the turbulence of 2018.</li> <li>Low interest rates.</li> <li>The materialisation of financial risks related to the progression of climate change (e.g. wildfires, floods and drought) in the investment environment.</li> <li>Increasing regulation of institutional investors.</li> </ul>	<ul style="list-style-type: none"> <li>Structural transformation of working life and companies: entrepreneurial work is increasing, and most new jobs will be created in SMEs.</li> <li>The Incomes Register, maintained by the Tax Administration and introduced at the beginning of 2019, where employers submit earnings information.</li> <li>The development of Finland's age structure: the number of people in working life will decline.</li> </ul>	<ul style="list-style-type: none"> <li>Competition in the earnings-related pension sector and the criteria for client bonuses highlight operational efficiency.</li> <li>The real-time information available from the Incomes Register improves pension insurance processes.</li> </ul>
<p><b>OPPORTUNITIES</b></p> 	<ul style="list-style-type: none"> <li>Speeding up and improving customer services through automation and software robotics.</li> <li>Using digitalisation to develop services based on customer needs.</li> <li>Developing service models to be able to offer high-quality personal services in cases where digital services do not meet customer's needs.</li> </ul>	<ul style="list-style-type: none"> <li>Identifying new alternative investments.</li> <li>Broad diversification between asset classes and more efficient utilisation of allocation strategies.</li> <li>Wide-scale use of data in responsible investment.</li> </ul>	<ul style="list-style-type: none"> <li>The Incomes Register makes it possible to develop real-time insurance services.</li> <li>Use of digitalisation and data to develop disability risk management services.</li> </ul>	<ul style="list-style-type: none"> <li>Digitalisation</li> <li>Automation and software robotics</li> <li>Changing ways of working: an agile and self-managed way of operating</li> <li>Efficient and agile IT system development</li> </ul>

**Successes**

Varma's targets	Quality of pension services	Solvency	Premiums written	Efficiency
<p><b>SUCCESSSES</b></p> 	<ul style="list-style-type: none"> <li>• Pension applications processed 10 days faster than the sector average and 6 days faster than a year earlier.</li> <li>• Extending the use of software robotics to different processing stages of pension applications.</li> <li>• Best personal customer service in pension matters in Finland (Bisnode's Voice of the Customer survey).</li> <li>• Private customers' use of digital services up 20%.</li> <li>• 77% of those who received rehabilitation returned to work.</li> </ul>	<ul style="list-style-type: none"> <li>• Best return on Varma's investments since 2009 due to strong performance in all asset classes.</li> <li>• Strong solvency.</li> <li>• Successful diversification of investments into different asset classes, especially in non-liquid investments.</li> <li>• Varma included in the PRI Leaders' Group in an international assessment by the UN-supported Principles for Responsible Investment (PRI).</li> <li>• Varma received the highest rating among Finnish investors, and the mention of being "climate smart" in a comparison by environmental organisations (Finnish institutional investors' views on coal).</li> <li>• Varma ranked number one in the Climate Change category of Finsif's sustainability reporting competition.</li> </ul>	<ul style="list-style-type: none"> <li>• Positive trend in premiums written, up 3.3%.</li> <li>• Stronger position as an insurance provider for companies of all sizes.</li> <li>• New pension insurance services making use of the Incomes Register.</li> <li>• Development of services related to disability risk management and establishing their focus.</li> </ul>	<ul style="list-style-type: none"> <li>• Varma is by far the most efficient company in the earnings-related pension sector: we used 62% of the assets reserved for operating expenses.</li> <li>• Development of our work culture: AA rating for Varma's PeoplePower index among Finland's Most Inspiring Workplaces (Corporate Spirit's employee survey).</li> </ul>
<p><b>CONTINUING IN 2020</b></p> 	<ul style="list-style-type: none"> <li>• Ensuring uninterrupted income for the customer: swift processing of pension applications, and fast payment of pension after the pension decision is made.</li> <li>• Development of digital services for private customers.</li> <li>• Developing operational models for rehabilitation.</li> <li>• Developing service models together with client companies as regards employees' rehabilitation and pension services.</li> </ul>	<ul style="list-style-type: none"> <li>• Investment risk diversification, market forecasting, and active risk level management.</li> <li>• Strengthening of the allocation strategy.</li> <li>• Developing responsibility in index investing.</li> <li>• Active implementation of the ownership policy.</li> <li>• Participation in collaborative initiatives related to responsible investment.</li> <li>• Development of portfolio management tools.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of insurance service processes.</li> <li>• Development of a multi-channel service model by listening to our customers.</li> <li>• Leading with data and knowledge in the management of disability risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous development of the ways of operating, processes and the work culture.</li> </ul>

# 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 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 earnings-related pensions provide security for the insured and economic stability by upholding pensioners' purchasing power also in times of otherwise muted demand.

## Earnings-related pensions are partly funded in advance

The majority of earnings-related pensions that are currently being paid are financed directly through pension contributions paid annually by employees and employers. Part of the pensions paid out is financed by assets funded earlier and their returns. In other words, annual pension contributions are funded to a certain extent for pensions to be paid out later on.

Pensions are well secured under the Finnish statutory earnings-related pension system. The financing of earnings-related pensions is influenced by economic growth, the employment rate and the returns on the invested pension assets. Pension assets are invested profitably and securely. Successful investment activities mitigate the need to raise pension contributions in the future. The strong solvency of earnings-related pension insurance providers is important, since it affects risk-taking and return opportunities. Strong solvency also facilitates the timing of investment decisions in fluctuating market conditions.

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. Varma contributes to achieving this target by offering its insured vocational rehabilitation when their work ability is threatened. Varma aims to manage the disability risk it insures by offering guidance and support to its customers.

## 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 result, operational efficiency and the quality and effectiveness of their customer services.

Finland's Government Programme targets the integration of the private and municipal pension insurance systems, and this work is ongoing.

## The Finnish earnings-related pension system is strong

In 2019, the Finnish pension system ranked fourth 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 its pension system governance for the sixth time in a row.

**Finland ranked number one in terms of the reliability and transparency of its pension system governance for the sixth time in a row.**



# SUSTAINABLE 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. Sustainability is part of our strategy. Our goal is to be a pioneer in sustainability.

# SUSTAINABLE VARMA

Sustainability is an integral part of Varma's core task – securing pensions.

'Sustainable Varma' is also a key theme of our strategy.

**F**or Varma, sustainable operations mean first and foremost securing solvency, smooth implementation of pension provision and promoting work ability.

Sustainability is an integral part of our investment operations and ownership practices. We take care of mitigating climate change, and ensuring the well-being at work of Varma employees, cost-effective operations and business ethics.

According to our vision, sustainability is part of Varma's daily operations. We actively communicate what sustainability means to us and how our responsible operations show in society.

Sustainability has been chosen as a key competitive factor in Varma's strategy for 2020–2025. Our goal is to be a sustainability pioneer in the earnings-related pension insurance sector.

## The sustainability programme is based on a materiality assessment

At the end of 2018, we drew up Varma's sustainability programme, which is based on a materiality assessment. We wanted to hear what our stakeholders' sustainability expectations are and analyse the business impacts of sustainability issues – the impact our business has on society and the environment.

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 email survey was sent out to more than 47,000 people, representing different stakeholder groups: entrepreneurs, representatives of client companies, private customers, office space customers, Varma employees, partners and service providers, representatives

of Varma's administration, representatives of organisations and associations in the pension sector, labour market representatives, legislators, nongovernmental organisations and representatives of the media. Nearly 2,000 people responded to the survey. We also performed 17 interviews with members of Varma's Board of Directors, management and experts, among other people.

Stakeholder expectations were reviewed in management's responsibility workshop, which delved into the views brought up by the stakeholders and prioritised them based on, on one hand, their impacts on our business, and on the other hand, on society and the environment. Based on this work, Varma's sustainability programme, including its measures and indicators, for 2019–2020 was drawn up. The sustainability programme was approved by Varma's Board of Directors.

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 developing good working life and especially work ability management. Responsibility for Varma employees has always been at the very core of the sustainability programme, and this will not change going forward.

In our stakeholders' view, ethical business and open communication are not areas in need of improvement at Varma, but rather themes that must be attended fostered in future. Our major societal role and the economic and social responsibility included in our core task call for a highly ethical corporate culture and the ability to transparently communicate on our operations and the principles that guide them.

**Sustainability has been chosen as a key competitive factor in Varma's new strategy. Our goal is to be a pioneer in sustainability.**

## Sustainability is visible in the organisation

Sustainability 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 sustainability programme, the company's main responsibility policies. For example, in 2019, the Board approved Varma's new sustainability programme and climate targets for our investments.

Varma's Sustainability Manager coordinates CSR measures and communication. Furthermore, a director of responsible investment and an analyst work in Investment Operations. The director of responsible investment coordinates and develops responsible investment in different asset classes and is in charge of investment decisions for the sustainable equity portfolio. The management of sustainable investment is discussed in more detail in the section [Responsible investment](#).

Furthermore, a number of experts throughout 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 and 2019, 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 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.

In 2019, we also established Pride network, which is open to all Varma employees who want to be part of developing diversity at Varma, especially from the point of view of sexual and gender minorities. Some 40 Varma employees from various parts of the organisation participate in the network, aka 'the Pride gang'. The network plans and organises events and communication activities related to, for example, Varma's Helsinki Pride partnership.



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

## 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**



# RESPONSIBILITY FOR PENSION ASSETS

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

# STRONG SOLVENCY SECURES PENSIONS

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 premiums written secure 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 5.3 (5.1) billion in 2019, representing an increase of 3.3% from the previous year.

We were successful in client acquisition, and during the 2019 account transfers, EUR 74 (5) million in net

TyEL income was transferred to Varma from other earnings-related pension companies. EUR 70 million in new TyEL policies were sold.

Earnings-related pension is an essential part of the Finnish social security system. In 2019, Varma paid EUR 5.9 (5.7) billion in pensions to approximately 343,700 (343,400) recipients.

## We invest EUR 11.1 billion in Finland

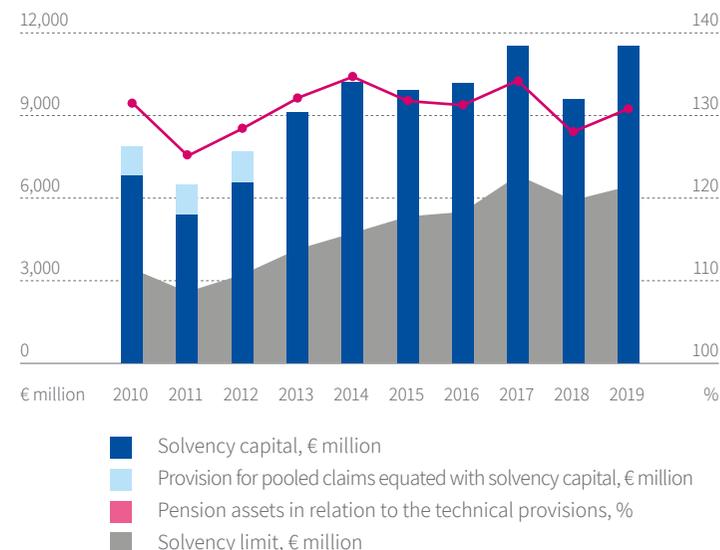
Of Varma's total investments, 22%, or EUR 11.1 billion, has been invested in different ways in Finnish society.

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.

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

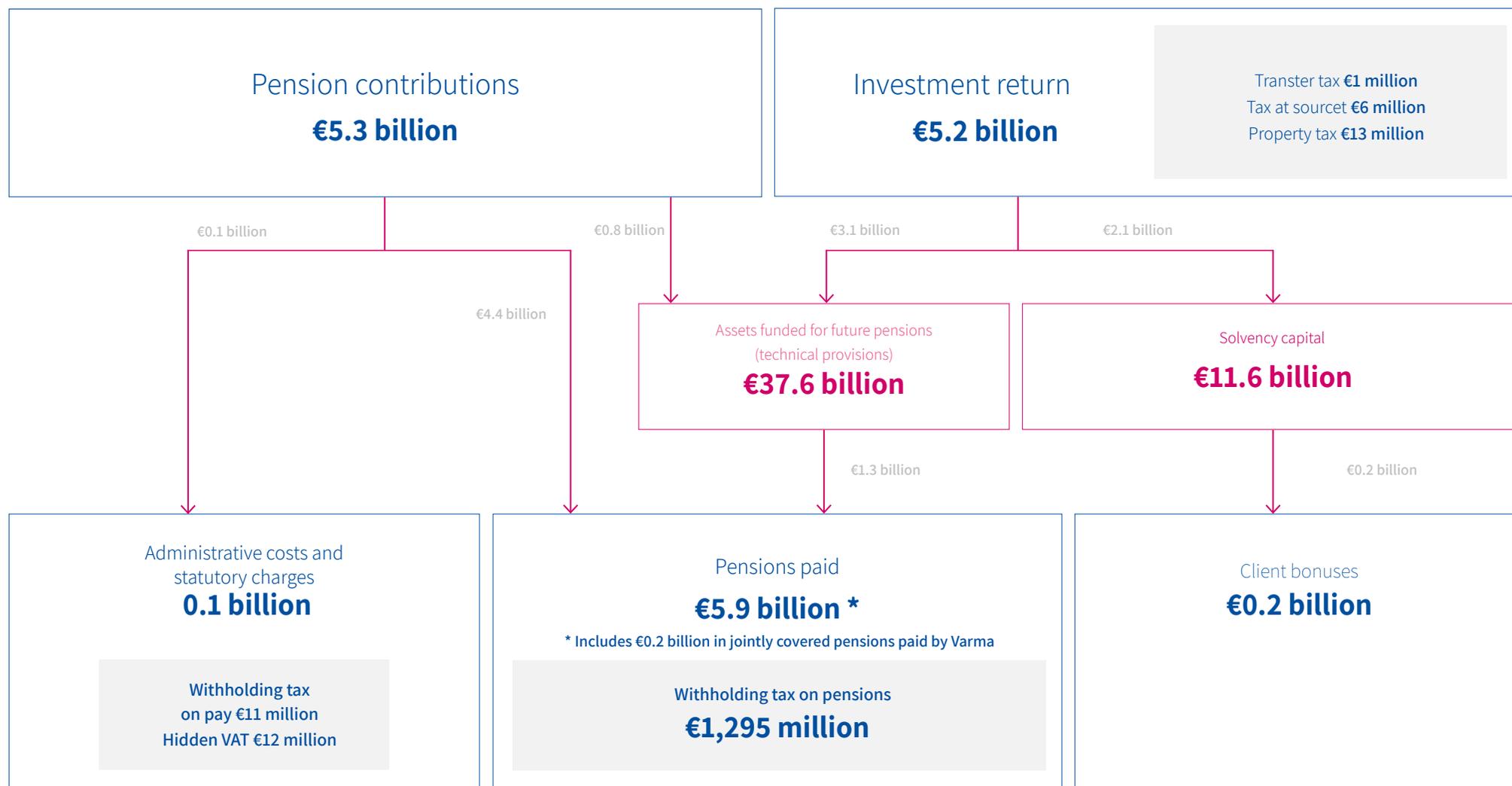
Solvency 2010–2019



## 15 largest equity investments

	€ million	Varma's holding of shares, %
Sampo Plc	866.6	4.01
Nordea Bank Abp	438.4	1.49
Kojamo Plc	435.7	10.87
Neste Corporation	377.3	1.58
Wärtsilä Corporation	313.5	5.37
UPM-Kymmene Corporation	311.7	1.89
KONE Plc	304.5	0.99
Elisa Corporation	255.0	3.10
Terveystalo Plc	247.2	17.30
Fortum Corporation	196.3	1.00
Atrium Ljungberg AB	175.2	6.09
Nokia Corporation	163.1	0.88
Huhtamaki Oyj	135.6	3.05
Stora Enso Oyj	130.2	1.22
Tornator Oy	127.4	15.32

Varma's cash flows from pension contributions and investment returns



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

# 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 2019, Varma paid out pensions in the amount of EUR 5.9 billion, and pensioners paid EUR 1.3 billion in income taxes on those pensions as withholding tax. We paid EUR 11 million in withholding tax on our employees' salaries.

Varma's taxes relating to investments totalled EUR 20 million in 2019, including EUR 1 million in transfer tax, EUR 13 million in real estate tax for lots and buildings, and EUR 6 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 fully deduct VAT on them, because an earnings-related pension company's business is mainly exempt from 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 order to gain tax benefits.

In investments, we comply with the tax policies of the country in question

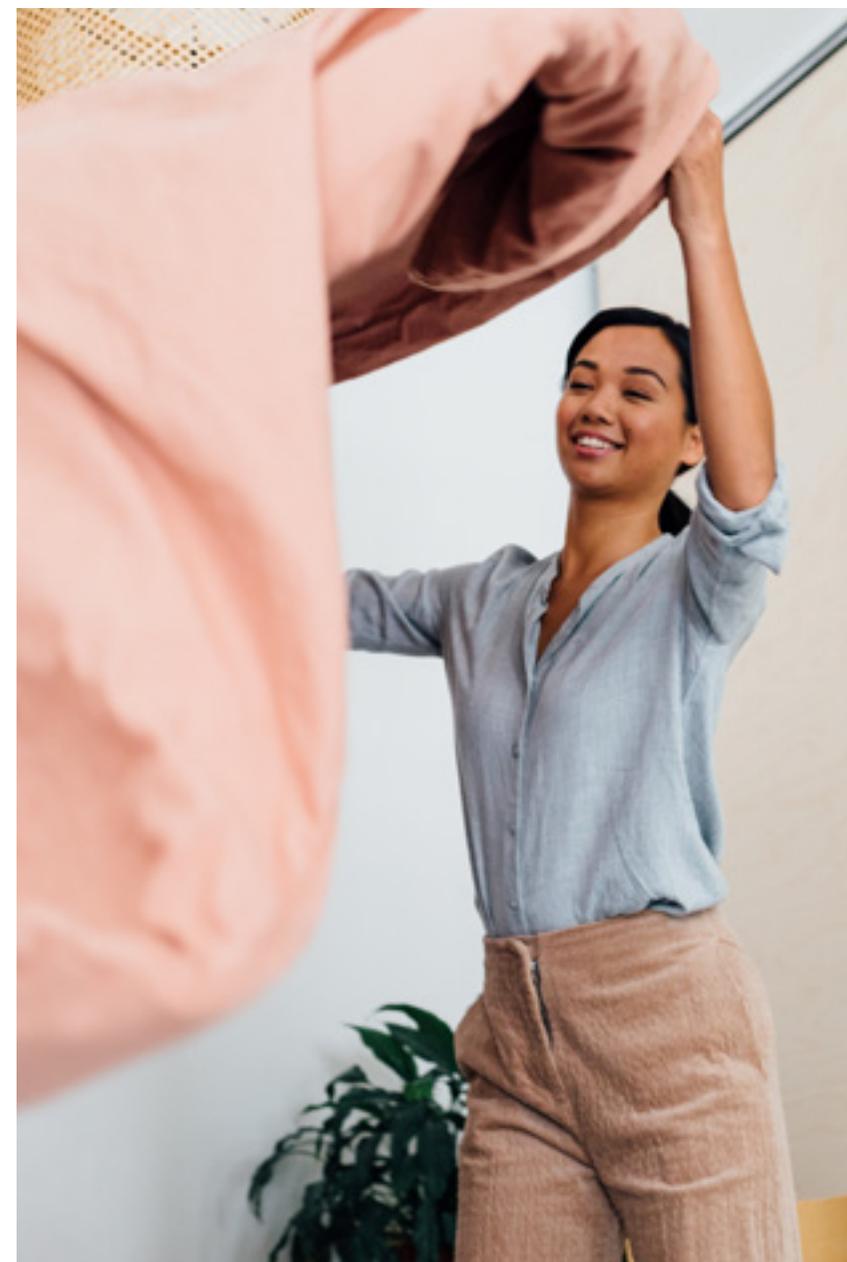
and are guided by international tax regulations. In the absence of clear guidance by tax legislation, our leading principles are prudence and tax transparency.

Our principle is also to avoid double taxation on investment returns in different countries; this 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 130 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 convention increases 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 in their financial statements.

Varma is liable to pay income tax only to Finland, as we provide earnings-related pension insurance only in Finland.

**Varma is liable to pay income tax only to Finland, as we provide earnings-related pension insurance only in Finland.**



# RESPONSIBLE INVESTMENT

Sustainability 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, sustainability 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 sustainability does not conflict with return expectations. For us, sustainability is also a means of securing long-term investment returns while making sure that risks and opportunities are taken broadly into account in investment decisions.

In 2019, we published a new [climate policy for our investments](#) for 2020–2035. The climate targets together with the [Principles for Responsible Investment](#) guide our operations and 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.

Further information on our climate policy is in the section [Responsibility for the environment – mitigating climate change](#), from p. 41.

## Negative screening motivated by 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.

Due to our efforts to mitigate the effects of climate change we have excluded investments in companies with coal- or lignite-based operations accounting for more than 30% of their net sales. We are committed to exiting from thermal coal investments by 2025 with the exception of small-scale balancing power. Oil exploration will be excluded by 2030.

We have 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.

From an investor's perspective, sustainability does not conflict with return expectations.



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

In government loans, Varma does not invest in countries that are ranked in the bottom 25% of the UN's Sustainable Development Goals (SDG) index. In an exceptional case, an investment can be made if the country's SDG ranking is expected to clearly improve.

We developed, in collaboration with our partners, two sustainable exchange-traded funds (ETF) in 2019. The ETFs were created jointly with the asset management company Legal & General Investment Management (LGIM) and the index investment company Foxberry, and they were listed on the London Stock Exchange. These indices do not invest in companies that are on our investment blacklist.

### Collaborative initiatives give investors power in numbers

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

In 2019, the PRI included Varma in the [PRI Leaders' Group](#) in an international comparison. The PRI assesses investors with excellent responsible

investment practices when selecting external asset managers and monitoring their operations.

Varma was the first Finnish company to join the [Powering Past Coal Alliance](#) (PPCA), which is working towards accelerating coal phase outs for power generation companies.

In 2019, we also joined the international [Tobacco-Free Finance Pledge](#), which encourages investors to withdraw their investments from the tobacco industry.

### 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 sustainability and social 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 upholds a database of companies and their confirmed and suspected violations. The service provider engages in discussions with the companies and updates the database accordingly. In this way, the portfolio managers

**In 2019, the PRI included Varma in the PRI Leaders' Group in an international comparison.**

always have access to up-to-date company data. Norm violation screening covers listed equities and corporate bonds.

If a company breaches any of the sustainability standards, our first priority is to engage with the company to rectify the detected breaches and change their operating methods. We are able to engage with the companies directly, together with other investors and the service provider. In the case of a confirmed norm violation, no further investments will be made in the company. If our efforts to engage with the company are unsuccessful in the long run, we may exclude the company from our portfolio.

In September 2019, the norms-based screening covered 25% of all of Varma's investments. At the end of the year, listed equity investments and listed corporate bond investments included three companies with a confirmed environmental violation and an ongoing engagement process.

### Sustainability 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	99%
Listed direct corporate bond investments, review coverage	96%
Active equity funds, review coverage	100%
Review coverage of Varma's entire investment portfolio	24%

## Sustainability 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 sustainability 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.

Pursuant to [our ownership policy](#), 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.

## Sustainability as an element of active ownership

Active ownership and engagement are cornerstones of responsible investment. 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.

A typical channel for engagement is decision-making portfolio managers' meetings with investees. In 2019, we had around 300 meetings with companies to discuss, among other things, how they integrate sustainability in their strategy and business.

Varma is also represented in many shareholders' 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 28 shareholders' nomination boards in 2019. [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.

## Varma supports the UN's goal of decent work

Among the Sustainable Development Goals set by the United Nations in 2015 are reducing inequalities globally and achieving economic growth by promoting decent work.

Varma has included some SDG goals in its responsible investment processes. With respect to this, in 2019 Varma joined the [Workforce Disclosure Initiative](#) (WDI), which aims to improve the quality of jobs in companies' operations and supply chains.

The initiative provides investors with substantial and comparable data related to how employees are managed in companies and their supply chains.

Particularly in developing countries and emerging economies, many occupations continue to be underpaid, involve hard labour and may also be hazardous. Legislation governing the position of the employee is lacking.

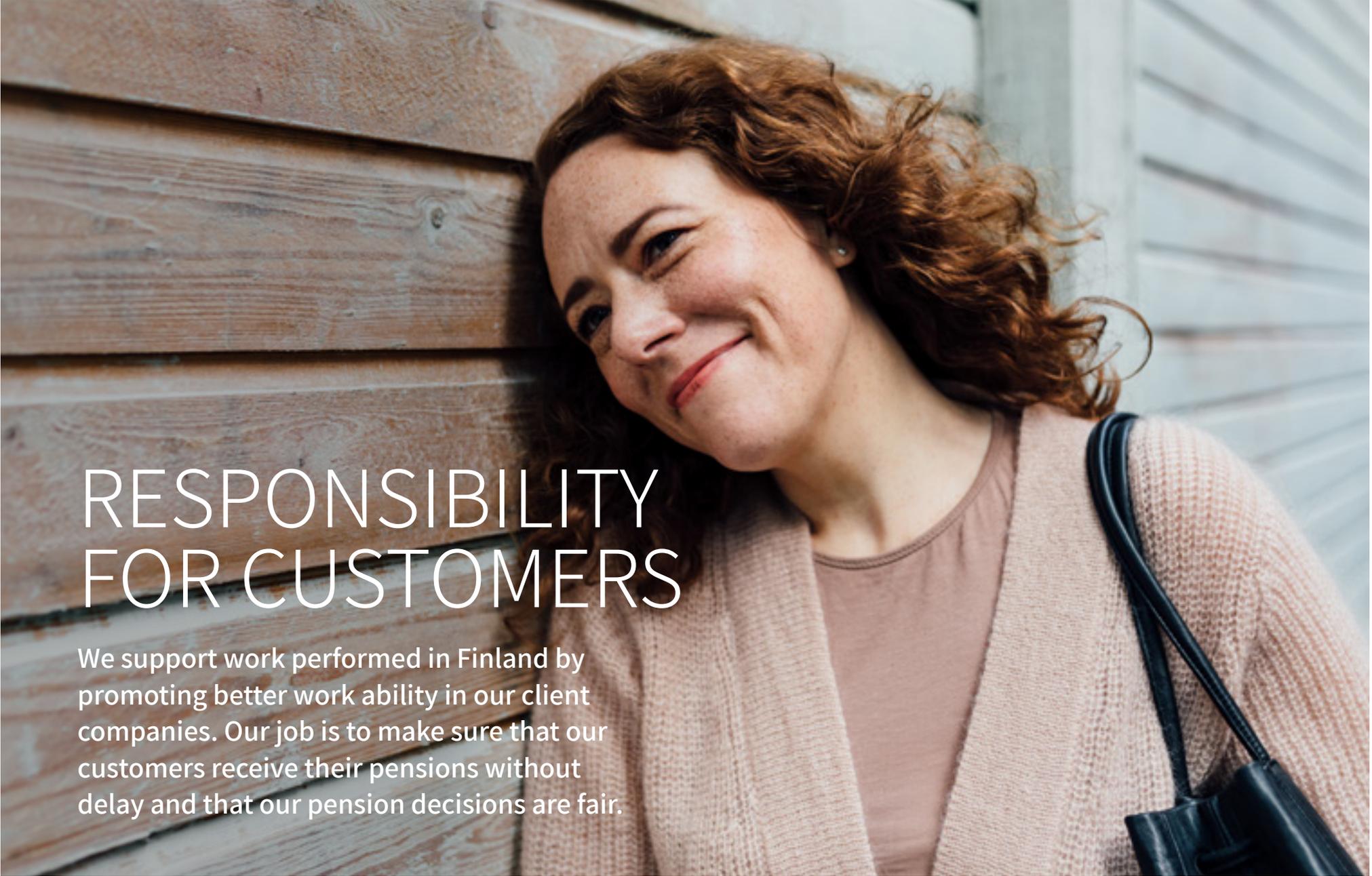
In 2018, 90 companies representing 38 industries disclosed data on their employees' working conditions and supply chains to the WDI. The impacts of their supply chains extend to more than 100 countries.

At the end of 2019, there were 137 international investor signatories to the WDI, with \$15 trillion in assets under management.

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



**In 2019, we listed on the London Stock Exchange two sustainable exchange-traded funds (ETF), developed together with our partners.**



# RESPONSIBILITY FOR CUSTOMERS

We support work performed in Finland by promoting better work ability in 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 a key part of our sustainable operations.

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

We aim to provide our pension and rehabilitation customers with expert advice and sufficient information to support them in their decisions, and to give them swift and correct pension decisions. Our corporate customers benefit from the best client bonuses in the sector. Our work ability services improve employee well-being in 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 their pension applications are processed swiftly and with no interruptions to their 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

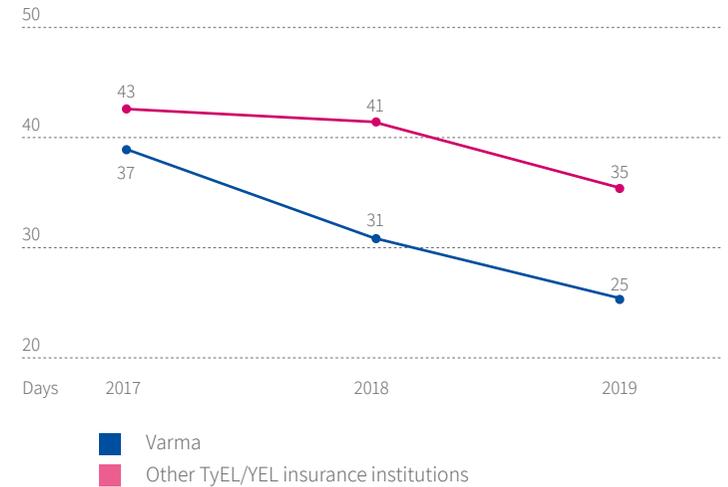
Varma has been improving the processing of pension applications in order to speed up the process. Our efforts have proved very successful in recent years. In 2015–2019, the average processing time has been shortened from 60 days to 25 days. That is 10 days quicker than the average for the sector.

In 2019, applicants received an old-age pension decision from Varma on average in 9 days. The decision can be made within a few days, if all the required information is submitted with the application.

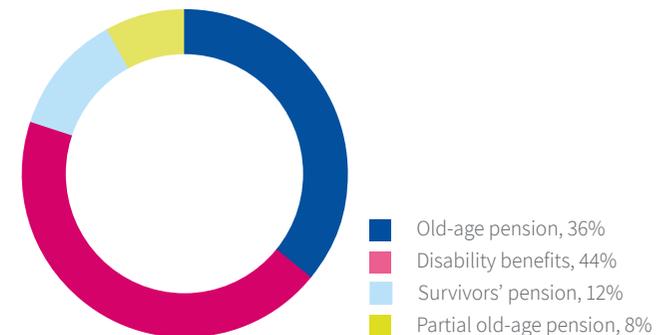
The smooth processing of pensions is based on our specialists' competence, a fine-tuned process, an efficient IT system and the use of automation and software robotics.

**Pension applications are processed 10 days quicker than average for the sector.**

Pension application processing in days



Pension decisions (%)



# CUSTOMER SERVICE

## All matters can be handled digitally

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: 67% (63%) of all old-age pension applications in 2019 were submitted in digital format to Varma.

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 receives 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.

Our pensioners can have their electronic employee pension card on their smart phone or tablet. The employee pension card serves as proof of retirement and entitles the holder to pensioner discounts.

Our working customers who feel that their work ability has deteriorated can use our online tool to assess

their situation. The tool is meant for customers who, for example, have been frequently sick or on sick leave.

Our rehabilitation customers have a digital service at their disposal. The service starts with steering an employee who is experiencing work ability problems to apply for rehabilitation, and it covers the entire path until the end of the rehabilitation. Varma also offers a peer support service for its rehabilitants for sharing their rehabilitation experiences with others. Our rehabilitation partners in different parts of Finland help draw up a rehabilitation plan after the customer has received a positive rehabilitation decision from us.

In 2019, we shifted to a regional model in our rehabilitation and disability pension services for SMEs and entrepreneurs: appointed specialists in rehabilitation and disability pensions are in charge of serving our customers in seven geographical regions.

Our insurance customers can also take care of all their insurance matters online. We offer modern tools, for example, for ordering earnings certificates and certificates to be attached to bids for contracts, and for reviewing insurance contributions. We renewed our online YEL and TyEL applications in 2019. The clear and straightforward service guides the user and provides a secure and quick channel for taking out

insurance. Entrepreneurs taking out YEL insurance receive a visual of the impact of their YEL income on social security by means of the calculator embedded in the online insurance application.

In our eServices, our corporate customers can make an insurance-specific estimate of the current year's TyEL contributions, follow the realisation of their budget, make an end-of-year estimate for their financial statements and estimate their TyEL contributions for next year.

In 2019, we launched an online service specifically for accounting firms to make it easier for them to handle their customers' pension insurance matters.

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 2019, we revamped our digital services to comply with the requirements of the European Accessibility Act. The accessibility deficiencies identified in our online services in the external audit performed in 2018 will be rectified by September 2020, as required by law.

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

	2019	2018	2017
Pension Services' phone service	75.6	71	71.8
Pension Services' application and payment processing	64.7	62.8	64.4
Phone service for client companies	72.5	71.7	71.4
Email service for client companies	45.2	47.3	48.9
Account and development managers' contact with clients	75.6	79	76
Business property customers	60	57	52
Residential tenants	51	47	51

All insurance and pension matters can be taken care of through our online services.

Read more about accessibility in the section 'Ethical business' >

### 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. Varma's phone service for pension customers was ranked number one for the third time in the large companies' category of the 2019 Customer's Voice 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 2019. 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 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 in our eServices.

### We pay the best client bonuses

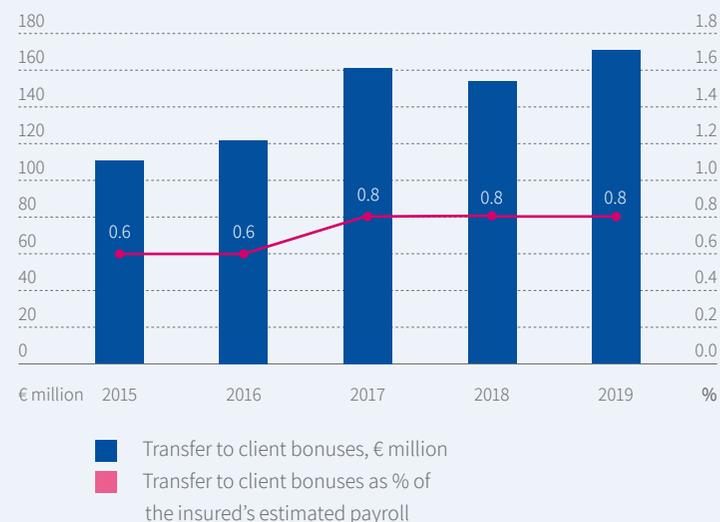
Thanks to our strong solvency and efficiency, we pay – and have been paying since 2007 – the best client bonuses in the sector, which lower our clients' insurance contributions. EUR 171 (153) million, or 4.7% (4.3%) of employers' TyEL contributions, will be paid out as client bonuses for 2019.

The loading profit for 2019 will be returned in full to customers as client bonuses, in accordance with the common regulations in the sector. In 2019, we used 62% (60%) of the expense loading components included in insurance contributions. 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.

Loading profit (€ million)



Transfer to client bonuses 2015–2019 (€ million)



## We promote entrepreneurship and growth

We support our customers in the challenging economic environment and encourage companies to seek growth. In this way we want to contribute to the positive development of employment, which promotes the sustainability of the pension system.

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 support programme for growth-seeking companies, and the [Kasvuryhmä initiative](#), where companies and their key persons challenge each other and other experts to improve the conditions for growth. Additionally, we are involved in [Boardman Grow's](#) network, which provides support in challenges related to management, board work and internationalisation.

The goal of the collaboration is to identify obstacles to growth, find solutions to these and means for upholding work ability, as well as to support better disability risk management also in growth companies.

**Varma is the most efficient and solvent earnings-related pension insurance company, which guarantees the best client bonuses in the sector.**



## The Incomes Register was introduced at the beginning of 2019

The Incomes Register is maintained by the Finnish Tax Administration, and it was introduced at the beginning of 2019. Employers report earnings to the register in close to real time. On basis of the data obtained from the register, Varma determines the earnings-related pension contributions of its client companies and earnings-related pensions of individuals insured with Varma. In conjunction with the introduction of the Incomes Register, the technical

bases for insurance contributions were updated.

The launch of the Incomes Register improved the efficiency of our operations. We updated our operating model with modern and up-to-date pension insurance services for employers and the insured alike. The renewed systems and processes enable new, almost real-time online services to be developed.

The adoption of the Incomes Register was, for the most part, very smooth. There

were some challenges, however, such as incomplete earnings information, salaries reported multiple times to the Incomes Register and reruns of earnings reports caused by fixing the software suppliers' software errors. The amount of advice our customers needed exceeded all our expectations: we received approximately 20,000 more calls from customers than we did in 2018.

Despite the initial challenges, the year as a whole went smoothly.

# WORK ABILITY MANAGEMENT AND REHABILITATION

## Taking control of disability risks on time

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

It also reduces absences due to illness, lowers disability costs and improves well-being at work and productivity. The goal of work ability management is to take timely control of the client's disability risks. Work ability management is goal-oriented and systematic. The goals and indicators are tangible, and they relate to absences due to illness and improving the disability contribution category, among other things.

We provide our customers with guidance in managing the work ability risk through our work ability management services, which include expert services, and digital 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 6.1 (5.9) million in 2019. We had ongoing work ability management co-operation projects in 536 client companies, and

they covered around 247,000 employees and supervisors. We publish information on our well-being-at-work contracts on our website quarterly.

Our web-based work ability management service assists in the planning of work ability management. The service enables e.g. the monitoring, comparison and forecasting of personnel's age structure, pension amounts and the development of related costs.

In 2019, we offered our customers a new service for ensuring work ability, with the aim of identifying work ability problems early on. The goal is to create a workplace culture that does not allow work ability problems to develop. The approach includes tools for observing and assessing work ability and finding solutions as a common effort. The tools are available in the work ability management service.

In 2019, the Finnish Financial Supervisory Authority (FIN-FSA) outlined how earnings-related pension insurance companies may participate in the disability risk management of their client companies. The participation should be risk-based risk management as part of insurance business. In accordance with FIN-FSA's guidelines, we renewed our

service offering with an increased focus on disability risk management.

Varma works in close co-operation with occupational health-care providers. Together with the private healthcare clinics Terveystalo and Mehiläinen, we have shared knowledge-based management tools that combine Varma's and the service providers' data. This allows more efficient management of work ability risks.

## 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 2019, 77% of those who received rehabilitation returned to working life. In 2019, Varma made around 2,450 positive rehabilitation decisions, which represents a slight decline (0.4%) from the previous year. Varma's support helped 1,580 rehabilitants return to working life.

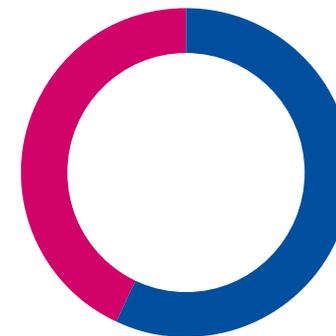
Disability pension applications have been increasing after taking a turn in 2018. In 2019, the number of new applica-



**77%**

**Of our rehabilitation customers, 77% returned to working life in 2019.**

New disability pensions and rehabilitants (persons) 2019



- Cash rehabilitation benefit\* recipients and those retired on a disability pension, 3,386 (3,431)
- Recipients of a positive rehabilitation decision, 2,548 (2,898)

\* Fixed-term disability pension

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

tions increased 4.6%. Potential explanations for this are the so-called activation model in the unemployment security system, work ability challenges brought to light by the improved employment rate, and changing work life. The main illness group behind disability is musculoskeletal diseases, but mental health disorders are on the rise.

In 2019, Varma rejected 34.6% (33%) of new disability pension applications. The rejection rate for all earnings-related pension companies was 33.6% (31.5%) in 2019. The Pension Appeal Board changed Varma’s disability pension decisions in 14.2% (13.9%) of the cases it handled. The corresponding rate for the entire private sector was 13.0% (13.2%).

In 2019, the average disability pension contribution category of Varma’s client companies was 3.6 (3.7).

**Vocational rehabilitation helps people continue in working life if their work ability 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 work ability.

# AN AGILE WORK CULTURE THAT FOSTERS RESPONSIBILITY

In 2019, Varma focused on developing self-directed work teams and diversity. We also continuously pay attention to keeping supervisory work at a good, consistent 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 key to customer satisfaction and Varma's success. A modern and attractive work culture gives us a competitive edge. Varma was included for the second time on the list of Finland's Most Inspiring Workplaces, which we believe is thanks to our continuously evolving work culture. 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. We work with joy and passion.

At Varma, specialists are behind the wheel, and they are responsible for the work's progress, making choices and getting the job done, while supervisors are the co-drivers, anticipating, monitoring progress and giving feedback. 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. Our modern premises take into account different work situations, easy personal interaction and the possibility to work from anywhere. For our customers we are available regardless of place.

Varma's work culture has been developed in several ways over the past few years. In 2019, our work culture efforts focussed on strengthening self-management, especially in specialist roles. We offered, for example, training in using tools that improve self-management skills. In the Work Culture 2.0 group, Varma employees who are interested in developing their work culture carried out practical tests related to agile ways of working, self-management and competence sharing. The group aims to share good practices with all Varma employees and encourage new ways of working. In conjunction with the launch of Varma's new strategy and vision, a "Varmistajat" group from different parts of the organisation was established. The group supported supervisors and all Varma employees in implementing the strategy in daily work during the autumn.

At Varma, a flexible work culture also means being able to effortlessly balance work and personal life. In 2019, 7% of Varma employees were working part-time while they were on, for example, partial child-care leave.

**Varma was included for the second time on the list of Finland's Most Inspiring Workplaces, which we believe is thanks to our continuously evolving work culture.**

## Personnel

	2019	2018	2017
Personnel	558	553	554
* permanent	536	529	532
* fixed-term	22	24	22
* full-time	519	515	511
* part-time	39	38	43
Women/men (%)	71% / 29%	71% / 29%	72%/28%
Personnel covered by collective bargaining agreements (%)	85%	88%	88%
Average age	47 y 3 m	47 y 2 m	47 y 3 m
Average age of retirement on old-age pension	63 y 10 m	63 y 10 m	63 y 7 m
Average service period	14 y 1 m	14 y 5 m	14 y
Personnel turnover rate	10.4%	8.1%	8.8%
Exit turnover rate	9.1%	8.5%	8.6%
Sick days/employee	8.9	7.1	8.0
Training days/employee	2.9	2.5	2.2
Employees covered by performance and development reviews (%)	100%	100%	100%

## Employee experience and supervisory work continuously monitored

We carry out an employee survey every year. In recent years, the results have been continuously improving. In a survey carried out in December 2019, the PeoplePower Index, measuring employee satisfaction and engagement, rose to an all-time high, at 75.2 (72.2), which equals a good AA rating. Varma was included for the second time on the [list of Finland's Most Inspiring Workplaces](#).

The results showed a vast improvement in almost all of the index areas. Varma employees are especially satisfied with communication on the strategy and future, well-implemented changes and working environment. There is trust in the company's management and remote working opportunities receive credit. Areas of improvement include personnel's opportunities to influence the development of their unit's operations, easy access to information and collaboration between units.

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

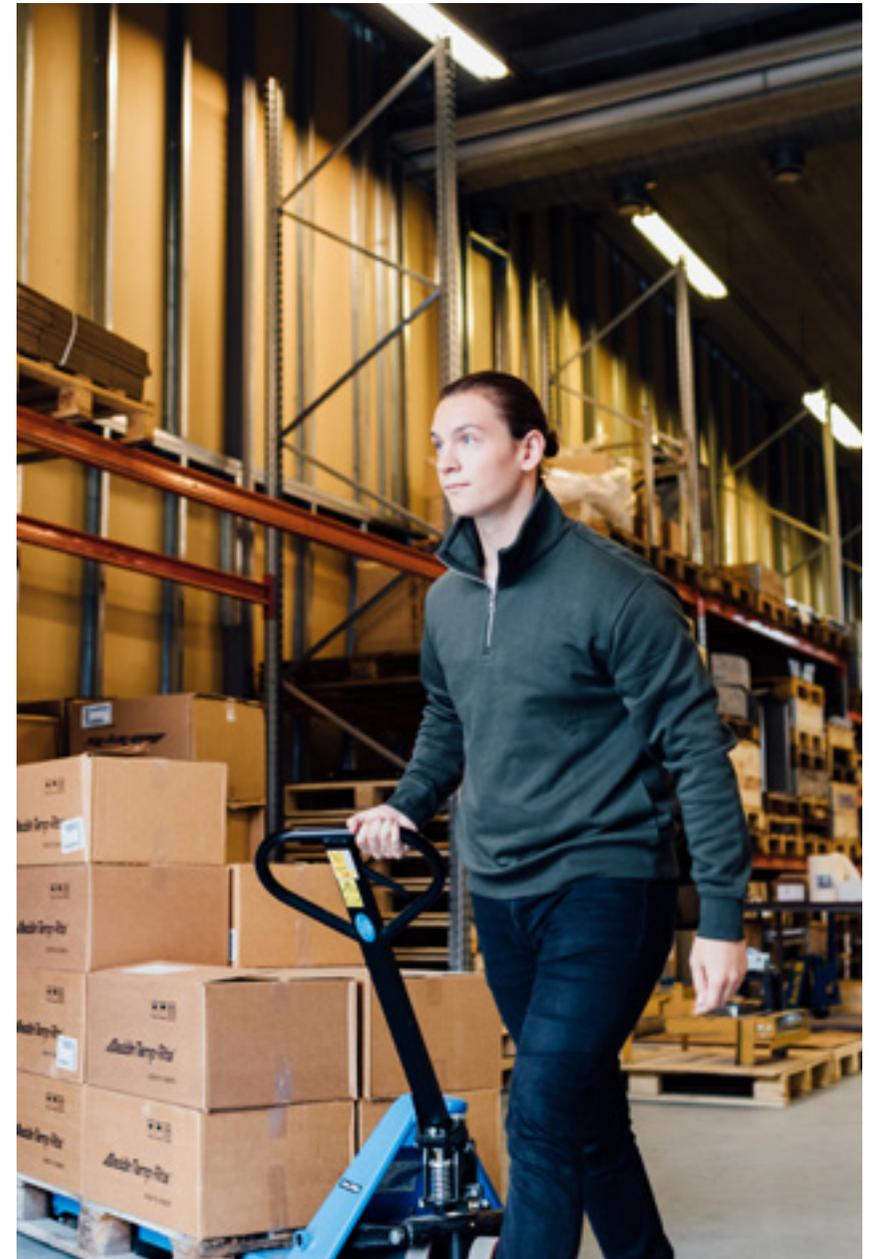
## Responsibility for senior employees and summer employees alike

Varma employees are satisfied and have long careers, 14 years on average. In 2019, we asked long-time Varma employees for their feedback. The questionnaire results show that the experience of being appreciated comes both from being able to make use of the in-depth competence gained over a long career and diverse development opportunities.

We also want to offer good experiences to young people who are starting out in their careers. We work with the Haaga-Helia University of Applied Sciences and offer trainee positions to students. Varma has also participated for several years in the [Responsible Summer Job campaign](#) where employers commit themselves to the principles of responsible summer jobs. Furthermore, Varma has chosen as its main goal to offer summer jobs especially to those applicants who are looking for their first job in their own field or who have special challenges in finding work in their own field, for instance due to a handicap or illness. The first stage of the summer employee recruitment process took place in group interviews, where 100 young people received an interview experience and feedback on the interview.

In 2019, Varma was ranked second in the large corporations' category in the Responsible Summer Job campaign. Overall satisfaction with Varma was very high, and the results were consistently good in all areas of the summer job experience. The summer employees appreciated Varma's pleasant workplace atmosphere and community, modern approach and equality.

**Varma was ranked second in the large corporations' category in the Responsible Summer Job campaign.**



# 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 2019, we focussed on four themes in competence development: leadership and supervisory work in a modern work culture, growth and stronger self-management as a specialist, competence in work ability management and renewal of competence, and development of agile ways of working in a digital Varma.

We organised several theme events for our supervisors in the course of the year with topics such as work ability management and diversity. A separate coaching programme was organised for team leaders in order to strengthen performance management and good supervisory work.

Around 140 Varma employees participated in coaching events aimed at strengthening specialists' self-management capabilities. The coaching events included training on different tools supporting self-management. Customer service skills were improved on the basis of real-life experiences. Varma's digital journey was promoted,

for example, by organising training on artificial intelligence and coding.

The transformation of work challenges all of us. We want to support Varma's specialists in meeting any future competence requirements and being in the frontline of the tremendous transformation that is taking place in the world. The ability to learn will be one of the most important tools in a specialist's career. We have encouraged Varma's specialists to create future-proof work identities for themselves through special Survivors 2030 coaching.

For some Varma employees, working with a robot is part of their daily work, 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

sparring, networks 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.

In addition to each employee's daily work, Varma's strategy is executed through change programmes. Varma's internal renewal is steered by Herkkyyssryhmä ('sensitivity team'), which has chosen, for instance, self-directed work teams and the promotion of cross-functional collaboration as themes for 2020. Personal competence objectives will be set for each Varma employee, and the Talent Management programme will help identify areas of competence and capabilities required by our strategy.

**We support Varma's specialists in meeting any future competence requirements and being in the frontline of the tremendous transformation that is taking place in the world.**

# EQUALITY AND NON-DISCRIMINATION

## Promoting diversity and equality

Fostering equality and non-discrimination is a vital part of Varma's sustainability.

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 the latest survey, carried out in spring 2018, pay system transparency and fairness, 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. The Regional State Administrative Agency has given us positive feedback on a non-discrimination plan that reflects Varma as a company and is tailored to the needs of the organisation.

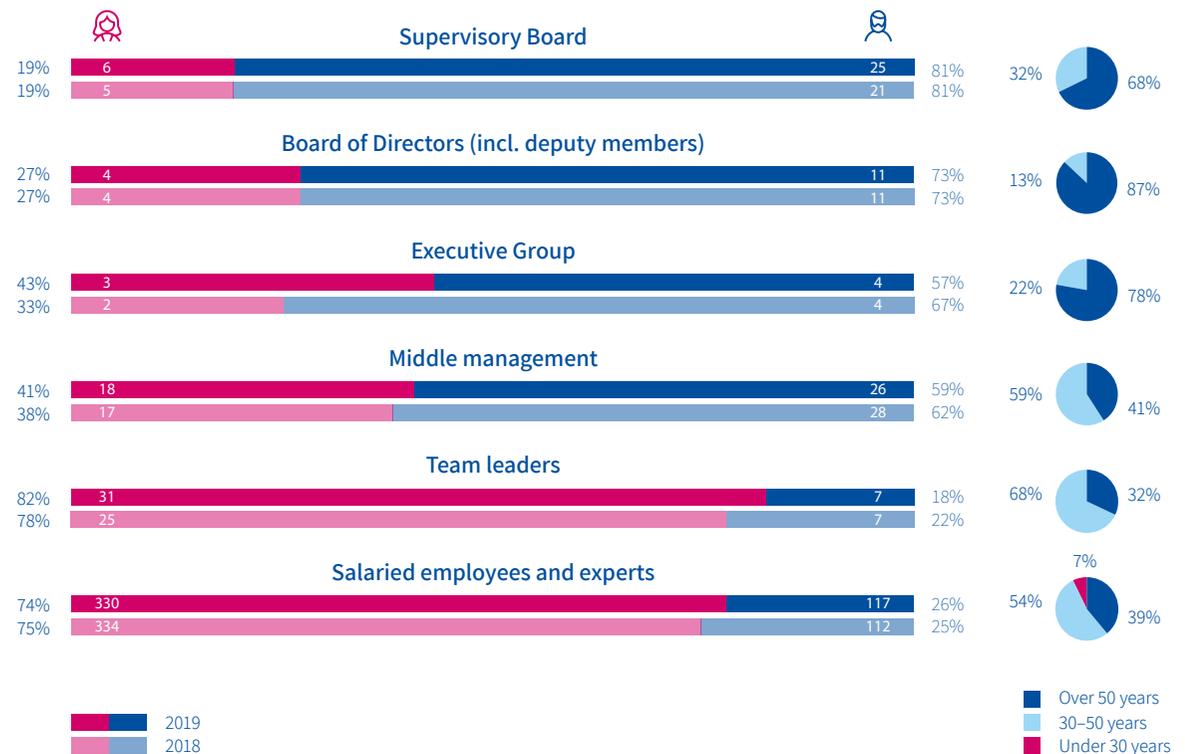
## Job grading system adds transparency to remuneration

Our employee surveys from a few years ago indicated that Varma employees wanted a more transparent and fair pay system. We have been developing our pay system and its transparency with determination and a long-term view over the past years.

The job grading system introduced in 2017–2018 and the locally agreed pay system form the basis for determining the pay level in a transparent manner. In addition to the requirements of the job, the pay level is influenced by the employee's performance. The basis for each employee's job grade, as well as feedback on and an evaluation of their performance are reviewed annually using common criteria. We conduct annual comparisons with market pay levels such that each employee's total salary is compared to the pay level of a financial sector role with corresponding requirements and performance. The comparison helps direct pay raises in a fair and equal way. It also helps ensure and promote the realisation of Varma's equal pay objective.

An important goal has also 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,

## Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2018 and 2019



## Women's salaries in relation to men's at Varma in 2019

Group	Women's average salary as % of men's salary
Executive Group (excl. the CEO)	80%
Rest of personnel	73%

since in the 2019 employee survey, Varma employees' satisfaction with the competitiveness of their pay level and experiences of remuneration fairness showed significant improvement.

### 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. Varma has a zero-tolerance policy towards inappropriate conduct, harassment and discrimination. 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.

Guidelines on how to proceed if one experiences or observes inappropriate conduct are available to all employees on the intranet. All function and department heads have also reviewed the guidelines together with their teams. Furthermore, Varma's online course on ethical behaviour includes information and instructions on what to do 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 genders has not been realised in the best possible way in earlier years, especially in Varma's management and governing bodies; in the Executive Group, for example, the share of women was markedly lower than that of men.

In 2017, we agreed on targets and measures for promoting equality at Varma. The 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 have worked, as in 2019 we reached our target: women accounted for 43% of the Executive Group members and 41% of middle management.

Support for non-discriminatory career development is also taken into account in the leadership coaching and Talent Management project for specialists.

Every two years, we carry out a pay survey to determine whether gender equality is being implemented in our pay and reward 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.

In an analysis made in 2018 there was still a clear gap between the average salaries of men and women, but we have been heading in the right direction over the last couple of years. When salaries are viewed by job grades, pay equality is achieved to a clearly higher degree. There are no clear differences between genders in performance-based remuneration. During the 2019 salary increases, we paid special attention to improving pay equality between genders, as a result of which pay equality was enhanced in all personnel groups.

Equal remuneration will continue to be developed, for instance, by paying special attention to female employees' pay development, especially in more demanding positions. The new pay system guides remuneration and its development in accordance with our equality target.

### Striving for a diverse workplace that values individuality

Diversity is important to us. One of our goals in 2019 was 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 a better chance 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 aim to offer job opportunities especially to minorities, for example, to disabled people. We also continuously strengthen Varma's discussion culture and, as part of it, encourage our employees to express their views more strongly in, for example, discussions with their supervisor.

We actively build a corporate culture and a workplace where diversity is valued and where everyone is free to be themselves. In 2019, Varma was one of the official partners of Helsinki Pride. We also established a Pride network, which includes around 40 people from different parts of Varma. The network promotes diversity at Varma, especially from the point of view of sexual and gender minorities. Examples of actions to support diversity in 2019 include adopting gender-neutral job titles and unisex bathrooms. Supervisors also took part in diversity training, which included coaching on the impact of subconscious preconceptions on diversity management and how rainbow minorities can be taken into account as part of equal working life.

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

# RESPONSIBILITY FOR THE ENVIRONMENT

Through our investment decisions, we are building a world that is safe and sustainable for future generations. Mitigating climate change is one of Varma's key sustainability targets. We aim for a carbon-neutral investment portfolio by 2035.

# MITIGATING CLIMATE CHANGE IN INVESTMENTS

Mitigating climate change is one of Varma's key sustainability targets. Our efforts have paid off: the carbon footprint of our investments is now clearly smaller, and we have received recognition in global comparisons. We published our revised climate targets in 2019. We commit ourselves to developing our portfolio towards carbon neutrality in 2020–2035.

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 our sustainability programme for 2019–2020, our goal is to develop our investment portfolio so that it is aligned with the Paris Agreement's target of reducing emissions to limit global warming to 1.5 degrees Celsius compared to the pre-industrial level.

**Mitigating climate change is one of Varma's key sustainability targets.**



# CLIMATE RISKS AND OPPORTUNITIES ACCORDING TO THE TCFD RECOMMENDATIONS

Varma is committed to supporting the 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 and opportunities 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.

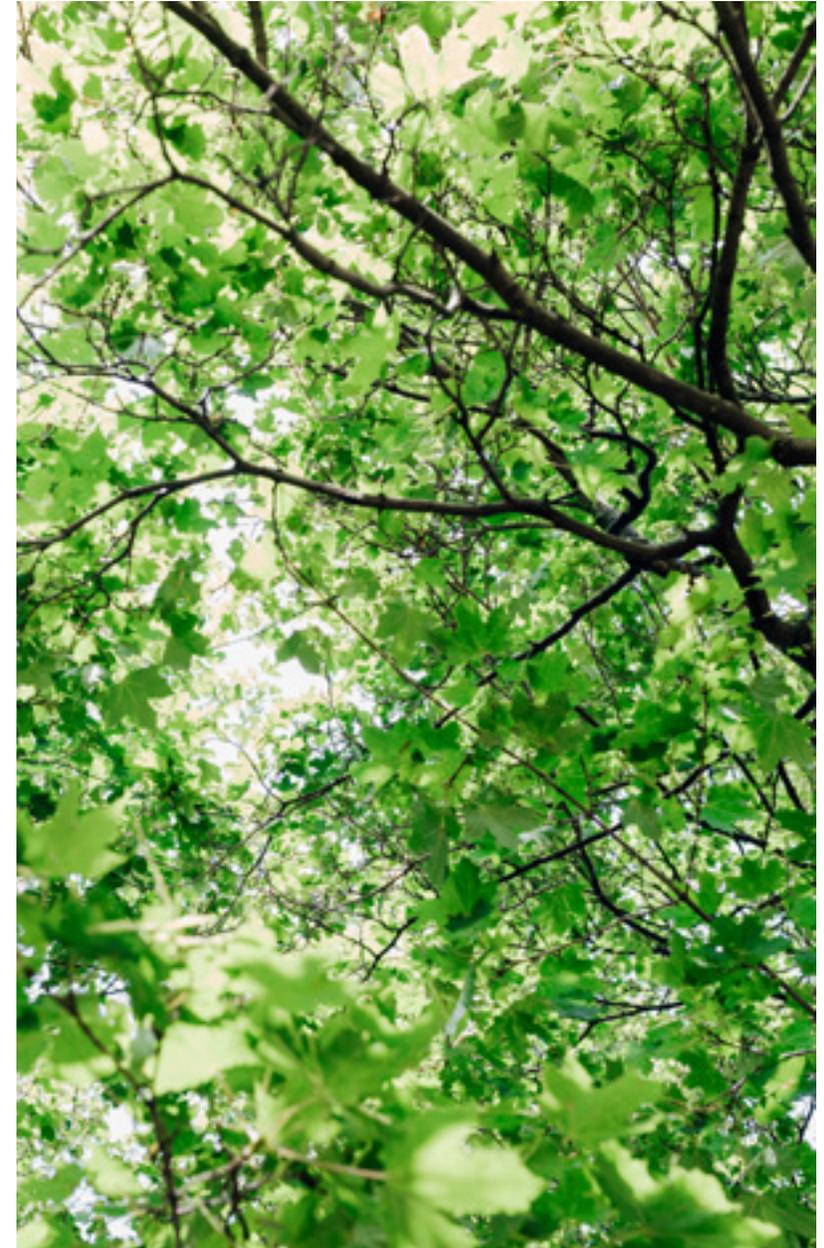
On the other hand, climate change also presents investors with opportunities. For instance, companies developing technologies to mitigate climate change or solutions to facilitate the transition to a low-carbon economy may offer investors good return opportunities.

## Climate risk management and strategy

Sustainability is a strategic focus for Varma, and mitigating climate change is one of the company's key sustainability targets. Climate issues are a key focus when sustainability issues are biannually reported to Varma's Board of Directors. The Executive Group also discusses sustainability 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 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.

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



The Investment Operations executive group regularly addresses matters relating to responsible investments. Furthermore, climate aspects are covered 4 times a year in the allocation group, which oversees the risk level of the investment portfolio. The climate aspects of listed fixed income investments and equity investments are examined in relation to the benchmark index.

Climate risks are addressed 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 develop our investment portfolio towards carbon neutrality in 2020–2035. We have also previously committed to developing our investment operations so that our investments are aligned with the target of the Paris Agreement.

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.

### Engaging with investees

For an investor, one means of managing climate-related risks is to engage

with 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 companies in which we have a holding. We have around 300 company meetings annually, and in the meetings, we explore how they take climate change mitigation into account in their operations. In 2019, Varma was represented in the [Shareholders' Nomination Boards](#) of 28 companies and participated in the [Annual General Meetings](#) of 65 companies.

In direct investments, we strive to engage with companies with the aim of having them decommission coal power plants by 2030.

In 2019, we carried out a survey among European listed companies to find out what the climate targets of our direct investee companies are. The survey showed that many companies have scientifically proven methods in place for reducing emissions, but there is still a long way to go to achieve the targets.

In addition to direct company contacts, we engage globally, together with other investors, through various collaborative initiatives and pledges. In 2019, we joined the international [Powering Past Coal Alliance](#) (PPCA), which is working to advance the transition away from coal-based electricity and heat generation in the EU and OECD countries by 2030.

We have also 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.

Varma has also joined the [Montréal Pledge](#) initiative, in which investors commit to measure and publicly disclose the carbon footprint of their listed equity investments annually. Furthermore, we have signed the [CDP](#), which compiles data on companies'

### TCFD is a framework for reporting climate issues

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 the TCFD's recommendations. We encourage the companies in which we have a holding to do the same.

**In direct investments, we strive to engage with companies with the aim of having them decommission coal power plants by 2030.**

greenhouse gas emissions and other climate-change-related data.

We are active in various networks that fight climate change, such as the [Climate Leadership Coalition](#) and [Climate Partners](#).

### Climate targets, indicators and measures

#### Negative screening and enhanced ESG monitoring

Due to our efforts to mitigate the effects of climate change, we have excluded investments in companies with coal- or lignite-based operations that account for more than 30% of their net sales. We do not invest in coal mining operations, and our direct shareholdings in oil exploration are negligible, at 0.02%. Of Varma's direct equity investments, 12.8% was in companies that use fossil fuels in their production to a major extent, while the corresponding figure for the benchmark index was 12%.

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, construction materials, chemical and transport industries. The enhanced ESG analysis also applies to companies with coal- or lignite-based operations generating 15–30% of their net sales.

In our new climate targets published in 2019, we are committed to exiting from investments in thermal coal by 2025. We are also committed to excluding oil exploration from our investments by 2030.

Some companies require enhanced monitoring due to their exposure to climate risks. Our plan is to engage these companies in order to accelerate the decommissioning of coal-based operations. Our goal is to have these companies decommission their coal plants by 2030. Otherwise, we will exit the investment. We see no future for coal-based electricity generation.

#### 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

### Climate-related risks, their potential impact on investments and the means of risk management in Varma's investments

Risk	Potential impact on investing	Means of management
Transition risks	<b>Regulatory</b> impact, e.g. emission rights prices, carbon tax, varying regulation. Investees' ability to identify new business opportunities and develop new technologies to mitigate climate change. Consumer behaviour and tightening regulation may influence the <b>market</b> and investees' <b>reputation</b> .	<ul style="list-style-type: none"> <li>Enhanced ESG monitoring of transition industries</li> <li>Reducing carbon intensity</li> <li>Negative screening</li> </ul>
Acute physical risks	Extreme weather conditions and natural disasters, e.g. floods and hurricanes. For example, the drying up of rivers may affect logistics costs, crop damage due to drought or excess rainfall may influence the cost of food production, heat may increase the cooling costs of business premises, winter clothing sales may suffer from mild winters, and tourism, e.g. ski resorts and restaurants in their vicinity, may be negatively affected by unfavourable weather conditions, like snow scarcity.	<ul style="list-style-type: none"> <li>In real estate investments, the use of flood surveys and flood maps: properties will not be built or acquired from areas at risk of floods</li> <li>In private equity investments, company analyses and supply chain management</li> </ul>
Chronic physical risks	Drought, heat waves, rain. For example, attempts are being made to mitigate the California wildfires caused by annual drought by undergrounding electricity transmission network (reduced chance of wildfire ignition); in food production, coffee and cocoa plantations are being moved permanently away from locations where conditions have become unfavourable; acute physical risks turn chronic.	<ul style="list-style-type: none"> <li>Facade solutions for new buildings, building condition assessments</li> <li>Modelling of companies' geographical production locations</li> <li>Assessing risk management in supply chains</li> </ul>

**Our goal is to cut the carbon intensity of listed equity and corporate bond investments by 50% by 2027.**

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, aimed at limiting global warming to 1.5°C.

In 2019, the carbon footprint of equity investments was down 16%, the carbon footprint of corporate bond investments was down 20%, and the carbon footprint of real estate investments was down 27% from the 2015 level.

In our climate targets published in autumn 2019, we set new goals in tracking the carbon footprint of investments. We monitor and report on the carbon footprint of our investments using the indicator recommended by the TCFD. Our goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows: 30% by 2023, 40% by 2025 and 50% by 2027.

Our new indicator increases the weight of big polluters, which means that a single company with large emissions may have a major impact on the investor's carbon footprint. For us to reach our climate targets, such investee companies need to implement significant emission reductions or, alternatively, we need to reduce our position in them.

**Our goal is to halve the emissions of listed equity and corporate bond investments by 2027.**

### The carbon footprint of Varma's investments

Listed equity investments	31 Dec 2019	31 Dec 2015	Change	Varma vs. index
Carbon footprint in relation to revenue (t CO <sub>2</sub> e/€ mill.)	<b>200</b>	237	-16%	-18%
Market value (€ bn)	<b>13</b>	11	22%	-
Carbon footprint (t CO <sub>2</sub> e)	<b>1,952,620</b>	1,810,908	8%	2%
Carbon footprint in relation to invested capital (t CO <sub>2</sub> e/€ mill.)	<b>149</b>	168	-12%	2%
Weighted carbon intensity (TCFD)	<b>189</b>	-	-	-10%

Listed corporate bonds	31 Dec 2019	31 Dec 2015	Change	Varma vs. index
Carbon footprint in relation to revenue (t CO <sub>2</sub> e/€ mill.)	<b>173</b>	217	-20%	-32%
Market value (€ bn)	<b>3</b>	3	7%	-
Carbon footprint (t CO <sub>2</sub> e)	<b>884,493</b>	1,535,094	-42%	-8%
Carbon footprint in relation to invested capital (t CO <sub>2</sub> e/€ mill.)	<b>276</b>	515	-46%	-8%
Weighted carbon intensity (TCFD)	<b>157</b>	-	-	-33%

Direct real estate investments	31 Dec 2019	31 Dec 2015	Change
Carbon footprint (t CO <sub>2</sub> )	<b>37,829</b>	58,050	-
Share of flats	<b>18%</b>	18%	-
Share of business properties	<b>82%</b>	82%	-
Carbon footprint in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>24.6</b>	33.8	-27%
Carbon footprint of flats in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>17.9</b>	27.2	-34%
Carbon footprint of business premises in relation to gross square metres (CO <sub>2</sub> kg/gross m <sup>2</sup> )	<b>26.9</b>	35.6	-25%
Market value of the real estate portfolio included in the calculation (€ bn)	<b>2</b>	2.2	-
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	<b>72%</b>	66%	-

**Transition industries in Varma's investments and their risks and opportunities**

We have defined industries that, in terms of climate change, both offer the greatest opportunities for emission reductions through their business and are also significantly exposed to risks caused by climate change mitigation, such as regulation and market risks. These transition industries comprise the oil & gas industry, electricity & heat production, and the automotive, metals & mining, construction materials, chemical and transport industries.

In addition to these industries, we actively monitor the development of the forest industry, which has a major role in Finland and thus in Varma's investments in Finland. The forest industry has climate effects through both emissions and carbon sinks.

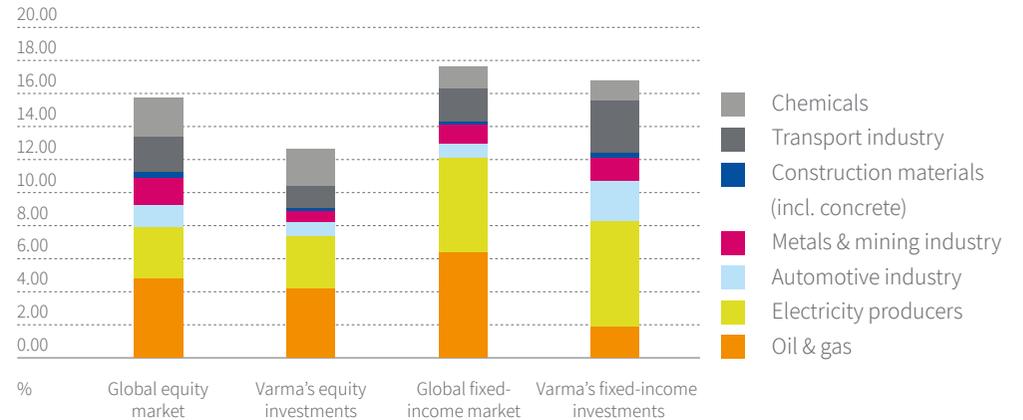
We have analysed the proportion of the transition industries in our listed equity and fixed income investments. At the end of 2019, the total share of transition industries in these asset classes was smaller than in the global equity market.

We also analysed the contribution of different transition industries to the carbon intensity of Varma's direct equity investments. Electricity generation accounted for half of the carbon intensity (scope 1 and 2).

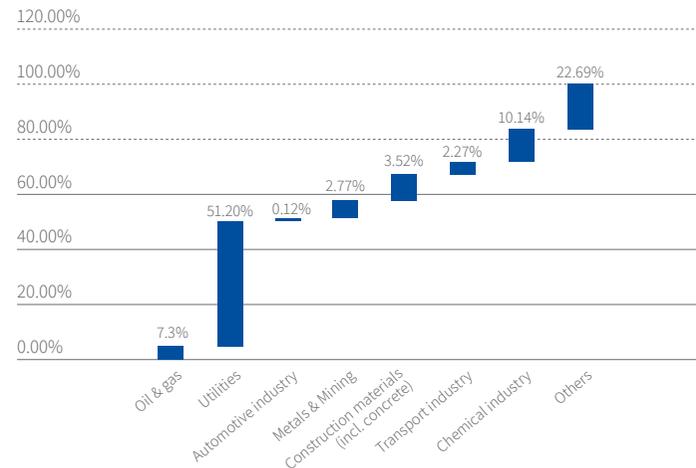
We also follow private equity and infrastructure funds' exposure to the transition industries. The goal is to raise the share of renewable energy in our electricity generation investments to 50% by 2030.

Companies operating within the transition industries also present investors with return opportunities. We aim to identify companies operating in these industries with the strongest willingness to change and ability to adapt to climate change.

**Share of transition industries exposed to climate change in investments**



**Contribution of different transition industries to the carbon footprint of Varma's equities**



**On the basis of the scenario analyses of the real estate portfolio's emissions, we set a new goal for our real estate: electricity and heating in properties will be fossil-free by 2025 and 2030 respectively.**

**Scenario analyses**

We have carried out various scenario analyses based on global climate models in order to determine how well our investments are aligned with the targets of the Paris Agreement. The results have been used, for example, to establish the targets for our renewed climate policy.

**Real estate’s emission reduction needs and physical climate risks**

Scenario analyses have been performed on Varma-owned properties both from the perspective of transition risks and physical risks. The development of the emissions of our real estate portfolio was examined in an analysis carried out in autumn 2018. The analysis covered the carbon dioxide emissions from the heating and electricity of business and residential properties owned by us. A baseline scenario was established first, depicting the likely development of emissions without any actions by Varma, except for the purchase of green electricity.

The analysis shows that the future emissions from Varma’s real estate property are, even in the baseline scenario, in line with Science Based Targets’ 1.5 degrees Celsius, but in order to reach the targets, the emissions from Varma’s real property should decline by 92% by 2050. We can achieve the biggest emission reductions by purchasing green electricity for business premises – residential properties already use green real estate electricity. Additional emission reductions can be achieved with solar electricity and heat pumps.

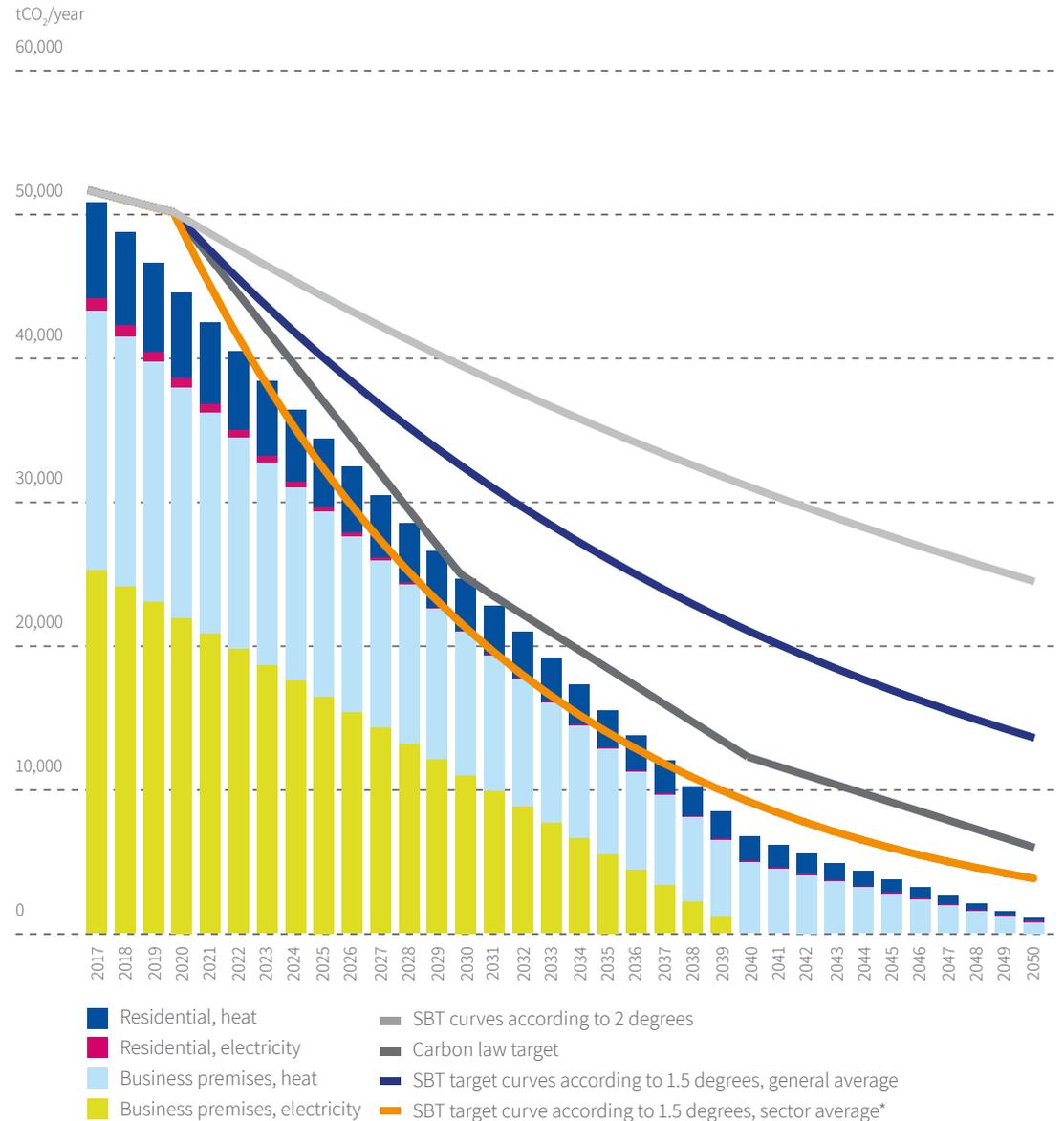
The development of the real estate portfolio’s emissions is closely linked to district heating becoming greener, i.e. based on renewable energy in Helsinki, Espoo and Tampere.

On the basis of the scenario analyses of the real estate portfolio’s emissions, we set a new goal in our renewed climate policy: real estate’s electricity and heating will be fossil-free by 2025 and 2030 respectively.

We commissioned an analysis focusing on the physical climate risks of our direct real estate investments in autumn 2018. Of the real property owned by Varma, around 70% is located in the Helsinki metropolitan area. Practically all of the buildings are located within a radius of approximately 10 kilometres from the sea-shore, 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.

**Scenario analysis of the development of Varma’s direct real estate investments’ emissions in relation to the target of limiting global warming to 1.5°C**



\* Gaia Consulting’s estimate based on the relation between general and sector reduction speed under the 2-degree scenario.

A separate flood analysis and flood risk survey was carried out at Varma's headquarters in Helsinki's Salmisaari in 2019. The results show that the likelihood of a sea flood or sewer flood in Salmisaari is very low.

### Scenario analyses for equities and corporate bonds

We determined how well our listed equity investments are aligned with the targets of the Paris Agreement with the help of a scenario analysis in 2018. The analysis made use of the International Energy Agency's (IEA) scenarios for climate warming (2.7°C, 2.0°C and 1.75°C). 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. On the basis of these observations, we set the carbon intensity reduction targets published in our new climate policy.

We examined the development of direct equity and fixed-income investments' carbon footprint during 2016–2019 compared to the reduction targets set out in our new climate policy. In order to meet our new climate targets, the emissions of investees with high emissions must decline annually or, alternatively, we need to reduce our positions in these investees.

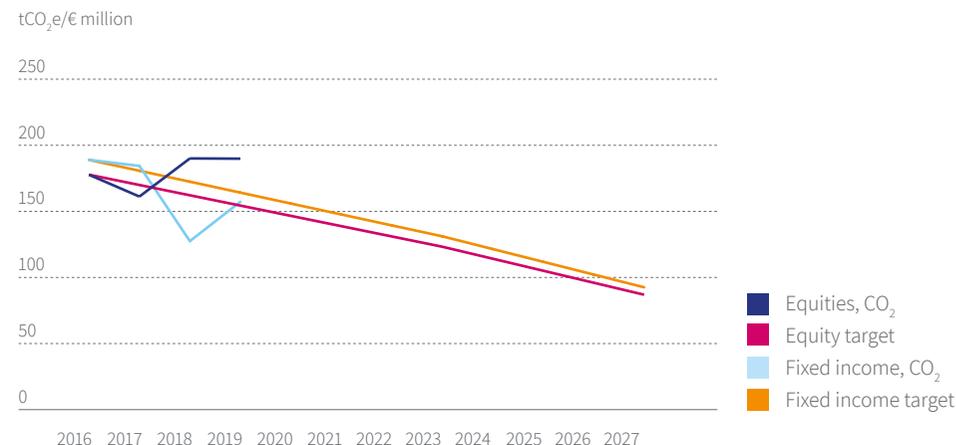
### Climate-change-related opportunities and impact on investment returns

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

We reach for carbon neutrality by 2035 by identifying new investment opportunities brought by climate change and by creating a climate-friendly investment allocation. The allocation will include companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions, who have a clear strategic and science-based target of reducing greenhouse gas emissions and whose operations offer carbon sinks. Our target is for the climate allocation to represent 20% of the investment portfolio by 2025.

Varma has been investing in, for example, 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 490.4 million, accounting for roughly 5.9% of our liquid bond investments.

### The carbon footprint development for listed equity and corporate bond investments in 2016–2019 compared to reduction targets under Varma's new climate policy



### Varma's climate work and reporting receive recognition

We have received international recognition for our climate work and reporting.

We came in fifth place in the [Asset Owners Disclosure Project's](#) (AODP) most recent comparison, carried out in autumn 2018, which assessed 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.

In 2019, the UN-supported PRI included Varma in the [PRI Leaders' Group](#) in an international comparison. The PRI assesses

investors with excellent responsible investment practices when selecting external asset managers and monitoring their operations.

Environmental organisations compared Finnish institutional investors' views on coal in 2019. Varma received the highest rating among Finnish investors, as well as the mention of being "climate smart". Special emphasis was placed on investors' policies and measures related to coal.

Varma also received recognition for the company's first TCFD report, when Varma was ranked number one in the Climate Change category of the sustainability reporting competition in autumn 2019.

When it comes to mitigating climate change, it would also be important for global index investors to shift their focus towards lower-carbon investments. In 2019, we developed, in collaboration with our partners, two sustainable exchange-traded funds (ETF), and invested a total of EUR 700 million in those. The ETFs were created jointly with the asset management company Legal & General Investment Management (LGIM) and the index investment company Foxberry, and they were listed on the London Stock Exchange. These index funds do not invest in companies or sectors that are on our investment blacklist: Tobacco companies, industries that manufacture controversial weapons and companies whose operations are based to a large extent on the use of coal and which have the highest emissions and significant fossil fuel reserves are excluded from the index.

For investors, high-level modelling of 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.

**We developed, in collaboration with our partners, two sustainable exchange-traded funds (ETF) in 2019. They exclude coal-based companies and heavily polluting companies.**

## Varma's new climate targets in a nutshell

We published an updated climate policy for investments in November 2019.

High-level objective: carbon-neutral investment portfolio by 2035:

- We invest in companies that create solutions for reducing emissions and take the progression of climate change into account in their operations.
- We invest in companies that benefit from climate change mitigation by creating products and services to replace fossil fuels.

We compose a climate-friendly allocation from the investments in different asset classes. Our target is for the climate allocation to represent 20% of the investment portfolio by 2025.

The goal is to reduce the carbon intensity of listed equity and corporate

bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

- 30% by 2023
- 40% by 2025
- 50% by 2027

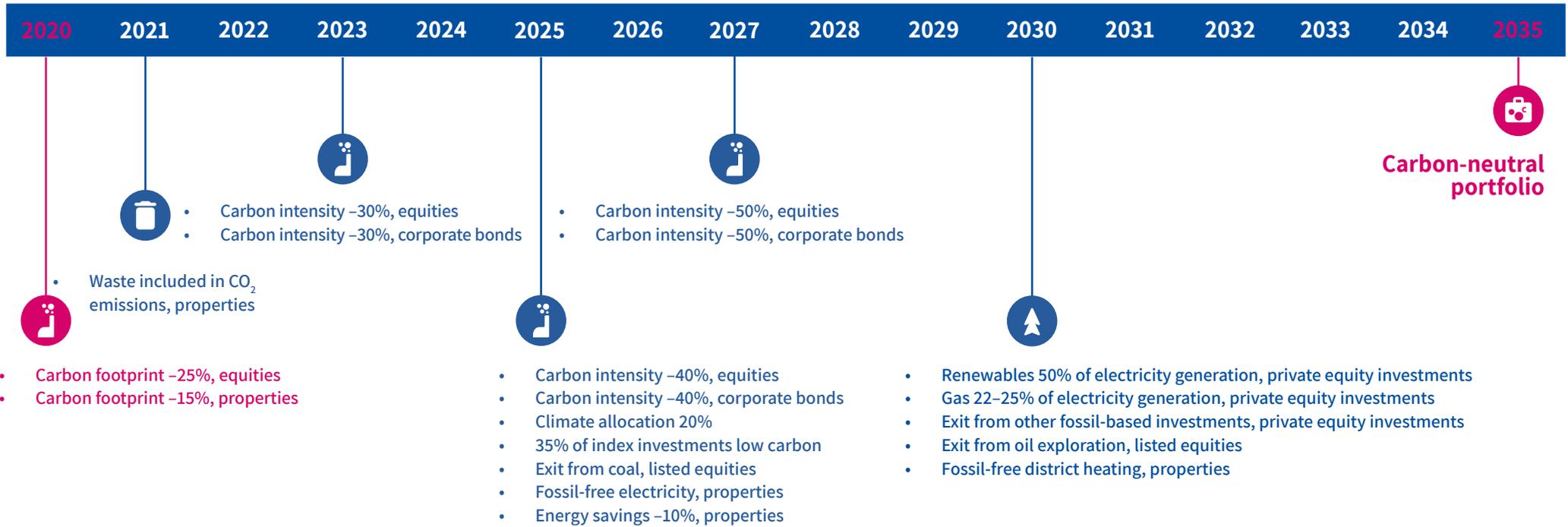
We are committed to exiting from investments in thermal coal by 2025, and to exclude oil exploration from our investments by 2030.

We will raise the share of our low-carbon index funds to 35% by 2025.

In private equity funds, we will increase the share of renewable energy in our electricity generation investments to 50% by 2030.

Properties use fossil-free heating and electricity by 2030 and 2025 respectively.

# ROAD MAP FOR VARMA'S CLIMATE TARGETS



# ENVIRONMENTAL IMPACTS OF REAL ESTATE INVESTMENTS

Buildings account for more than 40% of Finland’s GHG emissions. Varma's goal has been to reduce the carbon footprint of its real estate by 15% between 2015 and 2020. In our renewed climate policy, our goal is that our real estate’s heating and electricity are fossil-free by 2030 and 2025 respectively.

The carbon footprint of our real estate investments diminished by 27% between 2015 and 2019. This positive development is partly due to the change in Varma’s real estate base, but credit also goes to the measures taken to boost energy efficiency in the properties. The decline of the emission factor for district heat since 2018 also contributed to the lower emissions.

Emissions from Varma’s housing stock have reduced especially due to green real estate electricity. Except for a few individual sites, all of Varma’s residential properties have switched to using green real estate electricity.

In buildings, carbon dioxide emissions are mainly caused by the energy consumption arising from electricity and heating, 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 Agree-

ment 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. Between 2015 and 2018, energy consumption in Varma’s flats declined 12% and in commercial properties 4%.

Electricity and heat consumption have significantly fallen in our properties compared to 2018. We have managed to reduce consumption through energy saving measures, such as recovery of the condensation heat of a data centre, smart utilisation of waste heat and adoption of led lighting. Air conditioning equipment at the end of their life cycle have been replaced by switching to district cooling. The reduction in electricity consumption from 2018 is also partly explained by the exceptionally warm summer of 2018, which required significant amounts of cooling energy.

**Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma’s total housing stock will decrease by an estimated 48% by 2023.**

Consumption data for Varma’s real estate in 2017–2019

	2019	2018	2017
<b>Residential</b>			
Weather-normalised heat, MWh	42,442	44,590	40,845
Water, m <sup>3</sup> *	328,992	339,024	292,318
Electricity, MWh	5,682	5,662	5,735
Number of sites included in the calculation	58	58	55
<b>Business premises**</b>			
Weather-normalised heat, MWh	102,849	106,864	118,723
Water, m <sup>3</sup>	252,128	251,391	239,634
Electricity, MWh	81,829	85,671	89,791
Number of sites included in the calculation	49	53	62
<b>Business premises** and residential, total</b>			
Weather-normalised heat, MWh	145,291	151,454	159,568
Water, m <sup>3</sup>	581,120	590,415	531,952
Electricity, MWh	87,511	91,333	95,526
Number of sites included in the calculation, total	107	111	117

\* For residential properties, water consumption includes household water.  
 \*\* Sites managed by the tenant are not included in monitoring.

In 2019, we also collected energy consumption data from tenants, who independently manage the sites they have leased. This consumption data covers 13 cold properties. The total consumption figures for these sites were: district heat 20,654 megawatt hours, electricity 14,889 megawatt hours and water 147,425 cubic metres. These sites represent a total of around 9% of Varma’s entire direct real estate portfolio. The consumption data has been obtained from the tenants, and they include some user consumption in addition to real estate consumption.

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 included 32 (32) sites, the total waste volume of which was 2,804 (3,164) tonnes, and the related carbon dioxide emissions were 831 (865) tonnes of CO<sub>2</sub>e. We also provide our tenants with guidance on sustainable living. We sent all our flat tenants a guidebook on sustainable living, including concrete tips on saving energy, and recycling and sorting waste.

### Already 48 buildings 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 2019, eleven buildings owned by Varma were granted BREEAM In-Use environmental certification. At year-end 2019, a total of 48 of our real properties had environmental certification, representing 39% (34%) of the real estate base under our direct ownership.

The BREEAM environmental rating system was also introduced in our biggest construction projects, among them the K-Kampus office building project in Helsinki's Kalasatama, which received a construction project rating of ‘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 also to install more charging points for electric and hybrid cars in properties under its ownership.

## Circular economy introduced in real estate

Finland's built environment generates around 40% of the country's emissions and 50% of its waste, and consumes over 40% of its energy. The majority of the emissions results from poor materials management. Because of this, Varma's goal is to make use of circular economy models in its real estate business.

In 2019, Varma explored the opportunities for circular economy and set targets to promote it. Our goal is to adopt principles of circularity in all the processes of our new construction and renovation projects as well as maintenance. We aim for carbon-neutral construction and in-use carbon neutrality. In 2020, we will draw up circular economy guidelines for construction, aimed at steering all our new construction and repair projects towards low-carbon circularity.

We are piloting circularity-based planning and construction in conjunction with the wood office building ‘Keilaniemen Portti’ in Espoo, for which

construction work will begin in 2020. Special attention will be paid to the principle of “designed for disassembly and re-use”, prioritising low-carbon construction materials and calculating the carbon footprint over the building's entire life cycle.

Keilaniemen Portti will incorporate solar panels and green roofs, and energy efficiency will be given special attention. BREAAAM Excellent certification will be sought for the construction project.

Furthermore, we will update our real estate business's procurement criteria in 2020 in order to promote low-carbon circular economy solutions. We also aim to increase the recycling rate of construction and demolition waste.

When building and developing properties, we take into consideration the fact that the building's intended use may change in the future. A good example of this is the Uusikumpu school in Espoo, which used to be an office building.

**Our goal is to adopt principles of circularity in all the processes of our new construction and renovation projects as well as maintenance. We aim for carbon-neutral construction and in-use carbon neutrality.**

**Solar electricity and geothermal heating reduce properties’ emissions**

In recent years, Varma has built solar power systems in 7 buildings that it owns. 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. At sites with solar power installations, the proportion has been around 7% in May—August, and around 4% for the whole year.

The properties to be 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.

In 2020, Varma will switch to using heat pumps as the heating source for a large part of the properties in its housing stock. Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma’s total housing stock will decrease by an estimated 48% by 2023. Some of Varma’s residential properties will switch to using solar panels and property-specific heat pumps that recover heat from exhaust air. The new energy solutions will replace part of the buildings’ district heating consumption.

**GRESB Assessment results used to develop the sustainability of real estate**

Varma took part in the Global Real Estate Sustainability Benchmark (GRESB) assessment of real estate sustainability performance for the first time. With 68 points, the company scored two out of five stars. Varma is the only Finnish earnings-related pension insurance company to take part in the assessment so far.

GRESB is a global tool and framework for assessing and benchmarking the sustainability performance of real estate and infrastructure investments, allowing investors to collect and compare their sustainability performance data.

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 sustainability policies and management in the entire company. We use the GRESB Assessment as a tool to develop the sustainability of our real estate.

In the assessment, Varma scored particularly high points, for instance, in sustainability policy and management. The sustainability risks and opportunities of Varma’s real assets scored high, as did Varma’s certification work. Some improvement areas for us are in the coverage of consumption data and in the co-operation with our lessees and the supply chain.

**Waste from business premises**

	2019	2018
Amount of waste (t/a)	2,804	3,164
CO <sub>2</sub> emissions caused by waste (t CO <sub>2</sub> eq/a)	831	865
Total gross area of sites monitored for waste, gross m <sup>2</sup>	721,025	724,807
Total CO <sub>2</sub> emissions caused by waste, kg/brm <sup>2</sup>	1.2	1.2
Utilised as material	52%	54%
Utilised as energy	48%	47%
Sites monitored	32	32

**Heat pumps and solar panels will be installed in 36 apartment buildings, which means the emissions from Varma’s total housing stock will decrease by an estimated 48% by 2023.**

# ENVIRONMENTAL ASPECTS OF THE SUPPLY CHAIN

## Supply chain and sustainability requirements

Our sustainability 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 sustainability requirements. Direct suppliers are obliged to ensure that their subcontractors also comply with these sustainability 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

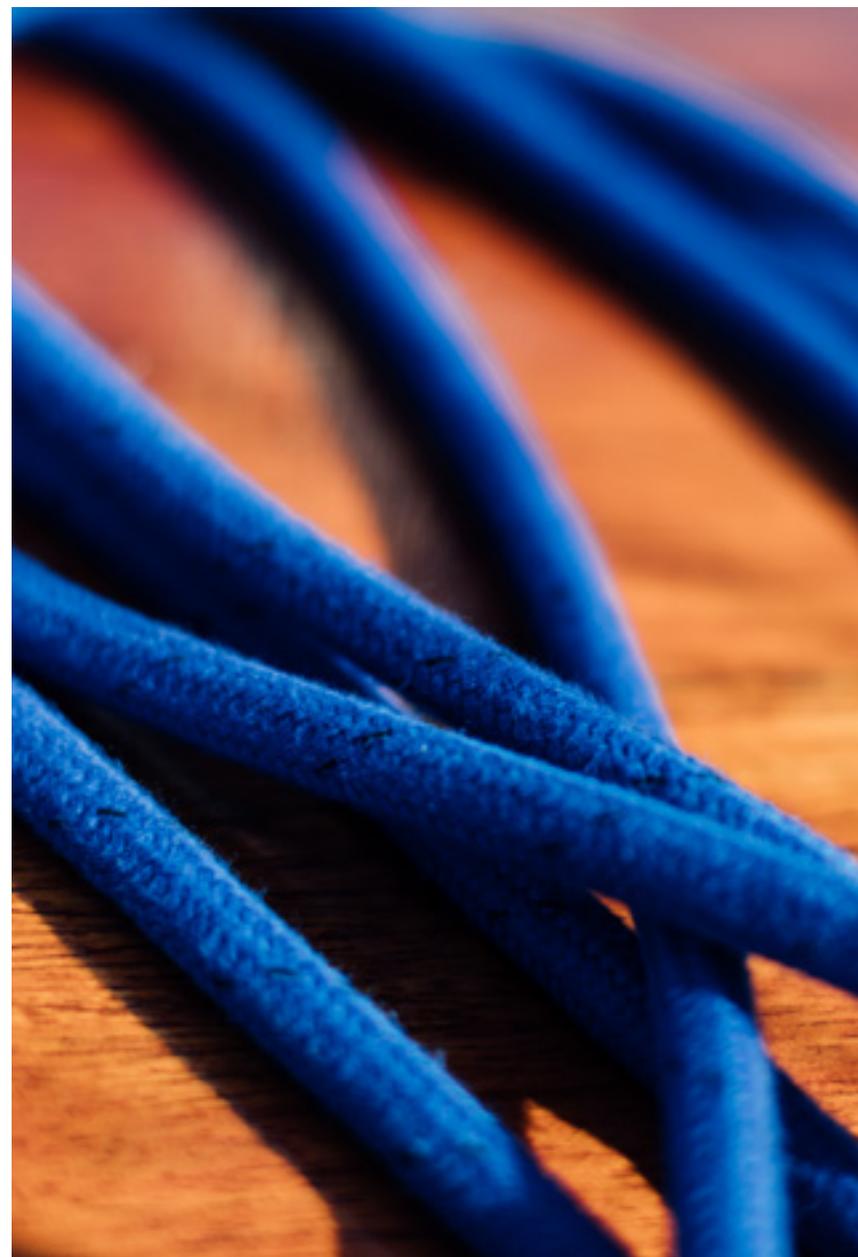
preparing for environmental impacts, in order to prevent environmental risks.

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. We will update our real estate business's procurement criteria in 2020 in order to promote low-carbon circular economy solutions. We also aim to increase the recycling rate of construction and demolition waste.

Of our purchases in 2019, 98.7% originated from Finland. The remaining 1.3% originated from the US, Canada, Norway, France and other European countries.

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



# ENVIRONMENTAL IMPACTS OF OUR OWN OPERATIONS

For real estate investor Varma, its own head office serves as a test laboratory where e.g. solar panels, charging points for electric cars and green electricity have been piloted. In 2019, our Salmisaari office received the highest, BREEAM Excellent environmental rating and renewed its Green Office certificate. In 2020, we will switch to green district heating in our head office.

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 operations by 15% by 2020, which is in line with the target set for real estate investments in our climate policy.

The ambitious measures taken to improve environmental sustainability have been successful. The carbon footprint of our own operations decreased 44% from the 2015 baseline.

Our Salmisaari office received the highest BREEAM Excellent rating in 2019.

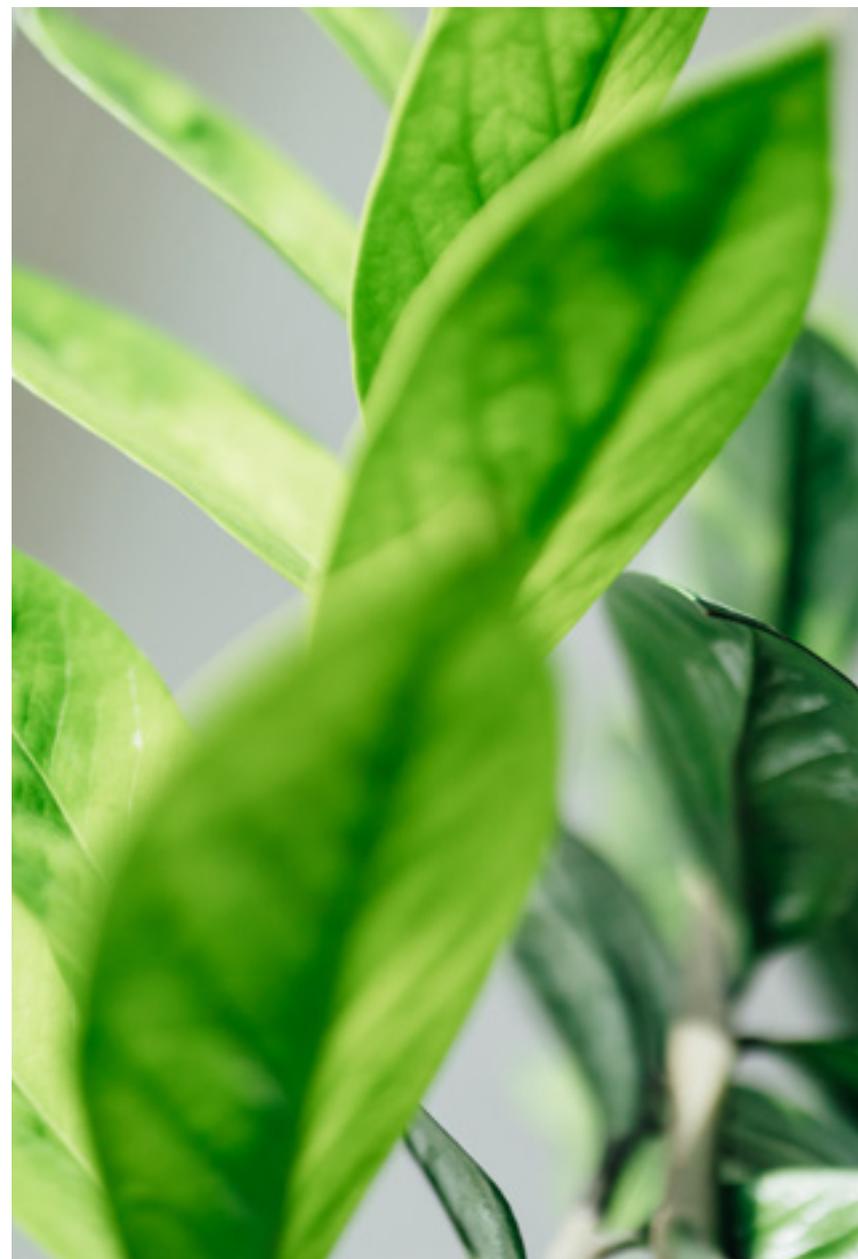
In 2019, we passed the Green Office re-inspection by WWF, and the Salmisaari office retained its right to use the Green Office label. Varma's Green Office targets and measures for 2019 related to reducing energy consumption, waste and paper consumption, reducing emissions from commuting, and food waste.

We also encouraged and engaged with our office campus neighbour companies to improve their environmental sustainability.

Greenhouse gas emissions from energy consumption at our Salmisaari office were cut by as much as 51% 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 4% of all electricity consumed in the building during the summer, and about 2% during the entire year.

In 2020, our head office will switch to green district heat, which is based on recycled heat and will further reduce our carbon footprint.

The volume of waste was reduced by nearly 60% 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 exam-



ple, the restaurant starting to sell its leftovers in 2017.

Printing paper consumption also declined 18% 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 CO<sub>2</sub> emissions limit is set at a maximum of 159 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 CO<sub>2</sub>g/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 240 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 240 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.

Varma has arranged good facilities for employees who cycle to work. Twice a year, a bicycle maintenance service provider parks its van on Varma's yard, and employees can have their bicycle serviced during the day. Varma encourages the use of public transport for commuting by offering an employee benefit.

### Environmental data of Varma's operations

	2019	2018	2017
Water consumption, m <sup>3</sup>	<b>3,054</b>	3,316	3,500
Electricity, MWh	<b>1,375</b>	1,257	1,667
Heat, MWh (weather-normalised)	<b>2,082</b>	2,213	1,990
Total waste (tonnes)	<b>25</b>	25	70
Carbon footprint, t CO <sub>2</sub>	<b>1,054</b>	1,243	1,560

**In 2020, we will switch to green district heating, which will further reduce our carbon footprint.**



# ETHICAL AND TRANSPARENT BUSINESS

Knowing and abiding by common rules is an essential part of responsibility for Varma employees. Our focus in 2019 was on establishing operations in accordance with the EU's GDPR.

# ETHICAL BUSINESS

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 responsibly. The Code of Conduct is approved by Varma's Board of Directors.

In the Code of Conduct, Varma commits to making purchases on market terms and conditions, combating the grey economy and bribery, and following responsible investment principles, among other things. We are committed to operating in accordance with the UN's principles concerning business and human rights, and we expect the same from our supply chain. The Code of Conduct includes 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, to identify money laundering and to comply with insider regulations. Every Varma employee must abide by the Code of Conduct. In case of problems and suspected violations, employees can contact the Compliance Officer.

In 2020, we will update our anti-corruption guidelines and open an

independent whistleblowing channel for reporting any violations anonymously. The possibility for anonymous reporting is required in cases where the reporter believes that his/her supervisor is involved in the violation or fears that reporting the violation may cause problems at work or in partner relationships.

We also started to renew our contract management to better ensure that the supply chain sustainability requirements are taken into account in our contracts.

## Responsible supply chain management

We have drawn up a [Supplier Code of Conduct](#) in order to promote sustainability in the supply chain.

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 sustainability requirements. A direct service provider is responsible for its own 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. The Supplier Code of Conduct is attached to agreements.

In 2020, we will assess human rights risks relating to the supply chain as part of a larger human rights assessment project.

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

## Varma's Compliance function

Through our Compliance function we ensure adherence to regulations, the Code of Conduct and other guidelines, and 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 data security course is taken annually.

The completion rate is monitored and reported, for example, to the Board of Directors. The online Code of Conduct course was completed in 2018 by 91% and the online data security course in 2019 by 92% of Varma 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.

## Requirements of the GDPR

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

We have updated our IT systems and implemented the GDPR requirements by renewing our data protection organisation and our practices concerning the handling personal data. We have arranged 30 training events, one of which is an annual online course on data security for all employees.

The GDPR requires that Varma as a controller identifies data security threats and is able to take preventive measures. The GDPR took effect in 2018, and reporting conforming to it covers one whole year. In 2019, we reported 66 data security events, 36 of which concerned minor data security violations under the GDPR. One case was reported to the data protection ombudsman.

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

# OPEN COMMUNICATION AND STAKEHOLDER CO-OPERATION

## Transparent and open operations

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

The work ability activities that earnings-related pension companies offer their clients have raised public discussion in recent years. In October, the Finnish Financial Supervisory Authority (FIN-FSA) outlined how earnings-related pension insurance companies may participate in disability risk management. The participation should be risk-based risk management as part of insurance business. In accordance with FIN-FSA's guidelines, we renewed our service offering with an increased focus on disability risk management.

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.

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. We report on climate risk management in accordance with the TCFD framework. The TCFD framework was introduced at Varma in 2018.

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 2019 results show that Varma's reputation is at a solid average level of 3.37 (3.32). The same survey measured the general public's view of Varma's sustainability. The score in this area was 3.36 (3.25). Our goal is to continuously strengthen our reputation and develop our responsible operations.

We strive to openly communicate about our operations. A survey carried out by Taloustutkimus in 2019 shows that reporters were the most satisfied with media co-operation with Varma. The questionnaire was completed by 106 reporters, and it involved a comparison of 16 Finnish companies.

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 sustainability networks

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

Our main stakeholders are customers, personnel, members of Varma's governance 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 stakeholders; as does the fact that Varma is a mutual company, owned by its customers.

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 2019, our stakeholders were interested in the pension reform, the Incomes Register, sustainability and the economic outlook, among other topics. The parliamentary elections in the spring, the Government Programme, uncertainties relating to the global economy and politics, Finland's declining birth rate, climate change, the transformation of working life and work ability were also themes that raised debate.

We engaged with non-governmental organisations on topics such as our climate targets, and our client companies were especially interested in developing diversity at the workplaces.

We engage closely with interest organisations in the sector. We participate in the working groups of the Finnish Cen-

**In 2020, we will update our anti-corruption guidelines and open an independent whistleblowing channel.**

## Interest organisations' membership fees

	2019	2018	2017
Finance Finland	293,961	311,103	376,026
Finnish Pension Alliance TELA	733,328	707,875	831,050

tre for Pensions, the Finnish Pension Alliance (TELA) and Finance Finland.

We are also involved in different networks of sustainable 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.

Varma was an official partner of [Helsinki Pride](#) in 2019. A working group of Varma employees has been developing non-discrimination and diversity in our work environment together with the Helsinki branch of Seta, the Finnish LGBT rights organisation. Any Varma employee could join Varma’s own Pride network. In June, we organised a Pride party of our own, and Varma employees took part in the Helsinki Pride parade.

**In 2019, Varma was an official partner of Helsinki Pride.**

**Communication vision: to be a bold pioneer**

Being a bold pioneer means that Varma’s experts express their views and interpretations and propose new initiatives on themes that are socially important to us.

We continued our work on building a profile as a bold pioneer in accordance with our content strategy for communication. During 2019, we offered coaching to our communication specialists in areas such as working with the media. They have also been encouraged to participate in social debate in their own area of expertise.

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 dialogue.

**Accessibility of Varma’s online services**

Varma falls under the scope of the Act on the Provision of Digital Services (306/2019), which took effect in April 2019. The act is based on the European Accessibility Act, and its purpose is to guarantee the use of digital services to everyone. Pursuant to the act, we are obligated to abide by the accessibility requirements as of 23 September 2020.

Accessibility promotes equality and makes it easier for people with disabilities and impairments to take care of their affairs online. Companies within the scope of public administration and the act must offer digital service to their customers in a consistent, customer-oriented and safe way.

Varma complies with the international Web Content Accessibility Guidelines (WCAG) in meeting the accessibility requirements. The goal is to ensure that, for example, the screen readers of visually impaired users, or other assisting technologies, are able to interpret the page contents correctly and the user is able to use the online functionalities.

In 2019 we focussed on improving the accessibility of the public online services at [varma.fi](#).

The texts have been made clearer, the colour contrast ratios have been changed and the technical availability has been improved so that the site is easy to use using screen readers and a keyboard. The income and pension calculators now have a white background instead of the former blue, and Varma’s brand colour pink is now a darker shade. We have also improved the accessibility of our eServices, and this work will be continued in 2020.

We have audited the accessibility of online services together with a third-party accessibility expert. In 2019, we organised training on accessibility, writing and easy language for our specialists and contents producers. The accessibility requirements of our online services are also taken into account in our IT purchases.

**A survey carried out by Taloustutkimus in 2019 shows that reporters were the most satisfied with media co-operation with Varma.**

# REPORTING PRINCIPLES

We ensure the transparency of our operations by regularly and comprehensively reporting on our business and sustainability efforts. This sustainability 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 sustainability 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 sustainability factors for Varma.

Varma's sustainability 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.

This report has been prepared in accordance with the GRI Standards: Core option. Reporting of Varma's material topics is based on the materiality analysis performed in autumn 2018, in which stakeholder groups were asked to assess sustainability 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 four material topics in terms of Varma's sustainability. Their key performance 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 MSCI's database and tool. The analysis of industries exposed to climate change risk has also been performed using MSCI's database. 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.

In the carbon footprint calculation, 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 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.

The weighted carbon intensity of investments is based on the weighting

of the investment in the portfolio. The figure is calculated by multiplying the carbon intensity (emissions/revenue) of the companies by their portfolio weight, and adding these up. Average carbon intensity for the sector is used for those companies that do not report their carbon emissions.

The carbon footprint of real estate investments takes into account residential and office premises' emissions from energy consumption and, as regards office premises, also emissions from water consumption. For electricity and heat, Motiva's emission factors have been used, though the emission factor for heat reported by Motiva is the factor released by Statistics Finland for the average CO<sub>2</sub> emissions from district heating in Finland. The specific emission factor for electricity is 0.158 t CO<sub>2</sub>/MWh, the average emission factor for heat is 0.164 t CO<sub>2</sub>/MWh and for natural gas 1.98 kg CO<sub>2</sub>/m<sup>3</sup>. Heat consumption is 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 29.5 g CO<sub>2</sub>/kWh in Turku, 0 g CO<sub>2</sub>/kWh in Tampere, and 72 g CO<sub>2</sub>/kWh in Helsinki and 2.95 kg CO<sub>2</sub>/m<sup>3</sup> for water. The emission factors for district cooling were supplied by the local energy companies.

The calculation of the CO<sub>2</sub> 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 1,405 kg CO<sub>2</sub>/waste tonne; the lowest factor is for wood waste and the highest for hazardous waste. Other fractions' emission factors lie somewhere in between.

**Integrated report**

Since sustainability 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 sustainability 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 sustainability focus areas, material topics and boundaries

Varma’s sustainability focus areas	Material GRI topics and Varma’s own material sustainability topics	Reporting boundaries
<b>Responsibility for pension assets</b>	<ul style="list-style-type: none"> <li>• Economic performance</li> <li>• Indirect economic impacts</li> <li>• Cost-efficient operations, loading profit<sup>1)</sup></li> <li>• Responsible investment<sup>1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Varma’s own operations</li> <li>• Varma’s societal impacts</li> <li>• Varma’s investments</li> </ul>
<b>Responsibility for customers – promoting work ability and a good working life</b>	<ul style="list-style-type: none"> <li>• Disruption-free implementation of pension provision<sup>1)</sup></li> <li>• Customer service<sup>1)</sup></li> <li>• Customer privacy</li> <li>• Promoting work ability and longer careers in client companies<sup>1)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Varma’s own operations</li> <li>• Customers</li> </ul>
<b>Responsibility for the environment – mitigating climate change</b>	<ul style="list-style-type: none"> <li>• Mitigating climate change in investments<sup>1)</sup></li> <li>• Supplier environmental assessment</li> <li>• Energy</li> <li>• Emissions</li> <li>• Water</li> <li>• Waste</li> </ul>	<ul style="list-style-type: none"> <li>• Varma’s investments</li> <li>• Supply chain</li> <li>• Varma’s own operations</li> </ul>
<b>Responsibility for Varma employees</b>	<ul style="list-style-type: none"> <li>• Employment</li> <li>• Training and education</li> <li>• Diversity and equal opportunity</li> <li>• Occupational health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Varma’s own operations</li> </ul>
<b>Ethical and transparent business</b>	<ul style="list-style-type: none"> <li>• Stakeholder engagement</li> <li>• Ethical business operations</li> <li>• Anti-corruption and anti-bribery</li> <li>• Public policy</li> <li>• Socioeconomic compliance</li> <li>• Supplier social assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Varma’s own operations</li> <li>• Supply chain</li> </ul>

<sup>1)</sup> Varma’s own material sustainability topic

# GRI-INDEX

## GRI content index

GRI standard	Contents	Location	Additional information	Deviations
<b>GENERAL DISCLOSURES</b>				
<b>Organisational profile</b>				
GRI 102	<b>102-1</b> Name of the organisation		Varma Mutual Pension Insurance Company	
GRI 102	<b>102-2</b> Activities, brands, products, and services	Varma in brief, p. 3, p. 15		
GRI 102	<b>102-3</b> Location of headquarters		Salmisaarenranta 11, 00180 Helsinki, Finland	
GRI 102	<b>102-4</b> Location of operations	Varma in brief, p. 3		
GRI 102	<b>102-5</b> Ownership and legal form	Varma in brief, p. 3		
GRI 102	<b>102-6</b> Markets served	Varma in brief, p. 3		
GRI 102	<b>102-7</b> Scale of the organisation	Varma in brief, p. 3		
GRI 102	<b>102-8</b> Information on employees and other workers	Key figures, p. 6, p. 35		
GRI 102	<b>102-9</b> Supply chain	Environmental aspects of our own operations and the supply chain, p. 54, Ethical business, p. 58		
GRI 102	<b>102-10</b> Significant changes to the organisation and its supply chain		No significant changes	
GRI 102	<b>102-11</b> Precautionary Principle or approach	Risk management (Report of the Board of Directors and Financial Statement), p. 40	Varma follows the principle of prudence in its operations. In all operations, the company's operating model is based on preparing in advance to avoid or mitigate risks and adverse effects relating to the environment.	
GRI 102	<b>102-12</b> External initiatives	Responsible investment, p. 25 Climate risks and opportunities according to TCFD, p. 43		
GRI 102	<b>102-13</b> Memberships of associations	Climate risks and opportunities according to TCFD, p. 43		
<b>Strategy</b>				
GRI 102	<b>102-14</b> Statement from senior decision-maker	President and CEO's Review, pp. 8–9		
GRI 102	<b>102-15</b> Key impacts, risks, and opportunities	Operating environment, pp. 13–14 Responsible Varma, pp. 16–19 Climate risks and opportunities according to TCFD, pp. 42–49		
<b>Ethical business operations</b>				
GRI 102	<b>102-16</b> Values, principles, standards, and norms of behaviour	Strategy and goals, p. 11 Ethical business, p. 58		
GRI 102	<b>102-17</b> Mechanisms for advice and concerns about ethics	Ethical business, p. 58		
<b>Governance</b>				
GRI 102	<b>102-18</b> Governance structure	Corporate Governance Report, p. 3		

**GRI content index**

GRI standard	Contents	Location	Additional information	Deviations
<b>Stakeholder engagement</b>				
GRI 102	<b>102-40</b> List of stakeholder groups	Open communication and stakeholder co-operation, p. 59		
GRI 102	<b>102-41</b> Collective bargaining agreements	Responsibility for Varma employees, p. 35		
GRI 102	<b>102-42</b> Identifying and selecting stakeholders	Open communication and stakeholder co-operation, p. 59		
GRI 102	<b>102-43</b> Approach to stakeholder engagement	Open communication and stakeholder co-operation, p. 59		
GRI 102	<b>102-44</b> Key topics and concerns raised	Open communication and stakeholder co-operation, p. 59		
<b>Reporting practice</b>				
GRI 102	<b>102-45</b> Entities included in the consolidated financial statements	Reporting principles, p. 64, Notes to the financial statements, p. 15	The sustainability report covers all entities included in the consolidated financial statements	
GRI 102	<b>102-46</b> Defining report content and topic boundaries	Reporting principles, pp. 64		
GRI 102	<b>102-47</b> List of material topics	Responsible Varma, pp. 17–19 Reporting principles, pp. 62–63		
GRI 102	<b>102-48</b> Restatements of information		No material changes	
	<b>102-49</b> Changes in reporting		No material changes	
GRI 102	<b>102-50</b> Reporting period		1 Jan–31 Dec 2019	
GRI 102	<b>102-51</b> Date of most recent report		12 March 2019	
GRI 102	<b>102-52</b> Reporting cycle		The report is published annually	
GRI 102	<b>102-53</b> Contact point for questions regarding the report		viestinta@varma.fi	
GRI 102	<b>102-54</b> Claims of reporting in accordance with the GRI standards	Reporting principles, p. 62		
GRI 102	<b>102-55</b> GRI content index	GRI content index, pp. 65–68		
GRI 102	<b>102-56</b> External assurance		The report has not been externally assured.	
<b>MATERIAL TOPICS</b>				
<b>Management approach</b>				
GRI 103	<b>103-1</b> Explanation of the material topic and its boundary	Responsible Varma, pp. 17–19 Responsible investment, pp. 25–28 Reporting principles, p. 64		
GRI 103	<b>103-2</b> The management approach and its components	Responsible Varma, pp. 17–19 Responsible investment, pp. 25–28 Climate risks and opportunities according to TCFD, pp. 42–43		
GRI 103	<b>103-3</b> Evaluation of the management approach	Responsible Varma, pp. 17–19 Responsible investment, pp. 25–28 Climate risks and opportunities according to TCFD, pp. 42–43		
<b>Economic responsibility</b>				
<b>Economic performance</b>				
GRI 201	<b>201-1</b> Direct economic value generated and distributed	Responsibility for pension assets, pp. 21–23		
	<b>201-2</b> Financial implications and other risks and opportunities due to climate change	Climate risks and opportunities according to TCFD, pp. 42–49		

**GRI content index**

GRI standard	Contents	Location	Additional information	Deviations
<b>Indirect economic impacts</b>				
GRI 203	<b>203-2</b> Significant indirect economic impacts	Responsibility for pension assets, pp. 21–23		
<b>Anti-corruption and anti-bribery</b>				
GRI 205	<b>205-2</b> Communication and training about anti-corruption policies and procedures	Ethical business, p. 58		
<b>Environmental topics</b>				
<b>Energy</b>				
GRI 302	<b>302-1</b> Energy consumption within the organisation	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45 Responsibility for the environment – Environmental impacts of real estate investments, p. 51 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 56		
GRI 302	<b>302-4</b> Reduction of energy consumption	Responsibility for the environment – Climate risks and opportunities according to TCFD, pp. 44–49 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 55		
<b>Water</b>				
GRI 303	<b>303-1</b> Water withdrawal by source	Responsibility for the environment – Environmental impacts of real estate investments, p. 51 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 56		
<b>Emissions</b>				
GRI 305	<b>305-2</b> Energy indirect (Scope 2) GHG emissions	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, pp. 55–56		
GRI 305	<b>305-4</b> GHG emissions intensity	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, pp. 55–56		
<b>Effluents and waste</b>				
GRI 306	<b>306-2</b> Waste	Environmental impacts of real estate investments, p. 53 Responsibility for the environment – Environmental aspects of the supply chain and our own operations, p. 56		
<b>Supplier environmental assessment</b>				
GRI 308	<b>308-1</b> New suppliers that were screened using environmental criteria	Responsibility for the environment – Environmental aspects of the supply chain		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.
<b>Social responsibility</b>				
<b>Employment</b>				
GRI 401	<b>401-1</b> New employee hires and employee turnover	Responsibility for Varma employees, p. 35		
<b>Occupational health and safety</b>				
GRI 403	<b>403-2</b> Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Responsibility for Varma employees, p. 35		

**GRI content index**

GRI standard	Contents	Location	Additional information	Deviations
<b>Training and education</b>				
GRI 404	<b>404-1</b> Average hours of training per year per employee	Responsibility for Varma employees, p. 35		
GRI 404	<b>404-2</b> Programs for upgrading employee skills and transition assistance programs	Responsibility for Varma employees – competence development, p. 37		
GRI 404	<b>404-3</b> Percentage of employees receiving regular performance and career development reviews	Responsibility for Varma employees, p. 35		
<b>Diversity and equal opportunity</b>				
GRI 405	<b>405-1</b> Diversity of governance bodies and employees	Responsibility for Varma employees – equality and non-discrimination, p. 38		
GRI 405	<b>405-2</b> Ratio of basic salary and remuneration of women to men	Responsibility for Varma employees – equality and non-discrimination, p. 38		
<b>Supplier social assessment</b>				
GRI 414	<b>414-1</b> New suppliers that were screened using social criteria	Ethical and transparent business, p. 58		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.
<b>Public policy</b>				
GRI 415	<b>415-1</b> Political contributions	Ethical and transparent business, p. 59		
<b>Customer privacy</b>				
GRI 418	<b>418-1</b> Substantiated complaints concerning breaches of customer privacy and losses of customer data	Ethical and transparent business, p. 58		
<b>Socioeconomic compliance</b>				
GRI 419	<b>419-1</b> Non-compliance with laws and regulations in the social and economic area		No incidents in 2019	
<b>Varma's own material CSR topics</b>				
<b>Responsible investment</b>				
	Engaging with investment objects on environmental, social and governance matters	Responsible investment, pp. 25–26		
	Reviewing investment objects' compliance with standards	Responsible investment, p. 25		
<b>Disruption-free implementation of pension provision</b>				
	Pension application processing time	Responsibility for customers, p. 28		
<b>Customer service</b>				
	Net promoter score	Responsibility for customers, p. 29		
<b>Promoting work ability and longer careers in client companies</b>				
	Effectiveness of rehabilitation	Responsibility for customers, p. 32		

**GRI content index**

GRI-standard	Contents	Location	Additional information	Deviations
<b>Mitigating climate change in investments</b>				
	Carbon footprint of Varma's listed equity investments	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45		
	Carbon footprint of Varma's listed corporate bond investments	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45		
	Carbon footprint of Varma's direct real estate investments	Responsibility for the environment – Climate risks and opportunities according to TCFD, p. 45		
<b>Cost-effective use of funds</b>				
	Loading profit	The year in brief, p. 6 Responsibility for customers, p. 30		

# VARMA

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