

Varma's half-year report 1 January–30 June 2023

The comparison figures in parentheses are from 30 June 2022, unless otherwise indicated.

- The total result was EUR 110 (-2,196) million.
- The six-month return on investments was 2.6 (-4.3) per cent, and the market value of investments was EUR 57.4 (56.2 on 1 Jan) billion.
- Solvency capital amounted to EUR 13,451 (13,444 on 1 Jan) million and was 1.7 times (1.8 on 1 Jan) the solvency limit.

Economic operating environment

The economic environment in the first half of 2023 was fairly conflicted. Global industrial development was modest, and construction activity remained weak. Simultaneously, brisk demand for services and a tight labour market kept the global economy in soft growth. Economic growth continued to be stronger than expected in the USA while growth was soft in Europe. In China, the positive economic impacts of the lifting of Covid restrictions were more subdued than anticipated. The long-awaited global recession did not start during the first half of the year, however.

The continuing problems of US regional banks in spring fuelled uncertainty, restricting lending by the banks. However, the problems did not spread further into the economy or shake the country's financial system. The country's central bank was able to continue tightening its monetary policy to curb persistent inflation. In the eurozone, the central bank also continued to take action against inflation and carried on with its policy rate hikes. The rapidly tightened monetary policy has already suppressed global inflation, although core inflation, i.e. inflation less energy and food prices, has slowed only marginally. The central banks expect the inflation rates to gradually fall towards their target levels and anticipate that they will maintain their policy rates higher for a long time.

So far, the slowdown in inflation has been leaning on the easing of supply bottlenecks and especially the fall of raw material prices. Weakened demand has also weighed on goods inflation in particular, which, coupled with the accelerating salary increase rates and strong employment development, has mitigated the erosion of households' purchasing power. However, global economic fluctuations and the rapid rise in interest rates have curbed companies' and households' investment appetite and forced households to increase their savings rates. Several countries have also been forced to rein in their rapid indebtedness through tighter monetary policies, which has contributed to curbing economic growth.

Earnings-related pension system

The insurance contribution interest rate used in TyEL and YEL insurance contributions was 2.45 per cent during the first half of the year. As of the beginning of July, the TyEL insurance contribution interest rate has been 3.85 per cent, while the YEL insurance contribution interest rate has remained at 2.45 per cent.

The country's new government's programme sets goals related to the pension system, the materialisation of which may also have impacts on the implementation of pension cover. The programme also mentions the possibility to increase returns on pension assets. The dependency ratio has declined, and the economic trend, the returns on pension asset investments and the future contribution development are laden with uncertainty. For these reasons, according to the programme, the necessary amendments to earnings-related pension

legislation must be prepared on a tripartite basis in order to ensure financial sustainability and safeguard an adequate level of benefits. The government will also evaluate the development needs of the YEL system.

Varma's economic development

Varma's total result at fair value for six months amounted to EUR 110 (-2,196) million. The most significant factor of the total result is the investment result, which was EUR 89 (-2,262) million. The return on investments at fair value amounted to EUR 1,484 (-2,503) million, and the interest credited on the technical provisions was EUR 1,395 (-241) million. The estimated technical underwriting result was EUR 20 (38) million. Following the introduction of the company-specific administrative cost component, Varma charges to its customers an administrative cost component that has been calculated to reflect Varma's costs. The loading profit was EUR 1 (18) million. The company's other result was EUR 0 (11) million.

Varma's solvency remained at a strong level. The solvency capital, which serves as a risk buffer for investment operations, was EUR 13,451 million at the end of June (13,344 mill. on 1 Jan), and 129.9 per cent in relation to the technical provisions (130.5 on 1 Jan).

Solvency capital was on a solid level, i.e. 1.7 (1.8 on 1 Jan) times the solvency limit.

Tables illustrating Varma's financial development are presented as attachments to this half-year report.

Insurance business

Varma's pension recipients numbered 350,500 at the end of June (352,200 on 1 Jan). Claims paid in January–June totalled EUR 3,393 (3,051) million. By the end of June, 10,861 new pension decisions were made, which is 7 per cent less than in the corresponding period last year. A total of 24,442 pension decisions were made in January–June. During the first quarter of the year, the number of old-age pension applications was materially lower compared to the first quarter of 2022, because at the beginning of this year none of the age cohorts reached their statutory old-age retirement age. During the second quarter, the usual number of old-age pension applications were received.

At the end of June, 629,800 (590,200 on 1 Jan) employees and entrepreneurs were insured by Varma. The TyEL payroll grew 6.3 per cent during the review period compared to the same period of 2022. Based on the transfer rounds at the start of the year, EUR 60 million in annual premiums written were transferred to Varma, calculated based on the TyEL net transfer information in the applications. Sales of new pension insurance policies remained on a good level in January–June, at EUR 64 (61) million.

Investments

Varma's return on investments for the first half of 2023 was 2.6 (-4.3) per cent and the value of investments at the end of June rose to EUR 57,370 (56,675) million. Varma's solvency stood at 129.9 per cent at the end of June (130.5 per cent at the end of 2022 and 134.5 per cent in June 2022).

Overall, the return development in the first half of the year was flattish, but the yield differences between asset classes were large. Dissipating fears of an immediate recession and the downward turn in inflation boosted general risk sentiment, keeping stock prices on the rise. Listed equities and corporate bonds were supported by the fall in credit risk premiums. After the strong momentum in the early part of the year, government bond yields took a downward turn as interest rates started to rise again. The return on unlisted investments was inconsistent. Real estate returns fell clearly into negative territory due to the re-valuation of direct real estate carried out in the second quarter and the weak performance of real estate funds. Private equity funds and infrastructure investments, in turn, yielded a decent return as listed equities recovered from last year's dip. The return on hedge funds was moderate in the first half of the year.

Equity investments yielded 4.6 (-8.2) per cent. The return on listed equities rose to 5.2 (-17.1) per cent in the first half of the year. The differences between geographical areas and business

sectors continued to be large. Of Varma's investments, the weakest performers were Finnish equities, with the early-year return falling into negative territory in the second quarter. This was offset by US equities, which, driven by technology stocks, showed very strong performance during the second quarter. Of the equities of other regions, Japanese equities in particular experienced strong development. The reported return on private equity investments was 3.9 (12.1) per cent.

Fixed income investments returned 1.8 (-4.6) per cent. Fixed income return was reduced by the new rise in interest rates in the second quarter. The best performers were loan receivables and other bonds, driven by narrowing credit risk premiums. In contrast, the return on public bonds was weak, especially during the second quarter, as central banks were fighting against persistent inflation by tightening monetary policy.

The return on real estate investments was -3.3 (3.8) per cent as the markets reacted to a changed interest rate environment and thus the return requirements set on real estate investments. Based on an independent external estimate, an impairment of EUR 173 million was recorded in Varma's directly owned real estate portfolio. The inflation hedge provided by real estate investments has contributed to offsetting the change in value, as rents have generally followed the development of inflation, increasing net rental income despite the rise in maintenance costs.

The return on other investments was moderate, at 1.9% (4.6) per cent in January–June. For hedge funds, the second quarter was strong, compensating the modest performance earlier in the year.

Varma has US-dollar-denominated investments in hedge funds, equities, corporate bonds and private equity funds. In accordance with Varma's investment policy, part of the currency risk is hedged. In terms of operations, foreign currency risks are managed as a whole, and in financial reporting, the exchange rate impact is included in the returns of various asset classes. The US dollar depreciated slightly against the euro in the first quarter, pushing the return on Varma's investments somewhat lower.

Varma's investment activities focussed on maintaining the company's secure solvency position, broadly diversifying investments and strongly emphasising risk management. In its investment risk management, the company used derivatives for hedging purposes and to control the risk level of the portfolio. The market risk of investments is the greatest risk affecting the company's result and solvency. Equities constitute by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 2,172 (2,657) million.

Operating expenses and personnel

Varma's total operating expenses during the reporting period were EUR 71 (70) million. The loading profit during the period was EUR 1 (18) million. Varma implements the statutory earnings-related pension cover in an efficient manner. Following the introduction of the company-specific administrative cost component, the size of the administrative cost component included in the insurance contribution equals Varma's operating expenses.

Varma's parent company had an average of 557 employees in the first half of the year (531 in 2022). At the end of June, Varma's personnel were distributed as follows: pension services 15 per cent, actuarial and insurance services 11 per cent, customer service departments 17 per cent, disability risk management 13 per cent, investment operations 13 per cent, and other functions 31 per cent.

Varma's personnel development has focussed on developing an agile operating culture and strengthening competence. In addition, the promotion of equality and diversity practices has been continued by extensively adopting anonymous recruitment and coaching the entire personnel to consider different minorities in the work community and in customer interaction.

Corporate Governance

Varma's Supervisory Board held its constitutive meeting on 24 May 2023. Christoph Vitzthum continues as Chair of the Supervisory Board. Päivi Leiwo and Petri Vanhala continue as Deputy Chairs.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website. Varma publishes quarterly interim reports. Varma's website also contains an up-to-date list of the positions of trust held by Varma's management.

Sustainability

Varma received international recognition for the transparency of responsible investing and was ranked third in a benchmark that included 75 pension companies from 15 countries. Varma's score improved to 93 out of a possible 100 points. The best companies in the comparison received 94 points. Behind the good ranking was the data on responsible investing in Varma's Annual and Sustainability Report and on varma.fi.

During spring 2023, Varma participated in the Business & Human Rights Accelerator programme organised by UN Global Compact in an effort to help companies move from commitment to action on human rights. Twenty-nine organisations from Finland participated in the programme.

Varma continued its biodiversity work by looking into how listed companies owned by Varma, which operate in sectors exposed to biodiversity loss, take the risks of biodiversity loss into consideration. Companies in Europe were more advanced compared to companies operating in North America and Asia. The analysis was carried out by surveying, based on publicly available information, biodiversity policies, actions and set goals.

In spring of 2023, Varma participated in the general meetings of 95 public companies in Finland. In addition, Varma has voted at general meetings outside of Finland. Information about Varma's positions and votes at the general meetings is published on Varma's website.

Risk management

Varma's most significant risks are related to investment operations and information processing. Cyber risks in particular are estimated to remain elevated. The most significant financial risks are those concerning investments. Varma's liquidity remains at a secure level.

The risks of pension insurance operations are related to pension and insurance processing and to the effectiveness of the joint systems used in the sector. The risk level related to these has remained low.

The Board of Directors has confirmed the principles for the company's internal control and risk management system. More information about insurance, investment, operative and other risks, the means for managing them, as well as related quantitative data, are provided in the notes to Varma's financial statements.

Varma's Board of Directors' investment plan lays down the general security goals for investments, diversification and liquidity goals, and the principles governing the company's currency risk hedging. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Varma's risk and solvency assessment describes Varma's key risks and the company's measures to manage them.

Outlook

Global economic growth will continue, but at a soft pace. Economic growth in Europe and Finland has already slowed down. The biggest risks to the global economy and the investment markets relate to the risk of recession and the impacts of central banks' measures to tighten monetary policy. The rise in interest rates and high indebtedness limit fiscal policy leeway and reduce households' spending opportunities. Higher interest

rates in an environment of weakening economic growth also increase the risk of instability in the financial market.

Geopolitical instability makes predicting the future very difficult, which impacts companies' investment decisions. Uncertainty about the availability of several critical raw materials and affordable energy curbs investment appetite in many sectors especially in Europe. High inflation cuts purchasing power, increases companies' costs and may undermine the credibility of central banks. Defending credibility, in turn, increases the risk of excessive tightening of monetary policy. Expenditure pressures related to the aging population are now converging with shorter term challenges related to security and energy policy, making it more difficult to pursue a sustainable economic policy. Carrying out reforms geared to strengthening productivity growth might take some time in an environment of slow growth and unstable political atmosphere.

However, Varma's strong solvency position and careful risk management ensure good conditions for both performance and securing the pension benefits of the insured in all market conditions. Varma continues to effectively implement the earnings-related pension system.

Helsinki, 18 August 2023

Risto Murto
President and CEO

The figures presented in this interim report are unaudited figures of the parent company.

Varma Mutual Pension Insurance Company is a responsible and solvent investor of pension funds. The company is responsible for the statutory earnings-related pension cover of 980,000 people in the private sector. Varma's premiums written totalled EUR 6.1 billion in 2022 and pension payments stood at EUR 6.5 billion. Varma's investment portfolio amounted to EUR 57.4 billion at the end of June 2023.

FURTHER INFORMATION:

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ATTACHMENT: Graphs and charts

www.varma.fi

<https://www.varma.fi/annualreport>

Balance sheet at fair value, Parent Company

€ million	06/2023	06/2022	12/2022
Assets			
Investments	57,370	56,675	56,204
Receivables	551	1,379	1,235
Furniture and fixtures	2	3	2
Total Assets	57,923	58,056	57,441
Liabilities			
Capital and reserves	149	141	145
Valuation differences	11,827	12,167	11,628
Provision for future bonuses	1,480	2,473	1,573
Off-balance-sheet items	-4	-1	-2
Solvency capital, total	13,451	14,780	13,344
Provision for current bonuses (for client bonuses)	0	0	174
Equity-linked provision for current and future bonuses	-409	1,156	-950
Actual technical provision	45,363	41,662	44,577
Total	44,954	42,819	43,626
Other liabilities	-482	458	297
Total Liabilities	57,923	58,056	57,441

Income statement at fair values, Parent Company

€ million	1-6/2023	1-6/2022	1-12/2022
Premiums written	3,228	2,986	6,119
Claims paid	-3,393	-3,051	-6,238
Change in technical provisions	-1,153	417	-390
Net investment income	1,497	-2,486	-2,833
Total operating expenses	-71	-70	-136
Other income/expenses	0	11	16
Taxes	2	-2	-4
Total result 1)	110	-2,196	-3,466

¹⁾ Result at fair value before the change in provision for current and future bonuses and equalisation provision

€ million	1-6/2023	1-6/2022	1-12/2022
Underwriting profit/loss	20	38	115
Investment result	89	-2,262	-3,636
Loading profit	1	18	38
Other income/expenses	0	11	16
Total result	110	-2,196	-3,466

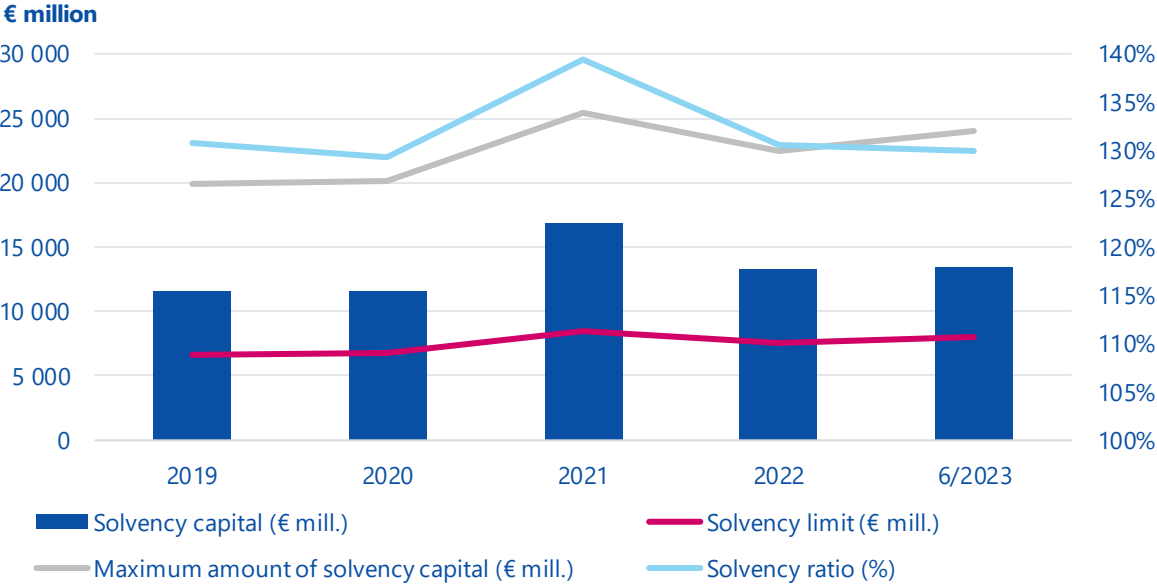
Solvency capital

	30 Jun 2023	30 Jun 2022	31 Dec 2022
Solvency limit (€ mill.)	8,006	8,013	7,482
Maximum amount of solvency capital (€ mill.)	24,018	24,038	22,447
Solvency capital (€ mill.)	13,451	14,780	13,344
Solvency ratio (%) ¹	129.9	134.5	130.5
Solvency capital/Solvency limit ²	1.7	1.8	1.8

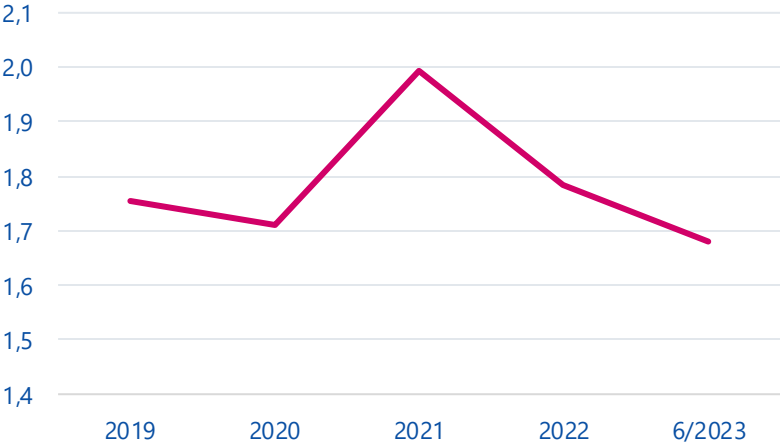
¹) Pension assets in relation to the technical provisions under §11 of the Ministry of Social Affairs and Health's decree governing pension institutions (614/2008).

²) Solvency capital in relation to the solvency limit.

Solvency development



Solvency capital in relation to the solvency limit



Investments at fair value

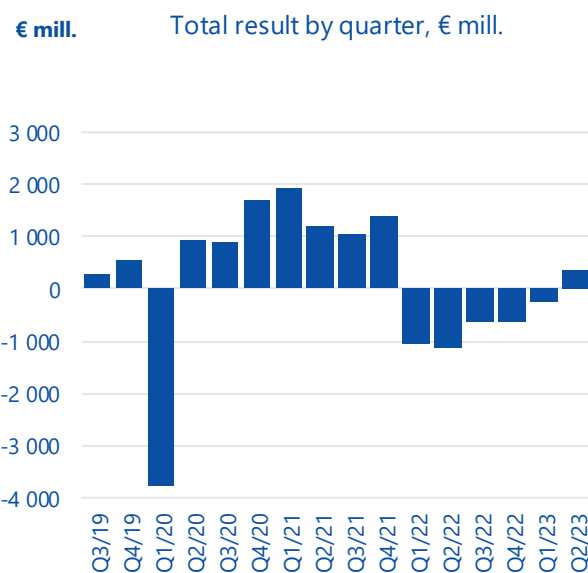
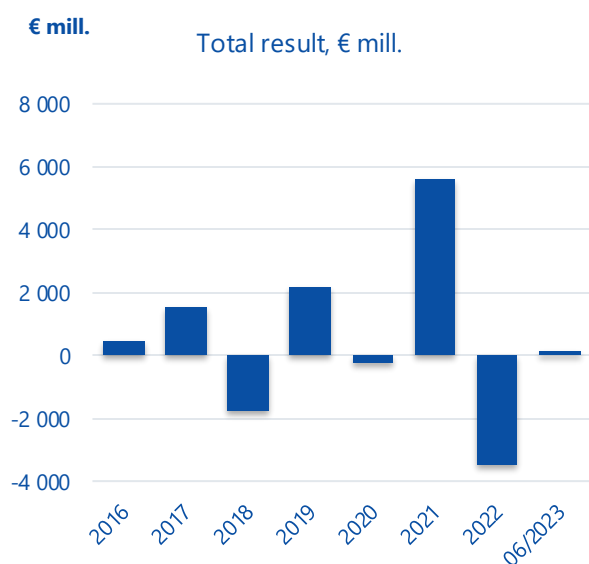
	30 Jun 2023 Market Value				30 Jun 2022 Market Value				31 Dec 2022 Market Value				1-6/2023 Return	1-6/2022 Return	1-12/2022 Return	24 m Vola- tility
	Market Value		Risk position		Market Value		Risk position		Market Value		Risk position		MWR	MWR	MWR	
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	%	%	%	
Fixed-income investments 1	13,293	23	17,216	30	14,835	26	15,083	27	14,566	26	15 302	27	1.8	-4.6	-5.2	
Loan receivables	2,639	5	2,639	5	2,698	5	2,698	5	2,829	5	2,829	5	2.9	1.5	3.9	
Bonds	9,263	16	11,774	21	7,789	14	7,685	14	8,563	15	8,878	16	1.7	-8.3	-10.2	5.1
Public bonds	4,746	8	7,156	12	3,777	7	3,645	6	4,611	8	4,844	9	1.3	-9.5	-13.7	
Other bonds	4,517	8	4,619	8	4,012	7	4,040	7	3,952	7	4,033	7	2.2	-7.0	-6.5	
Other money-market instruments and deposits	1,391	2	2,803	5	4,348	8	4,699	8	3,174	6	3,595	6	0.7	0.0	-0.1	
Equity investments	29,441	51	29,525	51	27,133	48	27,454	48	27,459	49	27,533	49	4.6	-8.2	-8.7	
Listed equities	18,578	32	18,661	33	16,773	30	17,094	30	17,268	31	17,342	31	5.2	-17.1	-16.8	14.2
Private equity	10,147	18	10,147	18	9,829	17	9,829	17	9,498	17	9,498	17	3.9	12.1	7.9	
Unlisted equities	717	1	717	1	531	1	531	1	692	1	692	1	0.3	8.5	40.7	
Real estate investments	5,623	10	5,623	10	5,581	10	5,581	10	5,741	10	5,741	10	-3.3	3.8	5.7	
Direct real estates	3,039	5	3,039	5	3,071	5	3,071	5	3,171	6	3,171	6	-2.9	1.9	4.2	
Real estate funds	2,584	5	2,584	5	2,510	4	2,510	4	2,570	5	2,570	5	-3.8	6.3	7.6	
Other investments	9,013	16	9,015	16	9,125	16	9,119	16	8,438	15	8,438	15	1.9	4.6	2.7	
Hedge funds	9,027	16	9,027	16	9,129	16	9,129	16	8,433	15	8,433	15	2.4	4.5	2.3	3.2
Commodities	2	0	4	0	0	0	-6	0	0	0	0	0				
Other investments	-16	0	-16	0	-4	0	-4	0	6	0	6	0				
Total investments	57,370	100	61,379	107	56,675	100	57,237	101	56,204	100	57,014	101	2.6	-4.3	-4.9	5.1
Impact of derivatives			-4,009	-7			-562	-1			-810	-1				
Investment allocation at fair value	57,370	100	57,370	100	56,675	100	56,675	100	56,204	100	56,204	100				

The modified duration for all the bonds is 4.96.

The open currency position is 27.5 per cent of the market value of the investments.

¹ Includes accrued interest

Total result



Summary of the key figures

	1-6/2023	1-6/2022	1-12/2022
Premiums written, € million	3,228	2,986	6,119
Net investment income at fair value, € million	1,484	-2,503	-2,868
Return on invested capital, %	2.6	-4.3	-4.9

	6/2023	6/2022	12/2022
Technical provisions, € million	46,433	45,291	45,373
Solvency capital, € million	13,451	14,780	13,344
in relation to solvency limit	1.7	1.8	1.8
Pension assets, € million	58,379	57,575	57,120
% of technical provisions	129.9	134.5	130.5
TyEL payroll, € million	25,610	24,000	24,103
YEL payroll, € million	934	860	867

Investments at fair value, broken down as per the regulations of the Financial Supervisory Authority

	30 Jun 20203		Market value				Risk position					
	€ million	%	30 Jun 2022		31 Dec 2022		6/2023		6/2022		12/2022	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Fixed-Income Investments	13,293	23.2	14,835	26.2	14,566	25.9	17,216	30.0	15,083	26.6	15,302	27.2
Loan receivables	2,639	4.6	2,698	4.8	2,829	5.0	2,639	4.6	2,698	4.8	2,829	5.0
Bonds	9,263	16.1	7,789	13.7	8,563	15.2	11,774	20.5	7,685	13.6	8,878	15.8
Other money-market instruments and deposits	1,391	2.4	4,348	7.7	3,174	5.6	2,803	4.9	4,699	8.3	3,595	6.4
Equity investments	29,441	51.3	27,133	47.9	27,459	48.9	29,525	51.5	27,454	48.4	27,533	49.0
Listed equities	18,578	32.4	16,773	29.6	17,268	30.7	18,661	32.5	17,094	30.2	17,342	30.9
Private equity	10,147	17.7	9,829	17.3	9,498	16.9	10,147	17.7	9,829	17.3	9,498	16.9
Unlisted equities	717	1.2	531	0.9	692	1.2	717	1.2	531	0.9	692	1.2
Real estate investments	5,623	9.8	5,581	9.8	5,741	10.2	5,623	9.8	5,581	9.8	5,741	10.2
Direct real estates	3,039	5.3	3,071	5.4	3,171	5.6	3,039	5.3	3,071	5.4	3,171	5.6
Real estate funds	2,584	4.5	2,510	4.4	2,570	4.6	2,584	4.5	2,510	4.4	2,570	4.6
Other investments	9,013	15.7	9,125	16.1	8,438	15.0	9,015	15.7	9,119	16.1	8,438	15.0
Hedge funds	9,027	15.7	9,129	16.1	8,433	15.0	9,027	15.7	9,129	16.1	8,433	15.0
Commodities	2	0.0	0	0.0	0	0.0	4	0.0	-6	0.0	0	0.0
Other investments	-16	0.0	-4	0.0	6	0.0	-16	0.0	-4	0.0	6	0.0
Total	57,370	100.0	56,675	100.0	56,204	100.0	61,379	107.0	57,237	101.0	57,014	101.4
Impact of derivatives							-4 009	-7.0	-562	-1.0	-810	-1.4
Total	57,370	100.0	56,675	100.0	56,204	100.0	57,370	100.0	56,675	100.0	56,204	100.0

Modified duration of the bond portfolio 5.0

Net return on invested capital

	Net investment return at fair value	Invested capital	Return % on invested capital	Return % on invested capital	Return % on invested capital
	€ million	€ million	30 Jun 2023	30 Jun 2022	31 Dec 2022
			%	%	%
Fixed-Income Investments	249	13,913	1.8	-4.6	-5.2
Loan receivables	79	2,731	2.9	1.5	3.9
Bonds	156	9,161	1.7	-8.3	-10.2
Other money-market instruments and deposits	14	2,020	0.7	0.0	-0.1
Equity investments	1,275	27,637	4.6	-8.2	-8.7
Listed equities	896	17,300	5.2	-17.1	-16.8
Private equity	376	9,628	3.9	12.1	7.9
Unlisted equities	2	709	0.3	8.5	40.7
Real estate investments	-190	5,769	-3.3	3.8	5.7
Direct real estates	-90	3,148	-2.9	1.9	4.2
Real estate funds	-100	2,621	-3.8	6.3	7.6
Other investments	167	8,772	1.9	4.6	2.7
Hedge funds	213	8,769	2.4	4.5	2.3
Commodities	0	1			
Other investments	-45	2			
Total	1,502	56,091	2.7	-4.2	-4.8
Unallocated income, costs and operating expenses from investment activities	-18	9			
Net investment return at fair value	1,484	56,101			