

Report of the Board of Directors 2022

The economic operating environment

The main themes of 2022 were accelerating inflation and weakening economic growth. The most rapid inflation seen in over 40 years forced the central banks to make an exceptionally fast change in monetary policy and raise interest rates. Russia's war of aggression against Ukraine also accelerated inflation and undermined growth, which initially caused energy prices to rise globally and pushed Europe into an energy crisis. This has caused households' purchasing power and economic activity to erode. The impact of economic policy on growth has been twofold: Monetary policy has aimed to reduce aggregate demand in order to combat inflation, while fiscal policy's goal has been to alleviate the impacts of higher energy costs on companies and households.

Of the different segments of the global economy, the labour market kept going strong, reacting very moderately to tighter monetary policy and eroding purchasing power. While the number of job openings declined from the peak figures of the year, companies faced both a labour shortage and weaker demand. Monetary policy has a delayed effect on the economy and employment rates, however, and the full impact of the implemented tightening on the economy will probably not be seen until 2023–2024. In the course of 2022, China's economic development diverged strongly from the rest of the world due to Covid-19 shutdowns and problems in the real estate sector, but the turn in its Covid policy is likely to stimulate economic growth once the first major wave of infections passes. In Finland, consumer confidence has been at an all-time low, and the economy is headed towards a recession or at least a slowdown in the wake of the rest of Europe.

Inflation fell towards the end of the year, but it will take time for core inflation to drop to the central banks' target level. The primary goal of the central banks is to fight inflation through tighter monetary policy.

The main risks for economic development and investment markets are connected to prolonged inflation, possible recession and problems in the financial markets due to the higher interest rate level. If inflation does not slow down quickly enough and the central banks have to maintain tight monetary policy for a long time, the risk of a deeper and longer-lasting recession increases. The rapid tightening of monetary policy has already lowered market liquidity significantly and added to the distress of heavily indebted operators. The increased interest rates and longstanding growth in debt also set businesses', households' and governments' ability to sustain debt in a new light as debt service costs have risen strongly.

Earnings-related pension system

The amendments to the Self-Employed Persons' Pensions Act (YEL), which were in preparation for the whole of 2022, entered into force at the start of 2023. The objective of the changes is for a self-employed person's YEL income to better reflect the value of their work input. In autumn, Varma adopted a service for calculating self-employed persons' income. The calculator provides an income recommendation for both the self-employed person and the pension insurance provider. Based on this and after consulting the entrepreneur, Varma confirms self-employed persons' YEL income equally for all self-employed persons.

The Ministry of Social Affairs and Health confirmed the earnings-related pension contributions and their bases for 2023. The average insurance contribution according to the Employees Pensions Act (TyEL) is on average 24.84 per cent of wages and salaries, whereas in 2022 it was 24.85 per cent. A share of 0.44 percentage points of the employer contribution is used to cover the impacts of the temporary reduction in the employer contribution in 2020 due to the Covid-19 pandemic. A structural change in the bases is that as of 2023, the expense loading component included in the TyEL insurance contribution is determined separately for each earnings-related pension company. The pension contributions of the self-employed will remain at the same level in 2023 as they were in 2022.

The Finnish pension system ranked fifth in the international Mercer CFA Institute Global Pension Index comparison. Finland's ranking improved by two places from the previous year, as the comparison's calculation method was adjusted to give more weight to countries with strong earnings-related pensions. Finland's pension system was once again ranked as the world's most reliable and transparent.

In October, the Finnish Centre for Pensions published the updated long-term pension financing projections, which indicate that the outlook has improved considerably due to favourable investment returns and higher retirement ages. In 2009, the goal was set for the expected effective retirement age of a 25-year-old to be 62.4 in 2025, but that target age was reached already in 2021. In the long term, however, there is major uncertainty in the level of the pension contribution related, in particular, to the development of the birth rate, life expectancy and investment returns.

An earnings-related pension index is used to adjust pensions in payment annually in January to ensure pensions' purchasing power. The Ministry of Social Affairs and Health confirmed that the earnings-related pension index for 2023 will rise by 6.8 per cent. This was also reflected in Varma's operations as a substantial increase in old-age pension applications towards the end of 2022, since the change in the wage co-efficient was much lower.

Pension contributions and return requirement on technical provisions

In 2022, the average TyEL contribution was 24.85 per cent of the salaries or wages. Employees under the age of 53 and over the age of 62 contributed 7.15 per cent of their pay, while the rate for employees aged 53–62 was 8.65 per cent. The average contribution included a 0.45 percentage point increase, which is used to cover the impacts of the temporary reduction in the employer contribution in 2020 due to the Covid-19 pandemic. In 2022, entrepreneurs' YEL contribution was 24.1 per cent of the confirmed earnings for those under the age of 53 and over the age of 62, and 25.6 per cent for those aged 53–62.

The return requirement on technical provisions consisted of a 3.00 per cent fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 1.87 per cent on average in 2022. The return on equity component in 2022 was -15.65 per cent, and its effect on the return requirement was approximately -3.13 percentage points ($0.2 \times$ return on equity component). Thus, the return requirement on technical provisions was 1.74 per cent. The technical rate of interest, which is used to determine the interest rate of the oldest pension loans to Varma's customers and a number of other items, was 6.25 per cent until the end of June and 6.00 per cent thereafter. The insurance contribution interest rate, used to calculate pension contributions, stood at 2.00 per cent throughout the year.

Varma's economic development

Varma's total result at fair value stood at EUR -3,466 (5,587) million.

Varma's solvency was on a strong level throughout the year. Varma's solvency declined during the financial year, but remained at a strong level. Solvency capital totalled EUR 13,344 (16,890) million at the end of the financial year. Varma's pension assets in relation to technical provisions (solvency ratio) were 130.5 (139.4) per cent. Solvency capital was at a secure level, i.e. at 1.8 (2.0) times the solvency limit. The solvency limit is changed in accordance with the risk level of the investments. Varma's strategic goal is to maintain the company's strong solvency through stable returns and operational efficiency.

The return on investments was EUR -2,868 (9,256) million at fair value, which was -4.9 (18.5) per cent of the invested capital. The return credited on the technical provisions was EUR 768 (3,769) million. Thus, the investment result for 2022 totalled EUR -3,636 (5,488) million. Operating expenses were 30 (38) per cent lower than the expense loading included in the insurance contributions, and the loading profit stood at EUR 38 (51) million. Loading income and consequently loading profit decreased as a result of the lowering of the premium rate in the TyEL insurance contribution's administrative cost component at the beginning of the year. The underwriting result was EUR 115 (48) million and other result was EUR 16 (-1) million. The underwriting result is explained by the increase in mortality and lower than expected disability pension expenditure and stronger than expected increase in the payroll.

As client bonuses, Varma will pay one per cent of its solvency capital and the entire loading profit for 2022. Thus, Varma's strong solvency and good operational efficiency benefit its clients. At the end of 2022, EUR 173 (222) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.7 (1.0) per cent of the payroll of the insured.

The TyEL payroll of those insured by Varma totalled roughly EUR 24.1 (22.5) billion in 2022. The total payroll increased 7.0 per cent from the previous year. Varma's premiums written totalled EUR 6,119 (5,635) million, of which TyEL insurance accounted for EUR 5,919 (5,448) million and YEL insurance for EUR 199 (186) million.

At the end of the financial year, 590,218 (571,229) individuals were insured by Varma. At the end of 2022, the number of valid insurance policies totalled 72,427 (70,317), covering 42,494 (40,023) self-employed persons and 547,724 (531,206) employees.

In 2022, a total of 4,197 (3,728) new TyEL insurance policies and 7,517 (6,460) YEL insurance policies came into force at Varma.

During the 2022 account transfers, EUR 35 million in net TyEL income was transferred to Varma from other earnings-related pension companies, and EUR 59 million in new TyEL policies were sold. Varma received the insurance portfolio of one company pension fund during the financial year, the impact of which on annual TyEL income is estimated to be approximately EUR 20 million.

Varma received 9.8 (9.3) million income and employment notifications from the Incomes Register during 2022. Income data is reported to the Incomes Register regularly after earnings are paid.

Varma provides policyholders with services through its own service channels and through the service networks of If P&C Insurance and the Nordea Group.

In 2022, a total gross amount of EUR 6,492 (6,236) million in pensions was paid out. The number of pension recipients slightly increased, and at year-end, Varma was paying pensions to 352,000 (346,000) people.

Varma's total processing time for pension applications in 2022 was 16 days, which equals the average processing time in the earnings-related pension sector.

A total of 28,472 (21,131) new pension decisions were made in 2022. The number of new pension decisions increased 34.7 per cent compared to 2021, and the total number of all pension decisions was 13.4 per cent higher than in 2021. Of the new decisions, old-age pension decisions numbered 11,812 (9,495), disability pension decisions 5,821 (5,672) and partial early old-age pension decisions 7,011 (2,484). Continuation decisions on temporary pensions totalled 4,667 (4,671), and other decisions numbered 25,165 (25,611). These include rehabilitation benefit decisions, preliminary decisions and other decisions required as a consequence of the changes in pension rights. The share of rejected new disability pension applications was 40.4 (39.4) per cent. Pension applications filed online accounted for 71 (64) per cent of all pension applications.

The number of disability pension applications took a slight upward trajectory in 2022. The number of disability pension applications received by Varma stood at 12,399, which is 1.6 per cent more than in the previous year. New disability pension applications numbered 5,370, up 6.8 per cent.

In 2022, Varma processed 29 new cases in which Covid-19 was a key reason for disability. Compared to the total volume of disability pension applications, this was a low number. On the basis of the applications, two cash rehabilitation benefits and one partial rehabilitation benefit were granted. Rejected applications totalled 26.

The Covid pandemic has had substantial impacts on society, working life and the occupational health care system. These impacts were expected to be reflected in mental health disorders and subsequent disability. Contrary to expectations, this has not happened, as mental health-based sickness allowance periods or disability pension applications did not increase in 2022, and disability due to musculoskeletal diseases is not on the rise. In new disability pensions, mental health disorders were, however, the main reason for disability. Among women, they accounted for more than 40 per cent of all new disability pensions. While the share of mental health disorders was significantly lower among men (30), they were the most common reason for disability also among men.

The amount of rehabilitation applications plummeted early in the year, but took an upward turn in the autumn. The number of applications for the whole of 2022 remained 9.1 per cent lower than in the previous year. Of

Varma's customers who entered and participated in a rehabilitation programme, 82.4 per cent returned to the labour market. Among our rehabilitation customers, the greatest disability threat was caused by musculoskeletal diseases, and the second most common cause was mental health disorders.

Varma has for years been a forerunner in vocational rehabilitation, and the company actively steers those with a work ability risk to rehabilitation. In 2022, we expanded our Individual Placement and Support (IPS) project, which has produced good results. Of the rehabilitants participating in the pilot project, 59 percent have been gainfully employed, which clearly exceeds the results of the reference group (28). The pilot proves that the IPS approach is useful in vocational rehabilitation and an effective means of getting mental health rehabilitants employed.

The approaches and systems for disability risk management were further developed in terms of the financial support process for risk management, and the digital risk survey and action plan, among other things. As new content, Varma's research unit generated sector-specific reports, which were utilised to a great extent in service development and customer work. We also expanded and actively developed other services related to work ability risks in response to the change in working life and disability risks. Varma also continued active co-development with customers and other stakeholders and partners throughout the year.

Number of insured	31 Dec 2022	31 Dec 2021	Change
TyEL	547,724	531,206	16,518
YEL	42,494	40,023	2,471
Total	590,218	571,229	18,989

Number of insurance policies	31 Dec 2022	31 Dec 2021	Change
TyEL	29,933	30,294	-361

Number of pensioners	31 Dec 2022	31 Dec 2021	Change
Part-time pension	3	15	-12
Partial disability pension	3,144	3,250	-116
Partial early old-age pension	10,340	6,148	4,282
Survivors' pension	50,429	50,215	214
Disability pension	15,679	16,352	-673
Old-age pension	261,930	258,445	3,485
Early old-age pension	10,549	11,203	-654
Years-of-service pension	33	21	12
Total ¹	352,197	345,659	6,538
¹ Those receiving YEL pension	28,709	28,699	10
Those receiving TEL/YEL supplementary pension	41,747	41,895	-148

In terms of customer service, the Varma Online Service is a key service channel. Through Varma's online services, the insured can obtain the most recent estimate of their pension amount at their planned retirement age. Of these estimates, 98.2 (98.1) per cent were calculated online. Pensions and rehabilitation can also be applied for, and the status of the application can be tracked, online. A total of 24,505 (16,877) applications were submitted electronically during the year.

The insured can see the development of their earnings-related pension in their pension record. Altogether 142,275 (118,463) people checked their pension records online. Varma sends a pension record to those insured who want to have their information on paper once every three years. In 2022, Varma sent out a total of 197,000 (175,000) pension records.

Technical provisions

Varma's technical provisions grew 0.3 (11.0) per cent to EUR 45,373 (45,225) million. In addition to the increased actual provisions for unearned premiums and outstanding claims, the technical provisions contain a provision of EUR 174 (222) million for current bonuses reserved for client bonuses, a provision of EUR 1,573 (2,339) million for future bonuses contained in the solvency capital, and EUR -950 (2,434) million in an equity-linked buffer.

Changes in the insurance portfolio

Varma received the insurance portfolio of one company pension fund during the financial year. The amount of pension liabilities transferred to Varma totalled EUR 345 million. The total value of pension assets transferred to Varma was EUR 440 million. Varma did not make insurance portfolio transfers to company pension funds during the financial year.

Investments

In 2022, the return on Varma's investments was negative at -4.9 (18.5) per cent. The total value of investments at year-end fell to EUR 56,204 (59,024) million. Varma's solvency remained at a strong level, considering the circumstances, and stood at 130.5 (139.4) per cent at year-end.

In 2022, the combination of weakened economic outlook, high inflation and quickly tightening monetary policy hit most asset classes, pushing their values down. The impacts were the strongest in the listed equity and fixed income markets, which performed the weakest since the financial crisis. The performance of fixed income investments in particular was exceptionally poor as inflation forced the central banks to resort to major tightening of monetary policy.

The differences between the returns on Varma's listed and unlisted investments remained substantial. The positive returns of the latter supported Varma's overall returns in 2022 and dampened the impact of the very challenging market environment. Main reasons behind the relatively stable performance of, for example, private equity funds are the reasonable earnings performance, more stable valuation ratios and strong US dollar. On the other hand, the returns on listed fixed income and equity investments were exceptionally low, and fixed income investments were not able to diversify the equity risk. The clearly better performance of unlisted fixed income investments is explained by the more moderate interest rate risk.

The return on equities was -8.7 (32.2) per cent. The return on listed equities was -16.8 (26.4) per cent. The differences between geographical areas and business sectors were great. The stronger dollar partially compensated for the very low returns on US equities. Main performance drivers for equities were weaker expectations concerning economic and earnings growth and especially spiking interest rates. The returns on fixed income investments were, however, strong, at 7.9 (49.6) per cent. This is explained by the slower reaction of unlisted investments to the equity market volatility. Private equity investments include infrastructure investments, which also hedged against inflation. The very strong return on unlisted equities, 40.7 (26.3) per cent, was especially influenced by a change in the asset valuation principles made by a single investee.

The strong rise in interest rates and widening of risk premiums pushed the return on fixed income investments into negative territory, at -5.2 (1.9) per cent. The return on public-sector bonds was exceptionally low, at -13.7 (-1.2) per cent. The weak performance reflects the historic surge in inflation and the aggressive tightening of monetary policy by central banks. The return on corporate bonds suffered from the dramatic rise in interest rates and the increase in credit risk premiums, driven by fears of recession. The return on other bonds fell to -6.5 (4.2) per cent. The return on loan receivables developed more consistently, thanks to their moderate interest rate risk, and they yielded 3.9 (5.4) per cent.

The return on real estate investments remained stable throughout the year, despite the sustained market turbulence. The return on direct real estate investments was 4.2 (4.1) per cent and the return on real estate investment funds was 7.6 (8.5) per cent. The values of real estate investments reacted more slowly to the equity

market fluctuations while also hedging against inflation. Foreign real estate investment funds performed especially well.

The return on other investments developed steadily and reached 2.7 (15.3) per cent. The returns relied on the fairly favourable return development of hedge funds. The hedge fund investments successfully diversified the risks involved in Varma's investments and significantly compensated for the weak performance of listed investments and especially fixed income investments.

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 strengthened clearly against the euro during the year, which supported Varma's investment returns.

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 2,727 (2,242) million.

Operating expenses

Varma's operational efficiency is good. Varma used 70 (62) per cent of the expense loading, included in the insurance contributions, to cover operating expenses. Controlling operating expenses is a key objective for Varma while simultaneously improving operational efficiency. Good operational efficiency has benefited Varma's customers through client bonuses. Varma's goal is to manage the assets of both present and future pensioners as efficiently as possible. As of the beginning of 2023, the determination of the expense loading component included in the TyEL contribution was changed such that the earnings-related pension company's operational efficiency has a direct impact on the customer's insurance contribution. Thanks to its strong solvency, Varma is prepared for the change. Client bonus that accrues in 2023 is solely based on solvency.

Increasing operational efficiency also requires continuous control of human resources and, in particular, IT system expenses, as these account for most of Varma's operating expenses. Varma's total operating expenses increased by 5.2 per cent, and stood at EUR 136 (130) million. The increase was primarily due to the claims operations' system project and the moderate increase in investment management charges and insurance acquisition costs.

Varma is actively involved in the development and administration of the pension sector's joint information systems, and expects from the joint systems transparency and efficiency in terms of costs.

Personnel

The average number of the parent company's personnel and the salaries paid during the financial year are shown in the table below.

	2022	2021	2020	2019	2018
Average number of personnel	531	527	537	537	532
Salaries and remunerations, EUR million	46.3	43.6	37.7	37.6	40.1

Tieto Esys, which is included in the Consolidated Financial Statements using the equity method, had an average of 28 (36) employees in 2022.

At year-end, Varma's personnel were distributed as follows: pension services 17 (17) per cent, insurance and actuary services 11 (11) per cent, customer service departments 17 (16) per cent, services related to disability risk management 13 (14) per cent, investment operations 14 (14) per cent, and other functions 28 (28) per cent.

Further information on Varma employees is given in this Report of the Board of Directors, under the section Non-financial information; Responsibility for Varma employees.

Group companies and associates

At the end of 2022, the Varma Group comprised 103 (110) subsidiaries and 17 (19) associates. The most important subsidiaries and associates are Tieto Esy Oy (50.1 per cent), Alcobendas Investments SL (50.0 per cent) and CMCV Kungens Kurva HoldCo AB (45.0 per cent). The Varma Group also owns 50 per cent of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

Governance

Policyholders and the insured have voting rights at Varma's Annual General Meeting. Varma's Annual General Meeting was held on 15 March 2022. The Annual General Meeting appointed three new members to the Supervisory Board. The new members elected to the Supervisory Board were Pasi Pesonen, Markku Varis and Lauri Sipponen. The Annual General Meeting approved the financial statements and discharged the Board of Directors, the Supervisory Board and the President and CEO from liability for the financial year 2021.

Continuing as Supervisory Board members were Christoph Vitzthum (Chair), Petri Vanhala (Deputy Chair), Juri Aaltonen, Kari Ahola, Ari Akseli, Eero Broman, Petri Castrén, Kim Forsström, Lasse Heinonen, Marko Hovinmäki, Olavi Huhtala, Mika Joukio, Jukka Jäämaa, Risto Kalliorinne, Ilkka Kaukoranta (resigned from the Supervisory Board 2 Sep 2022), Mari Keturi, Ville Kopra, Tapio Korpeinen, Pekka Kuusniemi, Päivi Leiwo, Johanna Moisio, Perttu Puro, Mika Rautiainen, Eeva Sipilä, Jari Suominen, Pekka Tiitinen, Jorma Vehviläinen, Anssi Vuorio and Sauli Väntti.

Varma's Supervisory Board held its constitutive meeting on 18 May 2022. Christoph Vitzthum continued as Chair of the Supervisory Board, and Petri Vanhala continued as Deputy Chair. Päivi Leiwo was elected as a new Deputy Chair.

Ernst & Young Oy, with Authorised Public Accountant Antti Suominen as chief auditor, served as Varma's Auditor.

As of the beginning of 2022, Varma's Board of Directors is composed of Jaakko Eskola (Chair), Antti Palola (Deputy Chair), Risto Penttinen (Deputy Chair), Riku Aalto, Anu Ahokas, Ari Kaperi, Jyri Luomakoski, Petri Niemisvirta, Teo Ottola, Pekka Piispanen, Saana Siekkinen and Mari Walls, and deputy members Jouni Hakala, Timo Saranpää and Kari Välimäki.

In its meeting on 30 November 2022, Varma's Supervisory Board elected Jari Elo as a new deputy member of the Board of Directors as of 1 January 2023. The deputy membership of Timo Saranpää in the Board of Directors ended on 31 December 2022. At the Board of Directors' meeting on 15 December 2022, Jaakko Eskola was re-elected Chair, and Antti Palola and Risto Penttinen as Deputy Chairs for the term beginning 1 January 2023.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website.

Capital and reserves

Varma's capital of EUR 145 million consists of basic capital (EUR 12 million), other funds (EUR 121 million), profit brought forward from previous financial years (EUR 4 million) and profit for the year (EUR 8 million).

Risk management

The goal of Varma's risk management is to identify and manage, in accordance with the defined risk appetite, risks that the company is subjected to, arising from and centrally linked to its business activities, and to secure continuity of operations. As a responsible operator, Varma considers it vital that the execution of the company's core task as a provider of statutory pension insurance is guaranteed and adequately efficient under all circumstances.

In accordance with the act on earnings-related pension companies, Varma's Board of Directors draws up an annual risk and solvency assessment. The assessment was updated at the end of 2022. Varma's risk management activities are also guided by the principles for the risk management system, which are annually approved by the Board of Directors. Company-level risk management is an element of the finance and actuary functions in order to ensure that risk reporting and risk management is independent of the risk-taking function.

As a provider of statutory earnings-related pension insurance, Varma's main risk is related to solvency management. The single largest risk factor in terms of solvency management is related to investment performance. When investment returns exceed the return requirement on technical provisions, the company's solvency improves, and if they fall short of the return requirement, solvency declines. The principles for investment risk management are determined in the company's investment plan, which is drawn up by the Board of Directors. The plan documents the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising currency risk hedging. The Board of Directors assesses the investment risks in terms of changes in value, expected returns, security and the principles of foreign currency policy, the company's risk-bearing capacity in terms of investments, and the development of the company's solvency.

Other major risks in 2022 continued to apply to changes in business operations due to the Covid-19 pandemic and to ensuring continuity in a situation where all Varma employees switched to working remotely. Ensuring continuity was also highlighted in external IT system services. Risks also applied to developing the business in a changing operating environment. More information about strategic, financial, investment and operative risks, as well as related quantitative data, is provided in the notes to Varma's financial statements.

Outlook

The outlook for the economic operating environment is muted. The biggest risks to the global economy and the investment markets relate to the risk of a recession, inflation and the development of purchasing power and the impacts of the central banks' monetary policy tightening. The higher interest rate level and indebtedness reduce financial policy leeway. Higher interest rates and the tightened financial market conditions create challenges for some businesses and households and threaten the stability of the financial market.

High inflation and the support measures to reduce its impacts weaken the sustainability of financial policy and put the unity of EU member states to the test. Expenditure pressures related to the aging population converge with shorter term challenges related to security and energy policy, creating major challenges for sustainable economic policy over the coming years.

Varma's strong solvency position and careful risk management ensure good conditions for favourable returns development and secure the pension benefits of the insured. Varma continues to effectively implement the earnings-related pension system.

Report on non-financial information

Business model description

Varma has the core responsibility of securing pensions. Sustainability is one of Varma's strategic focus areas. According to the materiality assessment carried out in 2021, sustainable business means for Varma first and foremost taking care of pension assets and pension payments, investing responsibly and promoting sustainable working life. The role of Varma's Investment Operations is essential with respect to environmental

responsibility, social responsibility, such as responsibility for Varma's employees and respect for human rights, and anti-corruption and anti-bribery. The main sustainability risks may, if realised, affect Varma's business through, for example, financial loss or weaker stakeholder trust.

Sustainability in Varma's business operations is steered by, in addition to the strategy and values, sustainability principles, such as the Code of Conduct, Anti-Bribery Policy, Supplier Code of Conduct and the Tax Policy. Our operations are also steered by the Sustainability Programme, which is based on the materiality assessment. The programme defines our sustainability focus areas and the related objectives and measures. Responsible investment at Varma is guided by the Principles for Responsible Investment, Active Ownership and Engagement Principles, Climate Policy for Investments, Ownership Policy and annual targets for responsible investment. All these principles and the Sustainability Programme have been approved by Varma's Board of Directors. The oversight responsibility for sustainability at Varma is exercised by Varma's Board of Directors. The Board of Directors discusses responsible investment issues on a monthly basis, current sustainability issues in the annual sustainability review, climate risks on a quarterly basis and sustainability risks as part of the risk and solvency assessment. Varma's Executive Group addresses all key decisions relating to the development of sustainability. Sustainability issues are represented in Varma's Executive Group by the chief investment officer. Sustainability is led by the sustainability director, who reports to the chief investment officer. The Responsible Investment & Sustainability department, which is part of the Investment Operations, develops and co-ordinates Varma's sustainability. The department works in cooperation with the sustainability coordinators of Varma's various functions, developing sustainability in accordance with external requirements and the sustainability programme.

The sustainability of Varma's own operations is closely linked to the compliance function to the extent that, for example, the Code of Conduct stems from legislation applicable to the organisation. The Responsible Investment & Sustainability department and compliance function work in close co-operation. The compliance officer reports on compliance activities to the Board of Directors and its Audit Committee, and administratively to the President and CEO.

In its sustainability efforts, Varma is committed to the UN Global Compact initiative on corporate sustainability and its principles, the UN's principles concerning business and human rights, and the UN-supported Principles for Responsible Investment (PRI).

Varma's sustainability targets and measures are explained more broadly in a separate report conforming to the Global Reporting Initiative (GRI) standards. The report is integrated in Varma's online annual report, which will be published in March.

Ethical and sustainable business

In its Code of Conduct, Varma commits to, among other things, operating responsibly and sustainably, promoting human rights, combating the grey economy and bribery, and avoiding conflicts of interest. The Code of Conduct establishes anti-bribery and anti-corruption practices concerning, for example, offering and accepting gifts and hospitality. An online course, which is organised every two years, helps assimilate the Code of Conduct. The online course that was organised at the end of 2022 was completed by 92 per cent of Varma employees.

The Code of Conduct is complemented by other internal guidelines and instructions relating to, for example, data security and data protection, and the identification of money laundering.

Varma has also adopted an independent whistleblowing channel for reporting misconduct anonymously. The reports are processed confidentially by the Whistleblowing team, which is made up of the representatives of the compliance function and Internal Audit. In 2022, a total of nine reports were received through the channel. None of these concerned misconduct referred to in the directive. Three of the reports concerned disability pensions that were possibly granted on false grounds, and in two reports, investment decisions by Varma were criticised. Individual reports were also submitted relating to, for example, the insurance physician activities.

Social responsibility

For Varma, social responsibility means high-quality and smooth implementation of pension provision, promoting our customers' work ability, responsibility for our employees and respecting human rights in all operations.

Responsibility for customers

Varma has been improving the processing of pension applications so that its customers receive a decision on their pension as quickly as possible. In 2022, the average processing time for all pension applications was 16 (19) days. Varma's goal is to ensure that people who are retiring receive uninterrupted income and that pension is paid to their bank account during the first month of their retirement. In 2022, the first pension was paid within the target period to 89.3 (86.6) per cent of new pensioners.

Varma's goal is to lengthen careers by reducing disability pensions, developing work ability management and providing effective rehabilitation. In 2022, the average disability pension contribution category of Varma's client companies was 3.4 (3.4). Of Varma's vocational rehabilitation customers who have started a rehabilitation programme, 82 (80) per cent returned to working life during the year.

In 2022, Varma rejected 40.4 (39.4) per cent of new disability pension applications. The corresponding rate for the private earnings-related pension sector was 38.1 (37.7) per cent. The Pension Appeal Board changed Varma's disability pension decisions in 10.3 (13.1) per cent of the cases it handled. The corresponding rate for the entire private sector was 9.4 (10.6) per cent.

Responsibility for Varma employees

Varma takes care of the work ability, competence, and equal and non-discriminatory treatment of its personnel. In 2022, we brought together Varma's HR practices and guidelines. They describe areas such as leadership, HR planning, recruiting, pay and rewards, competence and development, diversity, equality and non-discrimination, as well as occupational safety, work ability and employer-employee co-operation.

In 2022, we shifted to hybrid work at Varma which means meeting each other face-to-face and remotely. Varma developed an agile operating culture, offered Varma employees good conditions for maintaining their work ability and ensured that supervisory work is at a good, consistent level. The annual PeoplePower Index, measuring Varma employees' satisfaction and engagement, was 78.5 (76.8) in 2022. With its best-ever result, Varma made it onto the list of Finland's Most Inspiring Workplaces for the fifth time in a row.

Varma focusses on occupational safety and maintaining its employees' work ability. We manage the disability risk identification process through occupational health and safety (OHS) activities and the OHS organisation, comprehensive occupational health care and co-operation between supervisors and HR. OHS work focusses on leadership, the workplace atmosphere, work management and adapting to change through measures to prevent psychological stress. In the 2022 employee survey, the work ability index of Varma employees was 80.1 (79.7).

The realisation and experience of equality and non-discrimination are measured in Varma through a separate survey, which is conducted once every two years to identify any areas needing improvement. The results of the survey conducted late in 2022 were excellent, indicating consistent improvement in the experience of equality and non-discrimination. The biggest positive development can be seen in gender equality as regards pay, career opportunities, and training and study opportunities. Our active, continuous work to promote equality and non-discrimination, along with Pride co-operation and promoting the rights of sexual and gender minorities received special recognition. Areas in need of improvement include attending to the equality of employees of different ages and in different family situations. A new equality and non-discrimination plan for 2023–2024 will be drawn up on the basis of the survey results.

Respect for human rights

Varma is committed to respecting human rights and operating in accordance with the United Nations Guiding Principles on Business and Human Rights. Varma requires the same from its supply chain. Varma's operations have a key impact on the realisation of human rights with respect to three groups: the company's investees, personnel and supply chain.

In 2022, Varma carried out a survey on the realisation of human rights in its investments, its own operations and the supply chain with the aim of comprehensively identifying, preventing and mitigating any negative human rights impacts from Varma's operations and addressing them more effectively. As the outcome of the assessment, we drew up Principles for Human Rights in which we commit to address violations of human rights.

In our investments, we assessed human rights risks and impacts on different continents, in various industries, and particularly in private equity, infrastructure and hedge funds, and real estate funds. In the fund survey we looked into whether the fund's sustainability policy is aligned with the UN Global Compact and whether the fund has a human rights policy or human rights-related principles. We also determined how the funds take human rights into account when investment decisions are made. Various human rights risks and impacts are highlighted in different industries and geographical areas. We examined possible and actual human rights violations in terms of the location of the companies' main office and the incident in question. Russia's war of aggression against Ukraine brought the sustainability of governments' actions under scrutiny in a new way. Varma took an even closer look at human rights risks related to geographical areas and governments. Governments' human rights violations are monitored using the UN's SDG index.

In our human rights assessment, we also identified human rights risks and impacts affecting our own personnel. Varma has practices and processes in place for addressing violations concerning the company's own personnel.

The value chain human rights survey was carried out by sector, because Varma's purchases are focussed on Finland. The first tier of Varma's supply chain mainly covers Finland alone: of our purchases made in 2022, 98 per cent originated from Finland. The remaining 2 per cent originated from the US, France, the UK, Ireland and other European countries. Varma's most significant purchases are related to construction and the maintenance of buildings, and to IT systems. Varma determined the sector distribution of the company's total purchases and used this information to assess the share of suppliers in sectors with high human rights risks, which was 0.3 per cent. The suppliers' compliance with the principles of the UN Global Compact was also surveyed.

The construction-related purchases required for Varma's real estate investments account for a major proportion of the total purchases, and therefore a separate human rights survey was carried out for real estate investments. The survey examined the human rights risks related to raw materials, purchases and construction phase in the upstream supply and value chain of the real estate business. Significant human rights risks identified included aspects related to the origin of raw materials and the realisation of employees' human rights in the construction phase. Furthermore, the long supply and value chains related to construction increase the likelihood of human right risks being realised.

Besides assessing human rights, we have provided Varma employees with training in human rights responsibilities. The training efforts were targeted to functions where we have identified major human rights impacts.

Responsible value chain management

Varma has analysed its value chain in order to identify sustainability issues and established its sustainability requirements, which have been written into the Supplier Code of Conduct. Varma expects its direct service providers to commit to the sustainability requirements, which are attached to agreements. Direct service providers are responsible for their own supply chain, and they are obliged to ensure that Varma's sustainability principles are abided by.

The Supplier Code of Conduct covers, among other things, good business practices, anti-bribery issues, human rights, occupational safety and health, and respect for the environment. As regards environmental aspects, we encourage our suppliers to use a certified environmental system or a documented operating method for managing their environmental matters. The Code also includes a notification requirement and permission for audits.

Varma has adopted a harmonised contract management system, which helps ensure that the supply chain sustainability requirements are taken into account in our contracts.

In investments, preventing money laundering and complying with sanctions are key to the sustainability of the supply chain. Practices concerning the prevention of money laundering and compliance with international sanctions have been written down in Varma's risk assessment on money laundering. We organise regular training on the theme. In fixed income, hedge, infrastructure and real estate fund investments, preventing money laundering is addressed in the legal due diligence process and, if necessary, ensured via contracts. Furthermore, continuous monitoring is part of market monitoring. In direct real estate investments, the main means of preventing money laundering relate to identifying the actual beneficiary of tenants and corporate tenants, obtaining information on tenants' activities, reporting suspicious activities to the National Bureau of Investigation, money laundering risk assessment, employees' training and retaining the information.

Evaluation of investees' responsibility and sustainability

Responsible investment takes key factors related to environmental (E), social (S) and governance (G) matters into account in investment decisions. From an investor's perspective, making allowances for sustainability does not conflict with return expectations. At Varma, the goal of responsible investment is to reduce risks and to identify investees that benefit from responsible operations as well as the return potential of such investments. Responsibility influences our investment decisions alongside financial factors. Varma's principles for responsible investment cover all asset classes and are applied differently depending on the asset class and type of investment. In analysing responsibility, Varma focusses on the most material responsibility aspects related to the specific industry and asset class.

Varma expects its investees to comply with local legislation and international standards and agreements, typically the principles of the UN Global Compact initiative on corporate sustainability, and to respect human rights.

For ethical reasons, Varma excludes from its direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons. In investments other than direct investments, such as in index funds, Varma requires that they do not contain companies that operate in those industries or strives to engage with them with the aim of excluding such industries. In our climate policy for investments, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 10 per cent of their net sales, production or production capacity.

Varma engages with the companies in which it has a holding also, for example, by participating in the work of nomination boards and in annual general meetings. Varma's share ownership policy was updated in 2022. The policy describes Varma's action as a shareholder in both Finnish and foreign companies. In the updated policy, Varma encourages transparent remuneration practices and appropriate reward systems. Additionally, Varma encourages our investees to report their remuneration metrics in a way that clearly shows what the remuneration is based on. Varma also expects the relative weights of the different metrics to be reported. Furthermore, Varma sees it as a positive development that material and measurable sustainability criteria are adopted.

The policy highlights the importance of the controlled renewal and continuity planning of the board. Successor planning is particularly important when it comes to the board's chair. The normal recommended term for a member of the board of directors is six to ten years.

Varma requires that share issue authorisations which are significant in terms of size and are sought for general use do not, as a general rule, include authorisation for a directed share issue without more precise specification of the intended use of the directed share issue. The share issue authorisation is significant if it covers more than 10 per cent of the company's share capital. Varma's stance is that a share issue authorisation should not exceed 10 per cent without justifiable grounds.

In 2022, Varma was represented in the shareholders' nomination boards of 25 companies and participated in the annual general meetings of 100 Finnish companies and 266 foreign companies.

In 2022, Varma continued to develop the systematic identification and monitoring of sustainability risks. We started to enter possible and likely sustainability risks into our risk management system. Sustainability risks are discussed four times a year by the Investment Operations' management team and at least once a year by the Investment Committee. Sustainability risks are also addressed in the Board of Directors' risk and solvency assessment.

Climate change is one of the most significant sustainability risks that investors must prepare for. 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. These include 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.

In addition to analysing climate-related risks, Varma monitors other sustainability risks by striving to identify adverse business interests and violations of international agreements and norms. In 2022, Varma updated the company's norm violation process in order to increase the efficiency of identifying and monitoring possible and likely sustainability risks.

Environmental responsibility

Varma's opportunities to influence the environment can be examined in terms of its operations (Varma's office building and the environmental impact of the work performed in it), its value chain and its investments. The biggest opportunities for influencing are through Varma's investment operations, and on the other hand, investees' environmental risks may also be reflected in Varma's investment returns.

Mitigating climate change is one of the main goals of Varma's responsible investment. The goal is that, in future, taking biodiversity into consideration will guide Varma's environmental sustainability on an equal footing with climate targets.

Overall picture of Varma's climate impacts

Varma's goal is to develop its portfolio towards carbon neutrality in 2020–2035. In 2022, Varma performed for the second time a scope 3 emissions calculation, i.e. assessed the emissions of the value chain and formed an overall picture of the emissions. Varma's scope 3 calculation complies with the Greenhouse Gas (GHG) protocol, and it covers the years 2021 and 2022.

Varma's own direct scope 1 emissions include company cars' fuel. Scope 2 emissions comprise the energy consumption of Varma-controlled real estate, i.e. indirect emissions from purchased energy, which account for approximately 1.8 per cent of Varma's total emissions. The calculation showed that approximately 98 per cent of Varma's greenhouse gas emissions are caused by the value chain, or scope 3 emissions.

Varma's scope 3 emissions included in the calculation were dominated by category 15, i.e. the emissions of the investment portfolio, and the weight of the other emission categories was as a whole low, below 5 per cent. Of the scope 3 emissions, 98 per cent were caused by the investees' emissions. As regards investments, the calculation included Varma's listed equities, listed corporate bond investments, private equity and infrastructure investments, hedge funds, real estate funds and unlisted corporate bonds. Direct real estate investments have been reported as part of Varma's scope 1 + 2 emissions.

Climate-change-related opportunities: climate-friendly investment allocation

Climate change also presents investors with return opportunities. Varma composes from the investments in different asset classes a climate-friendly investment allocation which 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 or carbon capture. Our target is for the climate allocation to represent 25 per cent of the investment portfolio by 2025. The allocation accounted for 24.2 (18.2) per cent of the entire investment portfolio at the end of 2022.

Climate risk management and reporting

Varma constantly analyses the financial risks and opportunities and the business impacts brought by climate change. As part of the Sustainability Report, Varma reports on business impacts caused by climate change in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

In 2022, all asset classes, with the exception of government bonds and derivatives, were included in the carbon footprint calculation of investments, which covered 93 per cent of the market value of our investment portfolio.

In accordance with the climate policy that was updated in 2022, Varma's goal is to reduce the absolute scope 1 and 2 emissions of the investment portfolio by 25 per cent by 2025. At the end of 2022, the absolute emissions were down 11 per cent compared to 2021.

We also aim to reduce the weighted 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 per cent by 2023, 40 per cent by 2025 and 50 per cent by 2027. The carbon intensity of listed equity investments was down 16 per cent compared to the 2016 level, but in comparison to 2021, the carbon intensity was up 19 per cent. The carbon intensity significantly increased as a result of an M&A, carried out in 2022, by a single carbon-intensive investee company that increased the company's calculated emissions in relation to its turnover. Without this M&A, the weighted carbon intensity of listed equity investments would have been down 33 per cent compared to 2016. At year-end 2022, the weighted carbon intensity of Varma's equity portfolio was lower than that of the global equity market. In listed corporate bonds, the carbon intensity was down 8 per cent compared to 2016 but was up 19 per cent compared to 2021. The main reason for the increase in the weighted carbon intensity is an improvement in the emissions data for listed corporate bonds, especially in higher risk bond investments. The indicator used by Varma, weighted carbon intensity, is sensitive to individual emission-intensive companies. Therefore, a single company causing significant emissions may have a major impact on the entire portfolio's indicator. For us to reach our climate targets, such investee companies need to implement significant emission reductions or, alternatively, we need to reduce our holding in them.

Varma requires its investees to have a plan for reducing their emissions and encourages companies to disclose, in accordance with TCFD, information about how climate change is included in the company's governance, strategy and risk management, especially in emissions-intensive industries.

Negative screening and enhanced ESG monitoring

For ethical reasons, Varma has excluded from its direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons. In investments other than direct investments, such as in index funds, Varma requires that they do not contain companies that operate in those industries or strives to engage with them with the aim of excluding such industries.

In our climate targets, which were tightened in 2022, we exclude investments in companies with coal- or lignite-based operations accounting for more than 10 per cent of their net sales, production or production capacity. Varma is committed to exiting from thermal coal investments by 2025 and from oil exploration by 2030. At the end of 2022, 0.3 per cent of Varma's listed investments was in oil exploration companies, and 2 per cent was in companies that rely on coal for more than 5 per cent of their operations.

Varma has also identified industries with a need for enhanced ESG screening, i.e. with higher environmental, social and governance risks. Enhanced ESG monitoring and analysis concerns, for example, the arms industry, alcohol and gambling industries and so-called transition industries that have a high exposure to climate-related risks.

In 2022, Varma started to prepare for the exclusion of intermediaries that finance fossil fuels. This means that Varma monitors the amount of financing that banks acting as our intermediaries provide to companies that rely on coal or oil in their operations. Through monitoring and possibly negative screening, our objective is to persuade banks to stop financing polluting forms of energy.

EU Taxonomy on Sustainable Finance and monitoring of transition industries

In order to reach its carbon neutrality target by 2050, the European Commission has been developing regulation on sustainable finance. The purpose of the set of acts is to guide capital flows towards sustainable investments, while at the same time managing environment-related economic risks and social and governance issues. At the core of the regulation is the EU Taxonomy Regulation, i.e. the sustainability classification of investments.

Reporting on investments' sustainability as required by law

Varma is a large public-interest entity and, therefore, the company discloses non-financial information in the Report of the Board of Directors. The non-financial report also includes information in accordance with the EU Taxonomy on Sustainable Finance. As an earnings-related pension insurance company, Varma belongs to the category of non-financial companies in the Taxonomy Regulation, since earnings-related pension companies are not insurance companies authorised under the Solvency II Directive's Article 18. On the basis of the aforementioned regulation, Varma has identified real estate investment as taxonomy-eligible economic activity. Taxonomy-eligible turnover accounted for 2 (1) per cent of the total turnover. Taxonomy-eligible capitalisations, i.e. the share of real estate investments' net investments of all capitalisations, which include additions to and decreases from property and intangible assets, was 100 (100) per cent. Taxonomy-eligible operating expenses accounted for 1 (2) per cent of total operating expenses.

Earnings-related pension insurance companies provide taxonomy-related information in a table. Varma's reporting on taxonomy eligibility covers technical screening criteria for contributing substantially to climate change mitigation, drawing on real properties' energy certificates, which is not sufficient evidence of taxonomy eligibility. In the coming years, Varma will expand the assessment to cover compliance with the safeguards and will carry out a climate risk review on a number of real properties.

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2022

Economic activities (1)	Codes (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Substantial contribution criteria							DNSH Criteria (Does not Significantly Harm)							Minimum safeguards (17)	Taxonomy-aligned proportion of CapEx, year 2022 (18)	Taxonomy-aligned proportion of CapEx, year 2021 (19)	Category (enabling activity) (20)	Category (enabling activity) (21)
				Climate change of mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biologinen monimuotoisuus ja ekosysteemit (16)	Y/N	Y/N					

A. TAXONOMY-ELIGIBLE ACTIVITIES

A.1 Environmentally sustainable activities (Taxonomy-aligned)																							
Real estate business	L68	0	0%																		0%		
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)	L68	0	0%																		0%		
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																							
Real estate business	L68	71	100%																				
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	L68	71	100%																				
Total (A.1 + A.2)		71	100%																		0%		

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

CapEx of Taxonomy-non-eligible activities (B)	L68	0	0%
Total (A + B)	L68	71	100%

(1) Activity 1 is Taxonomy-eligible in its entirety. However, only a proportion of it is Taxonomy-aligned. Therefore Activity 1 may be reported under both A1 and A2. However, only to proportion reported under A1 may be counted as Taxonomy-aligned in the CapEx KPI of the non-financial undertaking.

For activities listed under A2, columns 5 to 17 may be filled in on a voluntary basis by non-financial undertakings.

Scenario analyses in listed equity and corporate bond investments

Varma has carried out various scenario analyses based on global climate models in order to determine how well the company's investments are aligned with the targets of the Paris Agreement. The results are used, for instance, to help set climate targets.

In the climate risk analysis, a tool is used to assess asset-class-specific transition costs and opportunities as well as physical risks brought by climate change. Climate risks have major impacts on companies' business models and profitability. Assessing these impacts has been challenging using historical analysis. With the help of the tool, we have strived to determine the temperature scenario's potential impact on the investment's market value.

The analysis of Varma's equity investments shows that both negative and positive potential impacts are the greatest in scenarios in which the transition to a low-carbon society is the strongest. Compared to the global equity market, the largest relative difference is created in the 1.5-degree scenario (Carbon neutrality 2050), in which the impacts on Varma's equity investments would be significantly lower than on the global equity market. In a scenario in which the positive measures in terms of climate change are the smallest, the potential negative impacts on Varma's equity portfolio are larger than on the global equity market.

Varma has also made use of forward-looking data by analysing the estimated future scope 1, 2 and 3 emissions of its listed equity investments. Furthermore, Varma has analysed the amount of carbon dioxide emission companies can afford to release in 2020–2070 in order to limit global temperature rise to below two degrees Celsius compared to the pre-industrial era by 2100. Based on the analysis, Varma's listed equity investments are aligned with a 2.40 degree temperature rise, whereas the corresponding figure for the global equity market is 2.88.

Scenario analyses in real estate investments

Analyses have been performed on Varma-owned real estate from the perspective of both climate-change-related transition risks and physical risks.

As a result of climate change, precipitation will increase and rainstorms will become stronger in Finland. At the same time, rainwater floods caused by rain and melting water will become more common. Cities, city planners and building control authorities are in charge of rainwater management, but as a real estate owner, Varma's task is to see to it that the plans take into account any measures required for rainwater management.

Higher emission allowance prices would have a broad impact on buildings' investment and operating costs. Varma can, however, mitigate the impacts of changes in properties' value through long-term ownership. The rise in material costs can be prepared for by actively seeking ways to use low-emission materials, and the rise in energy costs can be abated through own local small-scale production.

Attending to biodiversity

A preliminary analysis of the biodiversity of Varma's investment portfolio was carried out in 2020. The work was continued in 2021 by exploring the risks, from an investor's perspective, that biodiversity loss presents for different industries. We also looked into the measures that companies could employ to mitigate biodiversity loss.

In 2022, Varma created a Biodiversity Roadmap, with the purpose of creating a framework for responsible investment requirements, policies and goals that prevent biodiversity loss. The roadmap applies to the entire investment portfolio, and it is divided into five focus areas: sector risk assessment, impact analysis, real estate portfolio's biodiversity guidelines, engagement, and external and internal reporting.

In 2023, Varma will create a policy that will steer the company's biodiversity work and complement its climate policy. The policy will include qualitative and quantitative targets, asset-class-specific principles, means of engagement and reporting practices.

Varma aims to report according to the Task Force on Nature-related Financial Disclosures' (TNFD) global biodiversity-related disclosure framework for the first time for 2024.