

Report of the Board of Directors 2023

The economic operating environment

The world economy grew faster than predicted in 2023, but the differences in economic performance between geographical areas and business sectors were great. Growth was largely driven by private consumption, while industry all but stagnated and construction contracted heavily across many countries. Employment developed rather favourably in spite of the problems in cyclical industries and slowing inflation and increasing salaries supported households' purchasing power. Geographically, the USA was a bright spot for the global economy while Europe hit the brakes and growth in China fell clearly short of expectations. Although many economic indicators remained weak, global recession was avoided.

In 2023, the global economic performance was characterised by adapting to higher interest rates. Many central banks continued to tighten their monetary policies, but the resulting impact on economic growth was less than feared. Fixed-rate loans curbed the rise in debt service costs especially in the USA and in many countries of continental Europe. Global inflation took a sharp downward turn as the year progressed, and, for example, the Fed indicated possible interest rate cuts in 2024. As a result, the fixed income markets started to price in aggressive easing of monetary policies, despite the clearly more moderate message by the central banks, and inflation remained above the central banks' target level.

The economic outlook is somewhat clearer, but tighter fiscal policies combined with the delayed impacts of higher interest rates continues to hinder economic growth. The clear slowdown in inflation is a relief for central banks, but the continued high wage inflation may slow down interest rate cuts. The geopolitical situation is also unstable, although tensions between the world's two biggest economies, the USA and China, seem to have eased at least temporarily. Large public deficits continue to put debt sustainability at risk, thus limiting fiscal policy leeway.

Earnings-related pension system

In 2023, the Ministry of Social Affairs and Health and the Ministry of Finance set up a working group to look into reforming the earnings-related pension system. The objective of the working group is to identify the changes that are needed to ensure the financial sustainability of the earnings-related pension system, secure an adequate level of benefits and stabilise the pension insurance contribution level through a rule-based stabilisation mechanism in the long term. The objective is also to strengthen public finances in the long term by approximately 0.4 percentage points in relation to the GDP. The working group is expected to draw up a proposal of the measures by 31 January 2025, after which the proposal will be compiled into a government proposal. The key labour market organisations have also established a bipartite pension negotiation group to prepare the pension reform.

The Ministry of Social Affairs and Health confirmed the earnings-related pension contributions for 2024. The average pension insurance contribution according to the Employees Pensions Act (TyEL) is on average 24.81 per cent of wages and salaries, whereas in 2023 it was 24.84 per cent. The employer contribution includes a 0.41 percentage point increment, which is used to cover the impacts of the temporary reduction in the employer contribution in 2020 due to the Covid-19 pandemic. The increment will be included in the employer contribution for the last time in 2025. The pension contributions of the self-employed will remain at the same level in 2024 as they were in 2023.

The earnings-related pension insurance companies proposed changes to the contribution category model used to finance disability pensions. The Ministry of Social Affairs and Health confirmed the changes at the end of 2023. The changes aim to, among other things, promote the employment of older workers and those with partial disability and encourage companies to adopt timely and effective rehabilitation practices. The changes are effective as of the beginning of 2024, but they include a long transition period.

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 2024 will rise by 5.7 per cent.

Pension contributions and return requirement on technical provisions

The average TyEL contribution in 2023 was 24.84 per cent of the wages and salaries. Of this, the employee contribution was 7.15 per cent for those under 53 and over 62, and 8.65 per cent for those between the ages of 53 and 62. The average contribution included a 0.44 percentage point increase, which was used to cover the impacts of the temporary reduction in the employer contribution in 2020 due to the Covid-19 pandemic. In 2023, 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 in 2023 was 6.02 per cent, which consisted of a 3.00 per cent fund rate, a pension liability supplementary factor and the return on equity component. The supplementary factor was 0.68 per cent on average in 2023. The return on equity component in 2023 was 11.7 per cent, and its effect on the return requirement was approximately 2.34 percentage units (a fifth of the return on equity component).

The insurance contribution interest rate, used to calculate pension contributions, stood at 2.45 per cent until 30 June, and at 3.85 per cent for the second half of the year. As a result of the general rise in interest rates, the insurance contribution interest rate rose in 2023 above the minimum level of 2.00 per cent for the first time in years. 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 5.0 per cent throughout the year.

Varma's economic development

Varma's total result at fair value stood at EUR 815 (-3,466) million.

Varma's solvency was on a strong level throughout the year. Solvency capital totalled EUR 14,010 (13,344) million at the end of the financial year. Varma's pension assets in relation to technical provisions (solvency ratio) were 130.4 (130.5) per cent. Solvency capital was at a secure level, i.e. at 1.6 (1.8) 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.

The return on investments was EUR 3,363 (-2,868) million at fair value, which was 6.0 (-4.9) per cent of the invested capital. The return credited on the technical provisions was EUR 2,624 (768) million. Thus, the investment result for 2023 totalled EUR 739 (-3,636) million. Varma's total operating expenses were EUR 138 (136) million. The loading profit was EUR 4 (38) million. Following the introduction of the company-specific administrative cost component, the administrative cost component included in the insurance contribution has been adjusted to reflect Varma's costs in 2023. The underwriting result was EUR 70 (115) million and other result was EUR 2 (16) million.

The underwriting result is explained by the increased mortality, 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. At the end of 2023, EUR 142 (173) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.6 (0.7) per cent of the payroll of the insured. Until 2022, loading profit was also included in the transfer. Varma's strong solvency ensures competitive client bonuses, and good operational efficiency lowers the administrative cost component included in the pension contribution. Thus, strong solvency and operational efficiency benefit Varma's clients.

The TyEL payroll of those insured by Varma totalled roughly EUR 25.4 (24.1) billion in 2023. The total payroll increased 5.2 per cent from the previous year. Varma's premiums written totalled EUR 6,466 (6,119) million, of which TyEL insurance accounted for EUR 6,254 (5,919) million and YEL insurance for EUR 213 (199) million.

At the end of the financial year, 607,535 (590,218) individuals were insured by Varma. At the end of 2023, the number of valid insurance policies totalled 77,797 (72,427), covering 43,955 (42,494) self-employed persons and 563,580 (547,724) employees.

In 2023, a total of 4,651 (4,197) new TyEL insurance policies and 7,011 (7,517) YEL insurance policies came into force at Varma.

During the year, Varma reviewed the incomes of 12,000 self-employed persons in accordance with the Self-employed Persons Pensions Act (YEL), which requires the reviews to be performed every three years. In the first phase, the income of self-employed persons whose YEL income was less than 15,000 euros and whose income had not been significantly adjusted in the past three years was reviewed. In 2024, the incomes of self-employed people whose income is not more than EUR 25,000 will be reviewed.

During the 2023 account transfers, EUR 21 (35) million in net TyEL income was transferred to Varma from other earnings-related pension companies, and EUR 77 (59) million in new TyEL policies were sold. The corresponding impact on YEL premiums written was EUR 33 million.

Varma received 10.1 (9.8) million income and employment notifications from the Incomes Register during 2023. 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 2023, a total gross amount of EUR 7,073 (6,492) million in pensions was paid out. The number of pension recipients slightly decreased, and at year-end, Varma was paying pensions to 350,000 (352,000) people.

Varma's total processing time for pension applications in 2023 was 15 days, which was 5 days shorter than the average processing time in other earnings-related pension companies.

A total of 24,825 (28,472) new pension decisions were made in 2023. The number of new pension decisions decreased 12.8 per cent compared to 2022, and the total number of all pension decisions was 10.8 per cent lower than in 2022. Of the new decisions, old-age pension decisions numbered 10,134 (11,812), disability pension decisions 6,295 (5,821) and partial early old-age pension decisions 4,317 (7,011). Continuation decisions on temporary pensions totalled 4,941 (4,667), and other decisions numbered 22,259 (25,165). 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 41.1 (40.4) per cent. Pension applications filed online accounted for 69 (71) per cent of all pension applications.

The number of disability pension applications continued to increase in 2023. The number of disability pension applications received by Varma stood at 13,252, which is 3.8 per cent more than in the previous year. New disability pension applications numbered 5,644, up 5.4 per cent. In keeping with 2022, the majority of the growth stemmed from the older age groups. The average starting age of new full disability pensions was 52.5 years. Men accounted for 63.7 per cent of the granted disability pensions, which reflects Varma's insurance portfolio. Preliminary applications for partial disability pension took an upward turn (3.1 per cent) in 2023. Women in particular applied more often for a preliminary decision concerning partial disability pension than in the previous year, up 7.7 per cent.

At 34.8 per cent, mental health disorders were the main reason for new disability pensions. Among women, their share was as high as 43.2 per cent, whereas among men the figure was much lower, at 30.0 per cent. The second most common reason for disability pension was musculoskeletal diseases, at 26.1 per cent. The largest number of disability pensions was granted to employees in the construction and transport sectors. The dominant reason was musculoskeletal diseases. The second-largest number of disability pensions was granted to employees in the care and social services sectors. These numbers reflect not only the strenuous nature of these sectors but also their significant proportion in Varma's insurance portfolio. As in previous years, the share of rejected new disability pension applications was very high, at around 41 per cent. Reasons behind the high rejection rate are the higher-than-average rejection rates of young people's applications and applications for mental health reasons.

The number of rehabilitation applications took an upward trajectory in 2023 after a decline in the previous two years. The number of applications received by Varma stood at 2,268, which is 10.9 per cent more than in the previous year. Among women, the increase was as high as 19.1 per cent, among men 4.1 per cent. However, the number of positive rehabilitation decisions fell 7.0 per cent as a result of the higher rejection rate. The average age of new rehabilitants was 48. Men account for 59 per cent of the new rehabilitants. Rehabilitation's effectiveness, which was already high, further improved in 2023. More than 86 per cent of the rehabilitants who participated in a rehabilitation programme 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. Varma piloted the Individual Placement and Support (IPS) model in vocational rehabilitation during 2020–2023, and based on the results, the model will be introduced nationwide in 2024. Of the rehabilitants participating in the pilot project, 64 percent were gainfully employed, which clearly exceeds the results of the reference group (38). The pilot proved that the IPS approach is useful in vocational rehabilitation and an effective means of supporting mental health rehabilitants in returning to gainful employment.

Our corporate customers' digital services for managing disability risks were integrated in a single system in the Varma Online Service. Our analytics now provide more detailed disability risk assessments and thus better effectiveness. Varma's researchers continued to publish sector-specific research reports on disability risks and the management thereof. These were utilised to a great extent in service development and customer work. We also expanded and actively developed other services related to disability risk management in response to the change in working life and disability risks. Varma also continued active co-development with customers and other stakeholders and partners.

	31 Dec 2023	31 Dec 2022	Change
Number of insured			
TyEL	563,580	547,724	15,856
YEL	43,955	42,494	1,461
Total	607,535	590,218	17,317
Number of insurance policies			
TyEL	33,842	29,933	3,909
Number of pensioners			
Part-time pension		3	-3
Partial disability pension	3,066	3,144	-78
Partial early old-age pension	11,663	10,430	1,233
Survivors' pension	50,255	50,429	-174
Disability pension	15,165	15,679	-514
Old-age pension	260,393	261,930	-1,537
Early old-age pension	9,894	10,549	-655
Years-of-service pension	52	33	19
Total ¹⁾	350,488	352,197	-1,709
¹⁾ Those receiving YEL pension	28,425	28,709	-284
Those receiving TEL/YEL supplementary pension	40,814	41,747	-933

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, 98.1 (98.2) 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 20,856 (24,505) applications were submitted electronically during the year.

The insured can see the development of their earnings-related pension in their pension record. Altogether 168,615 (142,275) 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 2023, Varma sent out a total of 180,890 (197,000) pension records.

Technical provisions

Varma's technical provisions grew 3.5 (0.3) per cent to EUR 46,966 (45,373) million. In addition to the increased actual provisions for unearned premiums and outstanding claims, the technical provisions contain a provision of EUR 142 (174) million for current bonuses reserved for client bonuses, a provision of EUR 892 (1,573) million for future bonuses contained in the solvency capital, and EUR -17 (-950) million in an equity-linked buffer.

Changes in the insurance portfolio

During the financial year, no insurance portfolio transfers to Varma took place, nor did Varma make portfolio transfers to others.

Investments

In 2023, the return on Varma's investments reached 6.0 (-4.9) per cent, and at year-end, the fair value of investments amounted to EUR 59,078 (56,204) million. At year-end, Varma's solvency ratio was 130.4 (130.5) per cent.

The returns increased as the year progressed, and performance especially in the last quarter was strong. The return differences between asset classes levelled out during the year, but the returns on real estate were clearly in negative territory. Risk sentiment was driven by dissipating fears of a recession and a downward turn in inflation, and towards the end of the year, the markets no longer believed the central banks' assertions of prolonged tight monetary policy. Interest rates took a clear downward turn in the final quarter of the year. The returns on most asset classes strengthened.

Equity investments yielded 8.6 (-8.7) per cent. The return on listed equities was as high as 10.3 (-16.8) per cent, but the differences between geographical areas and business sectors were great. Of Varma's listed equity investments, American equities yielded 18.5 per cent, while Finnish equities returned less than one per cent. The reported return on private equity investments showed moderate growth, reaching 5.5 (7.9) per cent.

The downward turn in interest rates at the end of the year raised the return on fixed income investments to 5.6 (-5.2) per cent. The highest returns among fixed income investments were generated by higher-risk corporate bonds and emerging countries' government bonds. The returns on lower-risk government bonds were driven by the clear decline in interest rates at the end of the year. The strong sentiment also boosted loan receivables, which yielded 7.3 (3.9) per cent.

The return on real estate investments was negative, at -4.3 (5.7) per cent, as the markets continued to expect higher returns on real investments in the sustained high interest rate environment. Despite the slump in the real estate market, 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 fair values of Varma's real estate were verified by an external party during the financial year and in relation to the financial statements.

The return on other investments reached 5.6 (2.7) per cent. Hedge investments benefited from the economic performance in the USA, higher risk premiums and interest income, which bolstered the development of corporate

bond and mortgage investments in particular. Due to lower duration, however, the returns were outperformed by listed corporate bonds.

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 during the year, pushing the returns 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 2,311 (2,727) million.

Operating expenses

Controlling operating expenses is a key objective for Varma while simultaneously improving operational efficiency. 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. Following the reform, the administrative cost component included in the insurance contribution was adjusted to reflect Varma's operating expenses in 2023.

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 0.8 per cent and stood at EUR 137 (136) million. The operating expenses for Varma's TyEL and YEL activities totalled EUR 88 (88) million.

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.

	2023	2022	2021	2020	2019
Average number of personnel	564	531	527	537	537
Salaries and remunerations, EUR million	49.3	46.3	43.6	37.7	37.6

Tieto Esy, which is included in the Consolidated Financial Statements using the equity method, had an average of 20 (28) employees in 2023.

At year-end, Varma's personnel were distributed as follows: pension services 16 (17) per cent, insurance and actuary services 12 (11) per cent, customer service departments 17 (17) per cent, services related to disability risk management 13 (13) per cent, investment operations 13 (14) per cent, and other functions 30 (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 2023, the Varma Group comprised 107 (103) subsidiaries and 16 (17) associates. The most important subsidiaries and associates are Tieto Esy Oy (50.1 per cent) and Alcobendas Investments SL (50.0 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 14 March 2023. The Annual General Meeting elected five new members to the Supervisory Board. Anne Karjalainen, Katariina Kravi, Elisa Markula, Maria Mäkynen and Marko Piirainen were elected as new members to the Supervisory Board. 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 2022.

Continuing as Supervisory Board members were Christoph Vitzthum (Chair), Päivi Leiwo (Deputy Chair), Petri Vanhala (Deputy Chair), Juri Aaltonen, Ari Akseli, Eero Broman, Petri Castrén, Kim Forsström, Lasse Heinonen, Marko Hovinmäki, Olavi Huhtala, Mika Joukio, Jukka Jäämaa, Risto Kalliorinne, Ville Kopra, Tapio Korpeinen, Pekka Kuusniemi, Johanna Moisio, Pasi Pesonen, Perttu Puro, Mika Rautiainen, Eeva Sipilä, Pekka Tiitinen, Markku Varis, Jorma Vehviläinen, Anssi Vuorio and Sauli Väntti.

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

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

As of the beginning of 2023, 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 Jari Elo, Jouni Hakala and Kari Välimäki.

In its meeting on 29 November 2023, Varma's Supervisory Board elected Anja Frada, Kristiina Mäkelä and Merja Ranta-aho as new members, and Ville Talasmäki as a new deputy member of the Board of Directors as of 1 January 2024. The memberships of Jyri Luomakoski, Petri Niemisvirta and Mari Walls and the deputy membership of Kari Välimäki in the Board of Directors ended on 31 December 2023. The Board of Directors elected in its meeting on

18 January 2024 the presiding officers for the 2024 term. Jaakko Eskola was re-elected Chair, and Antti Palola and Risto Penttinen were re-elected 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.

Capital and reserves

Varma's capital of EUR 152 million consists of basic capital (EUR 12 million), other funds (EUR 127 million), profit brought forward from previous financial years (EUR 6 million) and profit for the year (EUR 7 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 exposed to, arising from and centrally linked to its business activities, and to secure continuity of operations. Risk management also secures business continuity. 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 2023. 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 are 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, which may relate to changes in value, expected returns, security and the principles of foreign currency policy, and the development of the company's solvency. The Board of Directors also assesses the investments' security and the company's risk-bearing capacity in terms of investments, including the development of the company's solvency.

The most significant operational risks in 2023 related to ensuring business continuity in possible external and internal information system failures. 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 fairly uncertain. One of the biggest concerns in terms of the world economy and investment markets is the risk of a recession. It is also possible that inflation will not slow sustainably and that the impacts of the central banks' monetary policy measures will not last. The rise in interest rates and high indebtedness limit fiscal policy leeway. They also reduce households' spending opportunities. The markets' risk pricing has levelled out, but the higher costs of capital continue to undermine the debt service capacity of certain sectors and companies in the environment of muted growth.

Geopolitical risks are elevated. Inflation has started to decline, but there is major uncertainty related to its future development, which at times may be reflected in the markets as interest rate fluctuations. Expenditure pressures related to the aging population, security and energy policy challenges, and higher debt service costs than in recent years make it more difficult to maintain a sustainable economic policy in Finland. At the same time, economic policy reforms geared to strengthening productivity growth should be carried out in an environment of slow growth and unstable political atmosphere. The rapid development of artificial intelligence may boost future development of productivity, but its actual impacts on global growth and productivity is still difficult to assess.

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

Report on non-financial information

Business model description

Varma has the core responsibility of implementing statutory earnings-related pension cover. Sustainability is one of Varma's strategic focus areas. According to the materiality assessment carried out by Varma, 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 annual 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 Senior Vice President, Sustainability and

Communications. The Responsible Investment & Sustainability department develops and co-ordinates Varma's sustainability. The department works in co-operation with Varma's various functions and their sustainability coordinators, 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.

The EU's Corporate Sustainability Reporting Directive (CSRD), which is being phased in from the start of 2024, introduces new sustainability disclosure obligations for Varma's 2024 Report of the Board of Directors. In 2023, Varma implemented a number of measures to prepare for the upcoming regulation. The biggest effort was the double materiality assessment referred to in the CSRD. We also prepared for the future requirements by broadly discussing responsibility and sustainability matters during the strategy day of the management and Board of Directors. In 2024, Varma's Sustainability Programme will be renewed based on the double materiality assessment.

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, which was last organised in 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 and prevention of money laundering.

Varma has also adopted an independent whistleblowing channel for reporting misconduct anonymously. The reports are handled confidentially by an independent whistleblowing team in accordance with a separately-defined process. In 2023, a total of 15 reports were submitted through the channel. None of these concerned misconduct as referred to in the directive. Four of the reports concerned disability pensions that were possibly granted on false grounds. Individual reports were also submitted relating to, for example, insolvency and rehabilitation matters.

Social responsibility

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

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 and investees.

In 2022, Varma carried out a human rights survey, which helped us identify that Varma's operations have a particularly key impact on the realisation of human rights among our investees, personnel and supply chain. We continued this work in 2023 as part of the UN Global Compact's Business and Human Rights Accelerator programme, and respecting the human rights of private customers was also identified as a key element of our social responsibility related to human rights. In the course of the programme, we estimated that in terms of investees, a key aspect is how the human rights of the value chain employees, impacted communities or consumers, or end-users are realised. In the supply chains, factors related to employee safety and the realisation of labour rights as part of human rights are highlighted. Among private customers, issues related to privacy and equality are emphasised. In addition to the assessed key risks, the working conditions and equality of its own employees are important for Varma.

In its operations, Varma follows the Principles for Human Rights, drawn up in 2022, in which we commit to address violations of human rights and identify, prevent and mitigate comprehensively any negative human rights impacts from Varma's operations and address them effectively. The means for identifying, assessing, addressing and monitoring the realisation of human rights are included in the sustainability measures of the different functions.

In 2023, Varma continued to organise training on human rights responsibility in the form of, for example, an information campaign aimed at all employees. Varma employees from different functions also participated in the Business and Human Rights Accelerator programme, assessing the human rights risks and planning measures.

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 2023, the average processing time for all pension applications was 15 (16) 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 2023, the first pension was paid within the target period to 89.2 (89.3) 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 2023, the average disability pension contribution category of Varma's client companies was 3.5 (3.4).

Of Varma's vocational rehabilitation customers who have started a rehabilitation programme, 86 (82) per cent returned to the labour market during the year.

In 2023, Varma rejected 41.1 (40.4) per cent of new disability pension applications. The corresponding rate for the private earnings-related pension sector was 40.8 (38.1) per cent. The Pension Appeal Board changed Varma's disability pension decisions in 10.1 (10.3) per cent of the cases it handled. The corresponding rate for the entire private sector was 10.3 (9.4) per cent.

Responsibility for Varma employees

Varma takes care of the work ability, competence, and equal and non-discriminatory treatment of its personnel. Varma's People, Health & Safety guidelines and procedures 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.

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 2023 employee survey, the work ability index of Varma employees was 83.7 (80.1) on a scale of 1–100.

The realisation and experience of equality and non-discrimination are measured at 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 was drawn up on the basis of the survey results. The plan explains how Varma promotes equality, improves diversity and prevents and addresses discrimination in its own activities. In 2023, Varma broadly adopted the anonymous recruiting practice tested earlier and made personnel benefits more equal.

The annual PeoplePower Index, measuring Varma employees' satisfaction and engagement, was 79.2 (78.5) in 2023. With its best-ever result, Varma made it onto the list of Finland's Most Inspiring Workplaces for the sixth time in a row.

Responsible value chain management

In order to ensure sustainability in its supply chain, Varma requires its partners to commit to Varma's Supplier Code of Conduct, which is attached to contracts. Direct service providers are responsible for their own supply chain, and they are obligated to ensure that Varma's principles are abided by in their own operations.

The Supplier Code of Conduct covers, among other things, compliance with regulations, human rights and labour rights, occupational safety and health, and respect for the environment. It also includes a notification requirement concerning Code violations and permission for audits.

Varma has adopted a harmonised contract management system, which helps ensure that the Supplier Code of Conduct is taken into account in our contracts.

In 2023, Varma conducted a human rights and environmental responsibility survey among its suppliers. The survey was sent to the largest suppliers, excluding the construction sector. A total of 59 suppliers responded to the survey, most of which were companies providing ICT services. Of the respondents, 78 per cent said they are committed to following the UN Global Compact principles. The survey also looked into the human rights due diligence practices of the suppliers, how they take into account health and safety and labour rights in their operations, and how the companies manage their own supply chains. As regards environmental responsibility, the survey showed that 77 per cent of the respondents had in place a policy covering environmental sustainability.

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 of observations related to money laundering 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 means taking into account, in addition to expected returns, aspects related to the investee's responsibility and sustainability, including environmental impacts, social matters and good governance, in our investment decisions.

From an investor's perspective, making allowances for sustainability does not conflict with expected returns. For Varma, sustainability is a means of securing long-term returns on investments while ensuring that risks and opportunities are taken into account broadly in investment decisions. 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, including the principles of the UN Global Compact initiative on corporate sustainability and respect for 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 its climate targets, Varma has 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 has also identified industries with a pronounced need for due diligence, i.e. with higher environmental, social and governance risks. The due diligence process applies to, for example, the arms industry, alcohol and gambling industries, and industries exposed to climate and biodiversity risks.

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 describes Varma's activity as a shareholder in both Finnish and foreign companies. In the 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 2023, Varma was represented in the shareholders' nomination boards of 31 companies and participated in the annual general meetings of 101 Finnish companies and 325 foreign companies.

In 2023, Varma continued to identify sustainability risks related to its investments and systematically develop their monitoring. Possible and likely sustainability risks are entered into our risk management system. As regards investees, the risks were related to possible and likely factors affecting the investee's value. Climate change, biodiversity loss and human rights are among the most significant sustainability risks that investors must prepare for. We monitor sustainability risks by striving to identify adverse business interests and violations of international agreements and norms in our investment portfolio.

Environmental responsibility

Environmental sustainability is one of Varma's key sustainability areas. Environmental sustainability covers all of Varma's operations, and its key areas are mitigating and adapting to climate change and preventing biodiversity loss.

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.

In 2023, Varma began drawing up an environmental policy. The environmental policy specifies what environmental sustainability means for Varma. The policy will be published in 2024, and it identifies and describes the means by which Varma manages the environmental risks and opportunities arising from its operations, investees and the supply chain.

Climate targets

In 2023, Varma received validation for its emission reduction targets, which are based on the Science Based Targets initiative (SBTi), making it Finland's first and the world's third pension insurance company to receive this validation. The companies that have joined the international SBTi commit to reduce their greenhouse gas emissions in line with the Paris Agreement. Varma's science-based target is to reduce the Scope 1 and 2 greenhouse gas emissions related to its own operations by 60 per cent by 2030 compared to the 2021 level and, as regards indirect GHG emissions (Scope 3), to increase the share of companies committed to the SBT initiative to 51 per cent by 2027 in equity and listed fixed income investments and real estate funds.

Our goal is to cut the entire investment portfolio's absolute GHG emissions by a quarter by 2025 and halve emissions by 2030. We also aim to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows: 30 per cent by 2023, 40 per cent by 2025 and 50 per cent by 2027.

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. The allocation accounted for 37 (24.2) per cent of the entire investment portfolio at the end of 2023.

Overall picture of Varma's climate impacts

In 2023, Varma performed for the third 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 2022 and 2023.

Varma's own direct Scope 1 emissions include company cars' fuel and fuels used for heating properties. Scope 2 emissions comprise the energy consumption of Varma-controlled real estate and electricity consumption of company vehicles, i.e. indirect emissions from purchased energy, which account for approximately 0.5 per cent of Varma's total emissions. The calculation showed that 99.5 per cent of Varma's greenhouse gas emissions are caused by the value chain, or Scope 3 emissions. Varma's fossil Scope 3 emissions in 2023 totalled approximately 3,632 kilotons of carbon dioxide equivalent (ktCO₂e).

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 3 per cent. Of the Scope 3 emissions, 97.3 per cent were caused by the investees' emissions. As regards investments, the calculation included Varma's listed equities, corporate bond investments, private equity and infrastructure investments, hedge funds, real estate funds and private debt. Direct real estate investments have been reported as part of Varma's Scope 1 and 2 emissions.

Climate risk management and reporting

Varma analyses the financial risks and opportunities and the business impacts brought by climate change. The calculation and reporting of the greenhouse gas (GHG) emissions of investments follows the Partnership for Carbon Accounting Financials' (PCAF) standards.

In 2023, all asset classes, with the exception of government bonds and derivatives, were included in the carbon footprint calculation of investments, which covered 89 per cent of the market value of our investment portfolio.

At the end of 2023, the absolute emissions of the investment portfolio were down 32 per cent compared to 2022. Compared to 2022, the change is very significant, but the decline has been mainly driven by an improvement in the emission assessment methods, which has resulted in better quality of data. The actual emissions decline in companies in which Varma's holding has remained unchanged compared to 2022 accounts only for 5 per cent of the total change. The biggest contributor in the decline of listed equities' carbon footprint is the decline in the reported emissions of the companies that remained in the portfolio from the previous year. The companies that were divested from the portfolio reduced the portfolio's carbon footprint, but the impact of the new investments exceeded the impact of the sold companies. A major factor in the decline of private equity and infrastructure investments' footprint is the natural exit of old, long-term investments that have been replaced by lower-carbon investments.

The carbon intensity of listed equity investments was down 42 per cent compared to the 2016 level. At year-end 2023, the weighted carbon intensity of Varma's equity portfolio was also lower than that of the global equity market. In listed corporate bonds, the carbon intensity was down 18 per cent compared to 2016.

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

We apply due diligence to industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat production, and the automotive, mining, construction materials, chemical, transport, forest, pharmaceuticals and food industries, and the production of textiles, clothing and luxury goods. The due diligence process also applies to companies with coal- or lignite-based operations accounting for 5–10 per cent of their net sales, production capacity or production.

In its climate targets, Varma is committed to exiting from all coal investments by 2025. We do not make new investments in companies with coal-based operations accounting for more than 10 per cent of their net sales, production or production capacity. The exception to this general rule is companies that have a science-based target of reducing emissions to help limit global warming to 1.5 degrees Celsius. Varma is also committed to excluding oil exploration from its investments by 2030. As part of its efforts to mitigate climate change, since 2015 Varma has excluded from its direct investments companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production capacity or production. Varma does not make new direct investments in companies with coal- or lignite-based operations accounting for more than 10 per cent of their net sales, production capacity or production. At the end of 2023, 1.2 per cent of Varma's assets in listed investments were in companies that rely on coal for more than 5 per cent of their operations. The proportion of investments in the oil exploration industry was very low, at 1.2 per cent, fund investments included.

Varma has also 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 (2) 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 2 (1) 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 turnover from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2023

Financial year 2023	2023			Substantial contribution criteria						DNSH Criteria (Does not Significantly Harm)										Minimum Safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, year, year 2022 (18) Percent	Category enabling activity (19) E	Category transitional activity (20) T
	Codes (2)	Turnover (3) Million €	Proportion of Turnover, year 2023 (4) %	Climate Change Mitigation (5) %	Climate Change Adaptation (6) %	Water (7) %	Pollution (8) %	Circular economy (9) %	Biodiversity (10) Y/N	Climate Change Mitigation (11) Y/N	Climate Change Adoption (12) Y/N	Water (13) Y/N	Pollution (14) Y/N	Circular Economy (15) Y/N	Biodiversity (16) Y/N								

A. TAXONOMY-ELIGIBLE ACTIVITIES

A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
Acquisition and ownership of buildings	CCM 7.7	0	0%							N									0%	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N	N	0%	
Of which enabling		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N	N	0%	
Of which transitional		0	0%	0%						N	N	N	N	N	N	N	N	N	0%	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
			2%	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL											
Acquisition and ownership of buildings	CCM 7.7	137	2%																2%	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																				
	CCM 7.7	137	2%																2%	
A. Turnover of Taxonomy-eligible activities (A.1+A.2)																				
		137	2%																	

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

Turnover of Taxonomy-non-eligible activities	CCM 7.7	8,353	98%
TOTAL	CCM 7.7	8,490	100%

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2023

Financial year 2023	2023			Substantial contribution criteria							DNSH Criteria (Does not Significantly Harm)							Minimum Safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or eligible (A.2.) CapEx, year 2022 (18) Percent	Category enabling activity (19) E	Category transitional activity (20) T
	Codes (2)	CapEx (3) Million €	Proportion of CapEx, year 2023 (4) %	Climate Change Mitigation (5) %	Climate Change Adaption (6) %	Water (7) %	Pollution (8) %	Circular Economy (9) %	Biodiversity (10) Y/N	Climate Change Mitigation (11) Y/N	Climate Change Adaption (12) Y/N	Water (13) Y/N	Pollution (14) Y/N	Circular Economy (15) Y/N	Biodiversity (16) Y/N						

A. TAXONOMY-ELIGIBLE ACTIVITIES

A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
Acquisition and ownership of buildings	CCM 7.7	0	0%							N										0%
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N			0%
Of which enabling		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N			0%
Of which transitional		0	0%	0%						N	N	N	N	N	N	N	N			0%
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Acquisition and ownership of buildings	CCM 7.7	152	100%	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL											100%
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	CCM 7.7	152	100%																	100%
CapEx of Taxonomy-eligible activities (A.1+A.2)		152	100%																	

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

CapEx of Taxonomy-non-eligible activities	CCM 7.7	0	0%
TOTAL	CCM 7.7	152	100%

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2023

Financial year 2023	2023			Substantial contribution criteria							DNSH Criteria (Does not Significantly Harm)							Minimum Safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) OpEx, year 2022 (18)	Category enabling activity (19)	Category (transitional activity) (20)
	Codes (2)	OpEx (3) Million €	Proportion of OpEx, year 2023 (4) %	Climate Change Mitigation (5) %	Climate Change Adaption (6) %	Water (7) %	Pollution (8) %	Circular economy (9) %	Biodiversity (10) Y/N	Climate Change Mitigation (11) Y/N	Climate Change Adaption (12) Y/N	Water (13) Y/N	Pollution (14) Y/N	Circular Economy (15) Y/N	Biodiversity (16) Y/N	Percent	E				

A. TAXONOMY-ELIGIBLE ACTIVITIES

A.1 Environmentally sustainable activities (Taxonomy-aligned)																						
Acquisition and ownership of buildings	CCM 7.7	0	0%							N									0%			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N		0%			
Of which enabling		0	0%	0%	0%	0%	0%	0%	0%	N	N	N	N	N	N	N	N		0%			
Of which transitional		0	0%	0%							N	N	N	N	N	N	N		0%			
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																						
				EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL	EL;N/EL													
Acquisition and ownership of buildings	CCM 7.7	86	2%																			1%
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)	CCM 7.7	86	2%																			1%
A. OpEx of Taxonomy eligible activities (A.1+A.2)		86	2%																			

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES

OpEx of Taxonomy-non-eligible activities	CCM 7.7	5,103	98%
TOTAL	CCM 7.7	5,189	100%

Scenario analyses as part of investments' risk management

Varma makes use of scenario analyses to manage climate-change-related risks and opportunities. Climate change contributes to biodiversity loss, and thus climate-change scenario analyses also indirectly promote taking biodiversity loss into account in investments.

In 2023, Varma modelled, as part of setting science-based targets for its real estate, target pathways for the absolute emissions and emission intensity of both residential and commercial real estate. At the same time, we examined the development of the greenhouse gas emissions of our real estate portfolio in an analysis that covered the carbon dioxide emissions from the heating and electricity of commercial and residential properties that we own. In the scenarios, the need for heat was assumed to decline at an annual rate of approximately one per cent as a result of global warming and improved energy efficiency in properties.

The analysis shows that even in the baseline scenario, the emissions of Varma's real estate portfolio are aligned with the 1.5-degree target, and Varma is well equipped to achieve its emission reduction targets in terms of Scope 1 and 2 emissions by 2030. In the short term, the real estate portfolio's emissions can be cut by buying carbon-dioxide-free district heat and using carbon-dioxide-free electricity.

Earlier, analyses have been performed on Varma-owned real estate from the perspective of both climate-change-related transition risks and physical risks. The majority of the real property owned by Varma is located in the Helsinki metropolitan area. Practically all of the buildings are located within a radius of approximately 10 kilometres from the seashore, and thus their climate burden is higher than average. In addition to the risk of a sea flood, wind-driven rain and strong winds may cause problems in controlling moisture levels in the buildings. This is taken into account in building condition surveys and facade solutions for new buildings. A sea flood analysis was also performed on the real estate portfolio, according to which the sea flood risk in Varma's real estate is low. Varma takes the sea flood risk into account especially in new development projects and when purchasing new buildings.

In the climate risk analysis of listed equity and corporate bond investments, a tool is used to assess asset-class-specific transition costs and opportunities as well as physical risks brought by climate change. 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 listed equity investments shows that both negative and positive potential impacts are the greatest in scenarios in which the transition 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 all the scenarios, the potential overall impacts in Varma's listed equity investments are lower than in 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 emissions companies can afford to release in 2020–2070 in order to limit the 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 2.1-degree temperature rise.

Varma is committed to the low-carbon roadmap for electricity generation. This means that electricity generation capacity based on fossil fuels in our investment portfolio will decrease to 10 per cent by 2030 in accordance with the Network for Greening the Financial System's (NGFS) Net Zero 2050 scenario. In 2023, the weighted proportion

of renewable energy in the portfolio was 53 per cent, of fossil fuels 16 per cent and of others, such as nuclear power, 31 per cent.

Attending to biodiversity in investments

Biodiversity loss poses major risks to the economy, companies' business and investors. For an investor, measuring the impacts of changes in biodiversity is more complicated than measuring the impacts of climate change. The analysis of economic risks and opportunities and positive impacts related to biodiversity has been complicated by the scarcity and lack of commensurable indicators that can be applied to a variety of investees. The framework of physical and transition risks used in the assessment of climate risks can also be used for assessing biodiversity risks. Furthermore, biodiversity loss has broader systemic risks, just like climate change.

Almost all industries face risks resulting from biodiversity loss. The risks can be divided into physical, legal, transition and systemic risks. Based on their impacts and dependencies, the most significant biodiversity risks relate to the oil & gas industry, electricity & heat production, as well as the automotive, metals & mining, construction materials, transportation, paper & forest products and chemical industries.

In 2023, the new Taskforce for Nature-related Financial Disclosures (TNFD) framework was published to help investors identify, manage and report on the nature-related impacts, dependencies, risks and opportunities of their business. Through the materiality assessment, Varma has established that biodiversity is a material environmental sustainability theme in investments but not in the company's own operations. Consequently, our TNFD report focusses on investment activities. Varma's 2023 reporting as a part of the sustainability report is adapted from the TNFD framework's recommendations.

In 2023, Varma updated the Biodiversity Roadmap published in 2022 in line with the updated guidelines and requirements. The roadmap creates a framework for responsible investment requirements, policies and goals that prevent biodiversity loss. Varma's goal is to ensure that the biodiversity and climate targets carry equal weight and that they together promote environmental responsibility. How the climate and biodiversity work is applied depends on the asset class and type of investment.

Varma conducted a risk industry biodiversity survey in 2023. The survey looked into the portfolio companies' attitudes and preparedness for risks linked to biodiversity loss. The survey included 282 companies in high-risk sectors from around the world. The survey covered Varma's listed equity investments. Of the companies, 27 per cent had set targets for considering the prevention of biodiversity loss in their operations. Just over half of the companies (51 per cent), had expressed their intent to take action for considering or compensating biodiversity loss. However, only five per cent of all companies had a concrete action plan. Over a fifth (22 per cent) of the companies had not considered biodiversity issues in their public policies at all. Of the sectors, forest industry companies, construction material manufacturers and electricity producers have come the furthest in their biodiversity work. Varma's goal is to follow the development and implementation of the biodiversity work of its investees operating in the risk industries as part of its own risk management.