



VARMA

REPORT OF THE BOARD
OF DIRECTORS AND
FINANCIAL STATEMENTS 2017

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Report of the Board of Directors 2017

The economic operating environment

The Finnish economy grew faster than expected in the financial year 2017. The broad-based recovery of the economy was finally also reflected in the labour markets, supporting the financing of earnings-related pensions. The favourable development in the capital markets boosted Varma to a strong result. The reformed earnings-related pension legislation, which took effect at the start of 2017, targets a stronger pension system by extending careers.

Robust global economic growth and a pick-up in global trade bolstered the rise in the Finnish and European economy and the recovery of export volumes. The US economy has been growing for a long time now, and employment rates have continued to improve. During the year, the US central bank took several steps to normalise its monetary policy and announced that it will continue its measures in 2018.

Capital market asset values kept rising, and geopolitical risks, which were intensely highlighted from time to time, hardly showed as increased market uncertainty. The rise in share prices is backed by companies' good results and the continued very favourable outlook. The tightening monetary policy in the US has also not resulted in strong market reactions, which is a sign of a normalised situation. Nevertheless, inflationary pressures remain low.

The European economy has been strengthening better than expected. Investments have

somewhat picked up, employment rates have improved and the balancing of public finance deficits, which soared during the economic crises, has progressed. A strong global economy, structural measures and the sustained accommodative monetary policy have put Europe back on its feet and the economy on a steady growth track. Improved confidence and the bright outlook in both the business and household sectors signal a further strengthening of the foundation for growth.

In Finland, the economic turn finally shows in employment rates

The Finnish economy grew faster than expected in 2017. The strong global economic and trade cycle boosted the relatively brisk recovery. The solid growth was especially the result of a rapid pick-up in export demand. Export volumes rose in both services and goods.

Broad-based recovery in overall demand was a major contributor to the growth. The labour market gained momentum as the broad economic growth began to clearly show as higher demand for labour. The unemployment rate is down, and there's a healthy supply of job vacancies. The employment rate is expected to close in on 71% during 2018. The productivity of work is now on the rise. The sustained economic growth creates good conditions for the favourable development of the labour markets to continue, but the labour market still faces structural issues, especially in terms of supply meeting demand.

Despite stronger economic growth, public spending in Finland still exceeds reve-

nues. The recovery of economic growth and adjustment measures have strengthened public finances, and this trend is expected to continue in the coming years as the economic growth boosts tax revenues. According to the Ministry of Finance, the debt ratio is expected to take a downturn and fall below 60% by 2019. The debt ratio is, however, expected to take an upward turn again in the 2020s due to a strong rise in age-related public spending.

Earnings-related pension system

The earnings-related pension legislation was reformed at the beginning of 2017. The objective of the reform is an economically and socially sustainable earnings-related pension system. It introduced major changes in the contents of the earnings-related pension cover of the insured while keeping the basic principles of the private sector earnings-related pension system unchanged.

The age limits for old-age pension were increased, with the lower limit rising gradually to 65 years. Later on, the age limits will be tied to changes in life expectancy. Part-time pensions were no longer granted as of the beginning of the financial year as that pension benefit was replaced by partial early old-age pension. The years-of-service pension is a new pension benefit intended for people whose capacity for work is lowered and who have had a long career in a strenuous job. As regards old-age pension, the regulations concerning financial incentives for continuing to work longer were changed.

Varma prepared for the pension legislation reform together with its clients well in advance, and the application of the new legislation has been smooth.

The aging population puts pressure on the earnings-related pension system and public finances as a whole. Longer careers support the pension system. At the same time, Finland's business and trade structures are in a state of transformation, and technology is reshaping the way we work. Varma has been vigorously developing its workability management services together with its clients in order to promote longer careers. The goal is to improve the effectiveness of the services especially by taking into account strategic and operative changes in clients' business and the challenges they pose to personnel.

New laws concerning the calculation of the solvency limit took effect on 1 January 2017. The calculation is now more based on risk factors, and the separate regulations on technical provisions were abolished. In terms of key performance indicators, the new solvency limit is not directly comparable with the previous limit.

Finland ranked fifth in an international pension scheme comparison in 2017, slipping down a notch from fourth place in the previous year. The Melbourne Mercer Global Pension Index compares retirement income systems around the world based on the adequacy of the pension cover, sustainability of funding and integrity of governance. Finland's pension system was again ranked number one in terms of integrity in the comparison.

Pension contributions and return requirement on technical provisions

In 2017, the average TyEL contribution was 24.4% of the salaries or wages. Employees below the age of 53 and over the age of 62 contributed 6.15% of their pay, while the rate for employees aged 53–62 was 7.65%. Entrepreneurs' YEL contribution was 24.1% of the confirmed earnings for those below the age of 53 and over the age of 62, and 25.6% for those aged 53–62. In 2016, the employee contribution was divided into two groups based on age. The age limit was at 53. Correspondingly, the YEL contribution was also divided into two age-based groups in 2016.

The return requirement on technical provisions consisted of a 3.00% fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 1.36% on average in 2017. The return on equity component in 2017 was 9.59%. 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 4.75% between 1 January and 30 June 2017 and 5.25% between 1 July and 31 December 2017. The insurance contribution interest rate, used to calculate pension contributions, stood at 2.00% throughout the year.

Varma's financial trends

Varma's total result at fair value stood at EUR 1,524 (457) million. The total quarterly result varied during the financial year, such that the first-quarter result was the strongest and the third-quarter result the weakest.

Varma's solvency strengthened during 2017 by EUR 1,335 million, and at the end

of the year, solvency capital amounted to EUR 11,534 (10,199) million. Varma's pension assets in relation to technical provisions (solvency ratio) was 133.5% (130.9%). Solvency capital was at a strong level: at 1.7 (1.5 on 1 January 2017) times higher than 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 at fair value was EUR 3,343 (1,953) million, which represents 7.8% (4.7%) of the invested capital. The interest credited on the technical provisions was EUR 1,890 (1,511) million. Thus, the investment result for 2017 totalled EUR 1,453 (441) million. Operating expenses were 33% (28%) lower than the expense loading included in insurance contributions, and the loading profit stood at EUR 45 (39) million. The underwriting result was EUR 34 (-38) million.

At the end of 2017, EUR 161 (121) million was transferred to the provision for current bonuses reserved for client bonuses. The transfer represents roughly 0.8% (0.6%) of the estimated payroll of the insured.

The composition of client bonuses was changed as of the beginning of the financial year, and client bonuses to be paid to Varma's customers for 2017 include the full loading profit. In addition to this, one percent of the solvency capital is distributed as a part of the client bonuses. Thus, Varma's strong solvency and operational efficiency benefit its clients in full.

The TyEL payroll of those insured by Varma totalled roughly EUR 19.4 (18.8) billion in 2017. The payroll is estimated to have grown by 2.75%. Varma's premiums written

totalled EUR 4,867 (4,675) million, of which TyEL insurance accounted for EUR 4,683 (4,488) million and YEL insurance for EUR 184 (187) million.

At the end of the year, 537,241 (529,892) individuals were insured by Varma. At year-end, the number of valid insurance policies totalled 61,493 (62,116), covering 35,918 (35,998) self-employed persons and 501,323 (493,894) employees.

During the year, a total of 2,780 (2,616) new TyEL insurance policies and 5,862 (3,157) YEL insurance policies came into force at Varma. Once again, Varma did extremely well in the TyEL portfolio transfers. According to the TyEL client transfer statistics of the Finnish Pension Alliance TELA, Varma's net result was the best in the sector, at EUR 48 (43) million. This success in client acquisitions will promote a positive trend in premium income.

Earnings and employment notifications received during the year totalled 2,113,398 (1,905,672), of which 96% (96%) were received electronically.

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

In 2017, a total gross amount of EUR 5,544 (5,345) million in pensions was paid out. The number of pension recipients increased, and at year-end, Varma was paying pensions to 342,600 (340,100) people.

A total of 24,507 (22,550) new pension decisions were made during the year. The number of new pension decisions increased 8.7% and the total number of all pension decisions was 7.0% higher than in 2016. Old-age pension decisions numbered 12,801 (12,585), disability pension decisions 5,116 (5,583)

and partial early old-age pension decisions 2,705. In 2016, part-time pension decisions numbered 1,076 – this pension benefit was terminated in conjunction with the pension reform at the beginning of 2017. Continuation decisions on temporary pensions totalled 4,390 (4,433), and other decisions numbered 11,870 (11,112). Other decisions include decisions and preliminary decisions required as a consequence of the changes in pension rights. The share of rejected new disability pension applications was 33.4% (31.7%). The number of pension applications made online continued to rise and accounted for 54% (47%) of all new pension applications.

Varma's total processing time for pension applications in 2017 was 37 days, which was 6 days shorter than the average processing time in the earnings-related pension sector.

Vocational rehabilitation is an alternative to disability pension, and the number of rehabilitation cases at Varma increased again. Rehabilitation has proven to be successful, as about 75% of those who received Varma's rehabilitation returned to the job market either in full or partly. Varma has for years been a forerunner in vocational rehabilitation, and the company actively steers those with a workability risk to rehabilitation. A larger share of Varma's customers use rehabilitation to return to working life than retire on disability pension. Throughout 2017 Varma assisted its client companies in managing personnel risks through client-oriented co-ordination of workability management, rehabilitation services and pension decision services in order to support the management of pension costs and longer careers.

Varma also contributed to the costs of customers' workability management projects

	31 Dec 2017	31 Dec 2016	Change
Number of insured			
TyEL ¹⁾	501,323	493,894	7,429
YEL	35,918	35,998	-80
Total	537,241	529,892	7,349
¹⁾ of which covered by registered TEL supplementary pension insurance	0	3,427	-3,427
Number of insurance policies			
TyEL	25,575	26,118	-543
Number of pensioners			
Part-time pension	937	1,615	-678
Partial early old-age pension	2,430		2,430
Survivors' pension	50,713	50,702	11
Disability pension	24,039	26,530	-2,491
Old-age pension	251,023	247,230	3,793
Early old-age pension	13,439	14,018	-579
Total ²⁾	342,581	340,095	2,486
²⁾ Those receiving YEL pension	29,655	29,469	186
Those receiving TEL/YEL supplementary pension	43,715	43,913	-198

in accordance with jointly agreed and often multi-year plans and contracts. Varma has been publishing its new well-being at work contracts since April 2017.

In terms of customer service, Varma's eServices are a major service channel. During the year under review, 72% of all private-customer contacts took place online. Through Varma's online services, the insured can obtain the most recent estimate of their pension at various retirement ages; 95% of these estimates were carried out online. You can also apply for pension and follow the progress of the application online. 58% of old-age pension applications were submitted online.

A total of 14,000 applications were submitted electronically during the year.

Varma sends a pension record to the insured once every three years. A total of 230,000 (223,000) such pension records were sent out in 2017. The record shows information on earnings that apply to pension as well as the pension that has accrued until the end of the preceding year. The pension record is also available via Varma's eServices.

Technical provisions

Varma's technical provisions grew 9.5% (5.1%) to EUR 36,696 (33,501) million. They contain a provision of EUR 161 (121) million for cur-

rent bonuses reserved for client bonuses, a provision of EUR 2,265 (-578) million for future bonuses contained in the solvency capital, and EUR 769 (324) million in an equity-linked provision for current and future bonuses.

At the beginning of 2017, the equalisation provision, totalling EUR 1,019 million, was incorporated in the provision for future bonuses, which will also serve as a buffer for the insurance business.

Changes in insurance portfolio

At the end of the financial year, Varma transferred a part of its insurance portfolio to an existing pension fund. The transferred pension liabilities totalled EUR 133 million, of which solvency capital accounted for EUR 26 million.

Investments

Strong investment returns in an environment of faster economic growth

In 2017, the return on Varma's investments was good, at 7.8%. The equity markets have experienced an upward trend worldwide as a result of global growth picking up. At the same time, central banks' monetary policies have remained highly accommodative due to subdued inflation. In 2017, market development was more tranquil than in the previous years. Broad diversification of investments also muted the risks caused by market movements, and returns were generated consistently by the different asset classes.

The value of Varma's investments grew to EUR 45.4 billion, and solvency capital increased to EUR 11.5 billion. The strong investment returns boosted Varma's solvency to a high level of 133.5% (130.9%).

Global economic recovery was broad-

based in 2017. In the US, equity market performance was boosted by expectations of a promised tax reform, which was finally approved by the Senate and House of Representatives at the end of December. Despite the stronger economic growth, inflationary pressures have been conspicuous in their absence. Employment rates have been on the rise on both sides of the Atlantic, but the pressures to raise salaries and wages have remained very moderate. Geopolitical risks have surfaced from time to time, but have not had a material impact on the investment markets so far.

The recovery of economic growth in Europe has taken a back seat to several political events. In 2017, the investment markets were concerned about the impacts of elections in the Netherlands, France and Germany, and of the Brexit on the entire continent's economy and mutual trade. Further concerns were caused by the Catalonia independence referendum and Spain's measures to prevent it. In spite of all the political uncertainty, economic growth has gained broad momentum in the entire eurozone. Economic growth in Finland also picked up speed as a result of export recovery in early 2017 and brisk domestic demand. As political uncertainty surrounding the French presidential election subsided, the euro strengthened sharply against the US dollar, weighing on euro-denominated returns on listed equity towards the end of the year.

Central banks' monetary policies have remained highly expansionary, although a slow turn in monetary policy is taking place. The US central bank raised its benchmark rate three times in 2017 and started to reduce its balance sheet in October. Short-term interest rates have increased steadily, but the increase

in long-term interest rates has been suppressed by the weaker-than-expected inflation development. The European Central Bank has also announced that it will start to scale down its quantitative easing, but no interest rate hikes are expected to take place in 2018. Government bond interest rates in the eurozone continue to be remarkably low, and money market interest rates have remained clearly in the negative zone.

Solid investment result through effective diversification

The return on Varma's investments was 7.8% (4.7%).

The strongest returns were generated by equity investments, which benefitted from the general rise in the equity markets thanks to recovering economic growth. The return on equity investments was 11.4% (6.4%). Listed equities yielded a return of 11.6% (4.5%), private equities 7.9% (11.2%) and unlisted equities 18.5% (23.7%).

The return on fixed income investments has been excellent, at 3.7% (4.2%), in light of the low level of market interest rates. The narrowing credit margins on corporate bonds as the economy recovers have improved the return on fixed-income investments. The return on the loan portfolio was 2.2% (4.2%), on public-sector bonds 4.0% (1.8%), on other corporate bonds 6.2% (7.8%) and on other money-market instruments -1.9% (-0.4%).

The return on real estate investments was 4.9% (-0.9%). Direct real-estate investments yielded a return of 2.9% (-2.6%) and real-estate investment funds 12.0% (6.8%). During the year, the real estate portfolio was further developed through divestments and new investments in Finland and abroad. Rental and real estate development activities were also

successful. During the year, the expansion of the Flamingo hotel was started, and the construction of Kalasatama Campus progressed as planned.

The return on other investments grew to 9.3% (5.3%). They mainly consist of hedge funds, factor investments and a small commodities position. The return on hedge funds increased to 8.5% (5.6%) as the market's risk premiums narrowed during the year. The return on Varma's hedge investments has been very good over a long period, and volatility has been very low.

Varma has US-dollar-denominated investments particularly in equities and hedge funds, and in corporate bonds. In accordance with its investment policy, Varma generally hedges its open exchange rate risks in all other asset classes except equity investments. The considerable weakening of the US dollar during the summer pushed down the result. The exchange result is included in the investment returns of the asset classes.

The average nominal investment return over five years was 6.5%, and over ten years 4.5%. The corresponding real returns were 5.8% and 3.0%.

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

At the end of 2017, the fair value of Varma's investments totalled EUR 45,409 (42,852) million and the return at fair value was EUR 3,343 (1,953) million or 7.8% (4.7%). The value and returns of the investments are grouped according to risk in this report. The Notes show the breakdown of investments and investment returns by asset class, grouped according to regulations and according to risk.

Total portfolio risk

The market risk of investments constitutes the greatest risk affecting the company's result and solvency. Equities constituted by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 1,218 (1,633) million. The figure represents the maximum fall in the market value of the company's investment portfolio in normal conditions over a period of one month with a probability of 97.5%.

Varma's share ownership policy

The central principles in Varma's ownership policy are high-quality governance in the companies in which it has a holding, transparency of operations, active engagement, and the monitoring of incentive schemes for key personnel. The share ownership policy was updated in early 2017, and the policy is available on Varma's website. In 2017, Varma actively participated in the Annual General Meetings of the domestic companies in which it owned shares and in the work of companies' Shareholders' Nomination Boards. Varma's website contains a list of the company's memberships on the Nomination Boards of listed companies.

Operating expenses

Varma's operational efficiency is very good. Varma used 67% (72%) of the expense loading, included in the pension insurance contributions, to cover operating expenses.

As of the beginning of 2017, the loading component was reduced by 7% in comparison to 2015. Controlling operating expenses is a key objective while simultaneously improving operational efficiency. Good operational efficiency benefits Varma's customers by means of client bonuses. Varma's goal is to manage the assets of both present and future pensioners as efficiently as possible.

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. Overall operating expenses decreased 6%, totalling EUR 129 (138) 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.

Tieto Esy, which is included in the Consolidated Financial Statements using the equity method, had an average of 50 employees in 2017.

At year-end, Varma's personnel were distributed as follows: pension services 29%, insurance services 16%, customer service departments 12%, investment operations 13%, and other functions 30%.

	2017	2016	2015	2014	2013
Average number of personnel	524	540	549	552	565
Salaries and remunerations, EUR million	39.3	36.0	39.6	40.1	37.9

Group companies and associates

At the end of 2017, the Varma Group comprised 139 (152) subsidiaries and 17 (22) associates. The most important subsidiaries and associates are Tieto Esy Ltd (50.1%) and NV Kiinteistösiijointu Oy (45.0%). The Varma Group also owns 50% of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

Governance

At Varma's Annual General Meeting, policy-holders have about 78%, the insured about 20%, and the Sampo Group (the owner of the guarantee capital) about 2% of the votes.

Varma's Annual General Meeting was held on 15 March 2017. 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 2016. The new members elected to the Supervisory Board are Olavi Huhtala, Juha Häkkinen, Jari Latvanen, Risto Penttinen and Saana Siekkinen.

Kari Jordan (Chairman), Satu Wrede (Deputy Chairman), Juri Aaltonen, Petri Castrén, Erkki Etola, Stig Gustavson, Erkki Järvinen, Jukka Jäämaa, Niina Koivuniemi, Ville Kopra, Tapio Korpeinen, Timo Koskinen, Päivi Kärkkäinen, Päivi Leiwo, Olli Luukkainen, Ilkka Nokelainen, Lauri Peltola, Jari Suominen, Leena Vainiomäki, Jorma Vehviläinen, Christoph Vitzthum, Anssi Vuorio and Göran Åberg continued as Supervisory Board members. Erkki Järvinen resigned from the Supervisory Board on 23 October 2017.

Authorised Public Accountants Petri Kettunen and Paula Pasanen were elected as Varma's auditors. Authorised Public Account-

ant Marcus Tötterman and auditing firm KPMG Oy Ab were elected as deputy auditors.

In 2017, Varma's Board of Directors was composed of Jari Paasikivi (Chairman), Antti Palola (Deputy Chairman), Kai Telanne (Deputy Chairman), Riku Aalto, Mikael Aro (until 2 March 2017), Johanna Ikkäheimo, Rolf Jansson (as of 8 March 2017), Ari Kaperi, Casimir Lindholm, Jyri Luomakoski, Petri Niemisvirta, Ilkka Oksala and Pekka Piispanen, and deputy members Eila Annala, Eija Hietanen, and Liisa Leino.

At its meeting on 15 December 2017, Varma's Board of Directors elected Jari Paasikivi as Chairman, and Antti Palola and Kai Telanne as Deputy Chairmen of the Board, effective 1 January 2018.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website. Varma publishes quarterly interim reports with the aim of ensuring transparent financial reporting that conforms to best practices.

Capital and reserves

Varma has 71 guarantee capital shares, which are held by Sampo Plc and Mandatum Life Insurance Company Limited. Under the Articles of Association, an interest approved by the Annual General Meeting is paid to the guarantee capital of EUR 11,941,342.78 each year. The maximum rate is the technical interest rate applied to the insurance provided in accordance with the legislation on employee pensions plus one percentage point.

Risk management

The risks related to Varma's result and solvency are primarily affected by the result of investment activities. The most important

operative risk concerns IT systems, which have a key role particularly in the processing of pensions and insurances within a main-frame environment and in the networked operating environment of the pension system.

In the earnings-related pension system, the liquidity risk is manageable, as pension expenditure can be accurately forecast and investments are strongly focussed on liquid instruments. Varma's insurance business risks, which are minor, are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility.

Varma's investment plan determines, among other things, the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising foreign currency business. The Board of Directors assesses the risks in Varma's investments with respect to changes in value, expected returns, security, and the foreign currency business, and the company's risk-bearing capacity in the area of investments, including the development of the company's solvency position. The basic allocation laid down in the investment plan also lays down the basic level for the total portfolio risk. Deviations from the basic allocation are allowed within defined limits. The maximum risk level is measured so that even after a 25% drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Risks are man-

aged by, for example, diversifying investments by asset class and item, by analysing the investment portfolio and items, by avoiding risk concentrations, by securing guarantee policy, through careful valuation practice, by using derivatives, and by applying a supervision and follow-up system.

Varma increased its currency exposure towards the end of the financial year, and this level has been maintained in 2018. The opening of the currency risk involves normal investment risks.

The pension reform that took effect at the beginning of 2017 will contribute to the structural adjustment of the Finnish economy. The main risk of the pension reform, from the point of view of implementing pension provision, relates to the application of the new legislation, especially in terms of the new pension benefits, years-of-service pension and partial early old-age pension.

The defined-benefit nature of earnings-related pension provides security and financial predictability. Securing the pension benefits of the young and future generations strengthens the future of the earnings-related pension system. Agreeing on the contribution level until the end of this decade is an important stabilising factor for companies in the current challenging economic situation. Owing to the agreed benefit adjustments, balancing the financing of pensions with a reasonable cost burden appears to be possible. The increase in the retirement age will facilitate financing in the longer term.

More information about insurance, investment, operative and other risks, the means for managing them, as well as related quantitative data, is provided in the notes to Varma's financial statements.

Responsibility

Since autumn 2015, Varma has been building a Corporate Social Responsibility (CSR) programme, including targets and measures. The programme defines the most essential impacts of Varma's CSR. Varma has assessed its CSR risks relating to operations and business relations and has put in place sufficient and appropriate processes, which ensure duty of care as regards these risks.

Varma's CSR targets and measures are explained in a separate report conforming to the GRI guidelines. The report is integrated in Varma's online annual report.

Report on non-financial information

Business model description

Varma has a responsible core task – to secure pensions. The greatest impacts in terms of matters relating to environmental and social responsibility and employees, respecting human rights, and fighting corruption and bribery are linked to Varma's investment operations. Taking care of personnel and responsibility for the environment bear the greatest importance in Varma's own operations.

The key policies guiding Varma's responsible business operations are the Corporate Social Responsibility Programme, Code of Conduct, Principles for Responsible Investment, Climate Policy for Investments, and Supplier Code of Conduct.

Social responsibility and employee-related factors

For Varma, social responsibility means high-quality implementation of pension provision and promoting our customers' workability.

In recent years, Varma has been improving its pension application processing to provide faster pension decisions to its customers. The average processing time shortened from 44 days in 2016 to 37 days in 2017. This is 6 days quicker than the average for the sector. The first pension payment was made to the pensioner within four days of the pension decision.

Varma's goal is to lengthen the careers of its client companies' employees and reduce disability pensions by developing workability management and offering effective rehabilitation. In 2017, the average disability pension contribution category of Varma's client companies was 3.7 (3.4). Varma's clients are happy with our workability management services, and the willingness to recommend is at a high level: the NPS score, which measures the likelihood of a customer recommending the company, was 52.7 (54.2). Of Varma's vocational rehabilitation customers, 75%, i.e. 1,335 people, returned to working life in 2017.

During the financial year, Varma rejected 33.4% (31.7%) of new disability pension applications. The rejection rate for all earnings-related pension companies was 33.7% (31.4%). The Pension Appeal Board changed Varma's disability pension decisions in 13.1% (13.3%) of the cases it handled. The corresponding rate for the entire private earnings-related pension sector was 14.1% (13.1%).

Varma takes care of the well-being at work, competence, and equal and non-discriminative treatment of its personnel. The achievement of goals in the different areas is monitored through an annual employee survey. The PeoplePower Index, which measures Varma employees' satisfaction and engagement, stood at 71.4 in 2017, which is a satisfactory – borderline good – level. The

employee survey indicators were changed in 2017, so there are no comparable figures from the previous year.

The realisation and experience of equality and non-discrimination is measured through a separate survey, which is conducted once every two years to identify any areas needing improvement. In 2016–2017, Varma focused on developing the work culture, improving equality, and reforming the job requirements system.

Environmental responsibility and mitigation of climate change

Varma monitors the environmental impacts of its operations (Varma's office building and environmental impact of work performed in it), its supply chain and its investments.

The environmental impacts of Varma's own operations are controlled using WWF's Green Office system, which was certified in 2016. In order to reduce the carbon footprint of its own operations, Varma had a solar power system installed on the roof of its office building in Salmisaari, Helsinki, in September. The carbon footprint of the company's own operations was 17% lower compared to the 2015 base level. The introduction of green electricity was a major contributor to this.

The environmental aspects of the supply chain are taken into account in the Supplier Code of Conduct, in which our suppliers are encouraged to use a certified environmental system or a documented operating method for managing their environmental matters.

In 2016, Varma determined the carbon footprint of its investments and drew up an environmental policy, which sets targets for CO₂ reduction in direct investments by asset class and states that the portfolio will be developed such that it is in line with the

2-degree target agreed on at the Paris climate conference. The share ownership policy was updated in 2017. The policy states that Varma requires from the companies in which it has a holding transparent assessment and reporting practices on the impacts of climate change on their business operations, now and in future.

Varma has excluded direct equity investments in coal mines, as well as energy companies that rely on coal for more than 1/3 of their electricity production.

In 2017, the carbon footprint of Varma's listed equity investments in relation to net sales declined 27% from the baseline of 2015 and was 39% lower than Varma's benchmark index. The carbon footprint of Varma's listed corporate bond investments in relation to net sales was 22% lower than in 2015 and 57% lower than Varma's benchmark index. The CO₂ footprint of real estate investment was 18% lower per gross square metre than in 2015.

Respecting human rights and fighting corruption and bribery

In its Code of Conduct, Varma is committed to operating on market terms, combating the grey economy and bribery, and responsible investment principles. Varma is also committed to operating in accordance with the UN's principles concerning business and human rights and expects the same from its supply chain. Varma own operations do not entail major human rights risks.

Varma's Code of Conduct provides anti-bribery and anti-corruption guidelines concerning, for example, offering and accepting gifts and hospitality and avoiding conflicts of interest. An online course helps raise awareness of the Code of Conduct, and in 2016, the course was completed by 88% of Varma's

employees. The course will be updated in 2018, and every Varma employee is expected to complete it every two years.

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.

Responsible supply chain management

In 2017, Varma surveyed its supply chain to identify responsibility issues. At the same time, Varma determined the responsibility requirements to be applied to suppliers and drew up the Supplier Code of Conduct.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the responsibility requirements. A direct service provider is responsible for its own supply chain. The Supplier Code of Conduct covers, among other things, good business practices, human rights, occupational safety and health, and respect for the environment. It also includes a notification requirement and a permission for audits. The Supplier Code of Conduct will be attached to agreements.

The first tier of Varma's supply chain mainly covers Finland alone: of all purchases made in 2017, Finnish service and goods providers accounted for 99.1%. Main purchases relate to construction activities, the real estate business, and IT services.

Investment objects review

Varma expects listed companies that it invests in to comply with local legislation and international standards and agreements, typically the principles of the UN Global Compact initiative on social responsibility. Varma reviews the compliance with the standards with the

help of an external service provider, which examines Varma's direct listed equity investments, listed corporate bond investments and equity funds twice a year.

The review of compliance with standards, performed in October 2017, covered all of Varma's direct equity investments in listed companies, direct listed corporate bonds and active equity funds. The review covered 31% of Varma's investment portfolio. At the end of the year, listed equity investments and listed corporate bond investments included one company with a confirmed environmental violation. Varma is involved in a class action lawsuit against the company in question.

For ethical reasons Varma excludes companies that concentrate on the manufacture of tobacco and nuclear weapons from its direct listed investments.

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

Outlook

Varma expects economic development to remain favourable, but the growth rate is forecast to level out in the coming years. The structural challenge for the Finnish economy is the sharp growth in public spending caused by the ageing of the population. Increasing employment rates and productivity is essential for the funding of pensions and welfare promises.

The recovering economy and employment also support the funding of earnings-related pensions. A major pension-political question emerging in the coming years relates to the repercussions that structural changes, such as those taking place in the production of social and health care services, will have

on the interfaces between private and public sectors.

The most significant risks in the economic operating environment still relate to how well changes in the direction of monetary policies are managed and to geopolitical risks.

A key focus area for the work carried out in the earnings-related pensions sector in 2018 is preparing for the implementation of the national Incomes Register. As of the beginning of 2019, employers will report their employees' incomes to a single centralised system. Varma has been preparing for the changes proactively for a long time in order to ensure smooth business transactions, reduce the administrative load and improve cost efficiency. The change in the way of working brought by the national Incomes Register provides Varma with major development opportunities in terms of implementing the earnings-related pension system and delivering even better services to its customers.

Return on investments



Solvency



Client bonuses



Efficiency (loading profit)



Financial Statements 31 Dec 2017

Income statement

1 Jan-31 Dec, € million	Notes	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Technical account					
Premiums written		4,867.4	4,675.1	4,867.4	4,675.1
Investment income		7,072.8	6,336.0	7,052.4	6,321.0
Claims incurred					
Claims paid	2	-5,284.9	-5,044.3	-5,284.9	-5,044.3
Total change in provision for claims outstanding		199.3	-1,304.5	199.3	-1,304.5
Portfolio transfers		-42.5	0.3	-42.5	0.3
		-5,128.1	-6,348.5	-5,128.1	-6,348.5
Change in provision for unearned premiums					
Total change		-3,394.3	-331.1	-3,394.3	-331.1
Portfolio transfers		-90.1	-1.1	-90.1	-1.1
		-3,484.3	-332.2	-3,484.3	-332.2
Operating expenses		-69.6	-77.7	-69.6	-77.7
Investment expenses		-3,244.9	-4,238.1	-3,231.7	-4,204.5
Balance on technical account		13.2	14.5	6.0	33.1
Non-technical account					
Balance on technical account		13.2	14.5	6.0	33.1
Share of associated companies' profit				4.0	12.7
Income taxes on ordinary activities					
Taxes for the financial year		-7.2	-8.2	-7.2	-8.2
Profit/loss on ordinary activities after taxes		5.9	6.2	2.8	37.6
Minority interest in the result for the financial year				0.0	0.0
Profit/loss for the financial year		5.9	6.2	2.8	37.6

Balance sheet

31 Dec, € million	Notes	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
ASSETS					
Intangible assets					
Other intangible assets	17	0.7	1.0	0.7	1.0
Investments					
Real estate					
Real estate and real estate shares	14	1,556.2	1,630.8	2,153.8	2,254.7
Loans to Group companies	14	682.2	709.6		
		2,238.4	2,340.4	2,153.8	2,254.7
Investments in Group companies					
Shares and participations in Group companies	12,13	4.3	4.3	0.5	0.6
Shares and participations in associates	12,13	18.5	131.7	22.2	137.8
		22.8	136.0	22.7	138.4
Other investments					
Shares and participations	16	23,640.7	21,991.9	23,652.7	22,003.8
Money-market instruments		6,890.4	6,530.4	6,890.4	6,530.4
Loans guaranteed by mortgages		269.8	289.4	269.8	289.4
Other loan receivables	18	1,213.1	1,160.7	1,213.1	1,160.7
		32,014.0	29,972.4	32,026.0	29,984.3
		34,275.2	32,448.7	34,202.5	32,377.4
Receivables					
Direct insurance operations					
Policyholders		238.5	222.3	238.5	222.3
Other receivables					
Other receivables		592.9	404.2	601.0	408.3
		831.4	626.5	839.5	630.7
Other assets					
Tangible assets					
Equipment	17	3.2	2.1	3.2	2.1
Other tangible assets	17	0.9	0.9	0.9	0.9
		4.0	3.0	4.0	3.0
Cash at bank and in hand		2,156.9	777.8	2,157.4	778.1
		2,160.9	780.8	2,161.4	781.1
Prepayments and accrued income					
Accrued interest and rent		76.6	78.3	78.8	80.7
Other prepayments and accrued income		7.3	4.4	7.3	4.4
		83.8	82.7	86.0	85.1
TOTAL ASSETS		37,352.1	33,939.7	37,290.2	33,875.2

Balance sheet

31 Dec, € million	Notes	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
LIABILITIES					
Capital and reserves					
Guarantee capital		11.9	11.9	11.9	11.9
Other reserves		105.8	100.3	105.8	100.3
Profit/loss brought forward		0.6	0.5	-59.7	-91.1
Profit/loss for the financial year		5.9	6.2	2.8	37.6
	26	124.2	118.9	60.8	58.7
Minority interest					
				12.7	12.7
Technical provisions					
Provision for unearned premiums		19,505.9	16,111.6	19,505.9	16,111.6
Provision for claims outstanding		17,190.4	17,389.6	17,190.4	17,389.6
		36,696.2	33,501.3	36,696.2	33,501.3
Liabilities					
Direct insurance operations		7.1	18.2	7.1	18.2
Other liabilities		499.5	235.0	488.2	218.0
		506.6	253.1	495.3	236.1
Accruals and deferred income					
		24.9	66.4	25.1	66.5
TOTAL LIABILITIES		37,352.1	33,939.7	37,290.2	33,875.2

Statement of source and application of funds

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Cash flow from operations				
Profit/loss on ordinary activities	13.2	14.5	6.0	33.1
Adjustments				
Changes in technical provisions	3,195.0	1,635.6	3,195.0	1,635.6
Impairments and revaluations on investments	686.9	109.8	680.7	52.5
Depreciation according to plan	13.1	21.4	71.9	114.7
Capital gain and loss	-2,706.3	-1,259.8	-2,700.6	-1,264.4
Cash flow before change in working capital	1,201.8	521.6	1,253.0	571.5
Change in working capital:				
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	-206.0	217.3	-209.8	215.4
Increase (-) / decrease (+) in non-interest-bearing short-term debts	212.0	-337.0	217.8	-337.9
Cash flow from operations before taxes	1,207.8	401.9	1,261.0	448.9
Direct taxes paid	-7.2	-8.2	-7.2	-8.2
Cash flow from operations	1,200.6	393.7	1,253.8	440.7
Cash flow from investments				
Net investments and proceeds from asset sales	181.6	-1,441.6	128.5	-1,488.6
Investments and gains on intangible, tangible and other assets	-2.4	-0.7	-2.4	-0.7
Cash flow from investments	179.2	-1,442.3	126.1	-1,489.3
Cash flow from financing				
Interest paid on guarantee capital and other profit distribution	-0.7	-0.9	-0.7	-0.9
Cash flow from financing	-0.7	-0.9	-0.7	-0.9
Change in financial resources	1,379.1	-1,049.4	1,379.3	-1,049.4
Financial resources, 1 Jan	777.8	1,827.3	778.1	1,827.6
Financial resources, 31 Dec	2,156.9	777.8	2,157.4	778.1

Notes to the financial statements

Accounting principles

These financial statements are prepared in accordance with sound accounting principles, and in compliance with legislation applicable to Varma and the regulations and guidelines of the Financial Supervisory Authority. The financial statements have been drawn up so as to give a true and fair view of Varma's financial performance and financial position in accordance with the materiality principle.

Consolidated Financial Statements

In addition to the parent company, those companies in which the Group holds more than 50 per cent of the votes (controlling interest) either directly or indirectly have been consolidated in the Consolidated Financial Statements as subsidiaries.

On the closing date, the parent company had 137 (150) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the notes to the financial statement.

The Consolidated Financial Statements are compiled as combinations of the income statement, balance sheets and notes. When the Consolidated Financial Statements are compiled, intra-group business transactions and cross-shareholdings are eliminated. However, Tieto Esy Ltd, in which Varma has a 14.4 per cent shareholding but holds over 50 per cent of the votes from all the shares, is consolidated using the equity method. Intra-group

cross-shareholdings are eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items proportional to their fair values, and depreciated in accordance with the depreciation plans of these asset items.

Subsidiaries acquired during the year are consolidated from the moment of acquisition. Subsidiaries divested during the year are consolidated until the moment of divestment. Minority interest in the profit and loss and in capital and reserves are recognised as a separate item. Revaluations on Group companies' shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Relevant associated companies in which the Group holds 20–50 per cent of all the votes are included in the Consolidated Financial Statements using the equity method. When an associated company draws up its financial statements using fair values, these values are used in the consolidation. Housing and real estate companies are not treated as associated companies. Their non-inclusion has a minimal effect on Group profit and capital and reserves, since the expenses arising from these companies are covered by the maintenance charges collected from their owners.

The Group owns 50 per cent of the guarantee capital and 25 per cent of the votes of Kaleva Mutual Insurance Company, which is not, however, included in the Consolidated Financial Statements due to limitations concerning controlling interest and distribution of profits.

Share of associated companies' profit or loss is included in the consolidated income statement. The Group's share of the associated companies' profit or loss produced after the day of acquisition is added in the consolidated balance sheet to the acquisition cost of the associated company in question.

Associated companies are listed in the notes (12 and 13) to the financial statements.

Book value of investments

Investments in land and buildings are entered in the balance sheet at the lower of acquisition cost less depreciation or fair value. The values of real estate have been revaluated in the previous years. Revaluation of buildings entered as income is also depreciated according to plan.

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value. Acquisition cost is calculated by class using the average price.

Money-market instruments are entered in the balance sheet at the lower of acquisition cost or fair value. Changes in value due to interest rate fluctuations are not entered. The difference between the nominal value and acquisition cost of the money-market instruments is allocated to interest income or its reduction over the maturity of the instrument. The counterpart entry for the allocations entered as an increase or decrease in the acquisition cost is shown in the notes to the balance sheet. The acquisition cost is the average price calculated for each instrument.

Loan receivables and other receivables are entered in the balance sheet at the lower of nominal value or probable value.

Value adjustments made to investments in the previous financial years are entered in the income statement as value readjustments corresponding to the value appreciation.

Premium receivables and other receivables

Premium receivables and other receivables are valued at the lower of nominal value or probable value.

Derivative contracts

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value is entered in the income statement for the hedged balance sheet item, no entry is recorded in the income statement for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract.

Negative value adjustments of derivative financial instruments other than those created for the purposes of hedging are entered in the income statement as an expense. The profits and losses resulting from the termination or expiration of contracts are entered as income or expenses for the financial year.

Income and expenses from interest rate derivatives are entered under interest income.

Depreciation according to plan

The acquisition cost of buildings, including components in buildings, movable property and other expenses with long-term effects, are depreciated according to plan over their useful lives. Revaluation of buildings entered as income is also depreciated according to plan. Either the reducing-balance depreciation method or the straight-line depreciation method is applied to planned depreciation using the following economic useful lives:

Residential, office and business premises, hotels	40–60 yrs
Industrial premises and warehouses	25–50 yrs
Components in buildingst	10 yrs

The straight-line depreciation method is applied to planned depreciation of tangible and intangible assets using the following economic useful lives:

Equipment	7–10 yrs
Computer hardware	3 yrs
Transport equipment	5 yrs
Intangible assets	5–10 yrs

Fair values of investments

The fair values of real estate and real estate shares are measured item by item as prescribed in the regulations of the Financial Supervisory Authority and based on the opinions of the company's own and external experts.

The last available buying rates or, if these are not available, closing prices at the balance sheet date are used as fair values for listed securities.

Investments in private equity funds are entered in the balance sheet at fair value estimated by the management company or, if this is not available, at acquisition cost. Investments in mutual funds are entered at the last available value of the share calculated by the management company.

The fair value of other shares and par-

ticipations is the purchase price or the net realisable value or the net asset value.

The fair value of money-market instruments is primarily based on market value. If the market value is not available and the value of the investment cannot be reliably determined, the fair value is determined by using estimates by external parties or commonly approved calculation models, or the fair value is the purchase price.

Receivables are entered at the lower of nominal value or probable value.

Fair values of derivative contracts, and related liabilities and guarantees

The method for determining the fair values of derivative contracts, the liabilities and the collateral received and given to cover the

clearing of derivative transactions are presented in the notes to the financial statement under Contingent liabilities and liabilities not included in the balance sheet.

Loaned securities

Loaned securities are included in the balance sheet. They are presented in the notes to the balance sheet under Guarantees and liabilities, Loaned securities (Note 31).

Profit for the year, and capital and reserves

In an earnings-related pension insurance company, the parent company's profit after taxes in the income statement is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. The division of the parent company's capital and reserves between the insurance portfolio and the owners of the guarantee capital is presented in the notes to the financial statements.

Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. It comprises capital and reserves, accumulated appropriations, valuation differences, the provision for future bonuses, and liabilities not included in the balance sheet.

The minimum limit of the solvency capital is one third of the solvency limit. The solvency limit is determined using a risk-theory-based method taking into account the allocation of investments into different asset classes and their mutual correlations as required in legislation. When the limit is calculated, investments are classified according to their actual risk.

The solvency position is the ratio of the solvency capital to the solvency limit. The sol-

venency ratio is the ratio of the solvency capital to the technical provisions, which does not include the provision for future bonuses.

Solvency capital and the solvency limit are presented in the notes to the financial statements.

Taxes

Taxes for the financial year and previous financial years are recognised in the income statement on an accrual basis.

Deferred tax liabilities or assets are not calculated for temporary differences between income statement items and income and expenses approved in taxation, such as confirmed losses or tax credits, because the company's net result is determined by calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health. Nor is the deferred tax liability or asset calculated in the mutual real estate companies owned by the Group, because they are not significant for the companies in question or the Group.

Foreign-currency-denominated investments

Foreign-currency-denominated investments are entered at the lower of rate on the date of transaction or rate at the balance sheet date, in such a way, however, that also the effect of the change on the investment's market price is taken into account in the valuation. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand and deposits and items that cannot be entered as adjustments to income and expenses are entered under investment income and charges. When calculating fair values, the European Central Bank average rates quoted on 30 December are used.

Operating expenses and depreciation by function

Operating expenses and the depreciation of furniture and fixtures and expenses with long-term effects are included in the items of the income statement by function. In the income statement, the operating expenses from operations related to compensations and operations for the maintenance of workability are included in claims paid, and expenses related to investment management are included in investment charges. The expenses of insurance policy acquisition and management and administration are presented as net operating expenses. Statutory fees and payments are included in the administrative expenses. Planned depreciation on buildings is presented as investment expenses.

Pension plans and remuneration statement

Statutory pension coverage for personnel is arranged through TyEL insurance and supplemented by voluntary pension insurance. The supplementary pension insurance TEL-L was terminated at the end of 2016. Varma and the persons covered by said pension system have agreed on lump-sum compensation, which was paid in 2017. The lump-sum compensations have been entered as an expense in the 2016 financial statements. The pension plans of the President and CEO are explained in the notes to the financial statements (Note 7). A salary and remuneration statement in accordance with the Financial Supervisory Authority's recommendation has been published on Varma's website and in the Annual Report.

Balance sheet and income statement at fair values

In addition to the information required by the regulations, the parent company's income statement and balance sheet at fair values are presented in the notes to the financial statement. The purpose of this is to improve the transparency of the annual account information of an earnings-related pension insurance company.

The financial statements of an earnings-related pension company are prepared in accordance with sound accounting principles, valid laws and the regulations and guidelines of the Financial Supervisory Authority.

The statutory earnings-related pension scheme is partially fund-based. The technical provisions appearing in the balance sheet of an earnings-related pension insurance company amount to about a quarter of the capital value of the pensions accumulated by the closing date. Furthermore, statutory pension insurance has a guarantee scheme, according to which the earnings-related pension insurance scheme is jointly responsible for securing the benefits of the insured, should a pension institution become insolvent.

The operating expenses of the company are listed under a number of entries in the income statement and key figures. The effect of fair values on the company's investments and their results are presented in the notes to the financial statements under balance sheet and income statement at fair values.

The total result presented in Performance analysis, consisting of investment surplus at fair value, loading profit, technical underwriting result and other result, corresponds to the total result in the note income statement at fair value. In the note, the net investment

income is given at fair value. The total result at fair value is also influenced by premiums written, claims paid, change in technical provisions, total operating expenses, other result and taxes. The total result presented in the income statement drawn up at fair values substantially deviates from the result for the financial year in the income statement, drawn up in accordance with calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health.

In note 32, i.e. Varma's balance sheet and income statement at fair values, a balance sheet presenting asset items at fair value is given. In the note, valuation differences refer to the difference between the fair values and book values of investments.

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses and valuation differences of investments. The provision for current bonuses reserved for the payment of client bonuses and equity-linked provision for current/future bonuses are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision.

The total result at fair values of the parent company Varma stood at EUR 1,524 (457) million and the balance sheet total was EUR 46,161 (43,460) million.

Investments classified according to risk

The notes to the financial statements report investments and their returns classified according to risk. The stipulations of the Financial Supervisory Authority concerning

the calculation of the financial key figures are also used in the calculation of the return percentages. The method is described in the section Key figures and analyses.

Key figures and analyses

The key figures and analyses describing financial development are calculated and presented in accordance with the stipulations of the Financial Supervisory Authority concerning notes to the financial statements.

The key figures and analyses for investment operations and solvency are presented at fair values.

Net investment income at fair values over invested capital has been calculated by type of investment and for the total amount of investments with reference to daily or monthly time-weighted cash or output flow.

The return for the period has been calculated using a modified Dietz formula (time and money weighted formula) so that invested capital has been calculated by adding to the opening market value the cash flow for the period (cash flow/output flow = purchases – sales – income + expenses) weighted by the relative share of the length of the period that is left from the date of the event to the end of the period.

Non-financial information

The Report of the Board of Directors includes non-financial information, and a more detailed report in accordance with the GRI guidelines is published on the company's website together with the annual report.

Group companies 31 Dec 2017

The following companies are included as new subsidiaries in Varma's consolidated financial statements:

Asunto Oy Helsingin Kruunuvuorenkatu 2

Kiinteistö Oy Ornant

The following 137 companies are included as subsidiaries in Varma's consolidated financial statements:

As Oy Kuokkalan Tahkonkartano

As Oy Lahden Vilhon Vaakuna

As. Oy Espoon Amiraali

As. Oy Näkinkuja 4

As. Oy Vantaan Tellervo

Asunto Oy Espoon Keijumäki

Asunto Oy Espoon Kilonlemmikki

Asunto Oy Espoon Pyölinpuisto

Asunto Oy Haukikoto

Asunto Oy Helsingin Arabiankatu 4

Asunto Oy Helsingin Arabiankatu 8

Asunto Oy Helsingin Haukilahdenkuja 13

Asunto Oy Helsingin Hiihtäjätien Huippu

Asunto Oy Helsingin Hiihtäjätien Kaarre

Asunto Oy Helsingin Hiihtäjätien Laakso

Asunto Oy Helsingin Kimmontie 3

Asunto Oy Helsingin Klaneettitie

Asunto Oy Helsingin Näyttelijäntie 22

Asunto Oy Helsingin Päijänteentie 4-6

Asunto Oy Helsingin Roihuvuorentie 20

Asunto Oy Helsingin Roihuvuorentie 30

Asunto Oy Helsingin Tyynenmerenkatu 5

Asunto Oy Jyväskylän Kiramo 4

Asunto Oy Järvenpään Bjarnenkuja 6

Asunto Oy Kokkovouri

Asunto Oy Korkeavuorenkatu 2 a

Asunto Oy Lahden Kulmakatu 10

Asunto Oy Lahden Kulmakatu 12

Asunto Oy Lahden Massinhovi

Asunto Oy Lahden Massinpoiju

Asunto Oy Neilikkatie

Asunto Oy Oulun Lehmuskuja

Asunto Oy Siltavoudintie 1

Asunto Oy Tampereen Nahkakuja 13

Asunto Oy Tampereen Nahkakuja 9

Asunto Oy Tampereen Näsijärvenkatu 3

Asunto Oy Tampereen Palatsinraitti 1

Asunto Oy Tampereen Puuvillatehtaankatu 6

Asunto Oy Tampereen Satakunnankatu 22

Asunto Oy Tampereen Vihilahdenkontu

Asunto Oy Tervahovinkatu 12

Asunto Oy Turun Itäinen Rantakatu 64

Asunto Oy Turun Itäinen Rantakatu 70

Asunto Oy Turun Laivurinkatu 2

Asunto Oy Turun Vilhonkatu 15

Asunto Oy Vantaan Käräjäkuja 1

Asunto Oy Vantaan Vernissakatu 5

Helsingin Kiinteistösisjoitus Oy

Kiinteistö Oy Espoon Komentajan-Varma

Kiinteistö Oy Fredrikinkatu 42

Kiinteistö Oy Gigahermia

Kiint. Oy Helsingin Tapulikaupungintie 13

Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus

Kiinteistö Oy Arabian Parkki

Kiinteistö Oy Atomitalo

Kiinteistö Oy Avia Prima

Kiinteistö Oy Eerikinkatu 24

Kiinteistö Oy Elocinkulma 3

Kiinteistö Oy Espoon Riihitonttu

Kiinteistö Oy Helsingin Hiilipiha

Kiinteistö Oy Helsingin Hiiliranta

Kiinteistö Oy Helsingin Lönnrotinkatu 18

Kiinteistö Oy Helsingin Malminkatu 28

Kiinteistö Oy Helsingin Itämerenkatu 11-13

Kiinteistö Oy Helsingin Ratavartijankatu 5

Kiinteistö Oy Helsingin Suolakivenkatu 1

Kiinteistö Oy Helsingin Valimopolku 4

Kiinteistö Oy Helsingin Valimotie 16

Kiinteistö Oy Helsingin Valimotie 9-11

Kiinteistö Oy Helsingin Yrjönkatu 17

Kiinteistö Oy Helsinki Niittylänpolku 10

Kiinteistö Oy Hotelli Levihovi

Kiinteistö Oy Hotelli Torni

Kiinteistö Oy Hyvinkään Hämeenkatu 9

Kiinteistö Oy Hämeentie 135

Kiinteistö Oy Ilmailunkatu 7

Kiinteistö Oy Itäinen Rantakatu 60

Kiinteistö Oy Itälahdenkatu 15-17

Kiinteistö Oy Itälahdenkatu 22 A

Kiinteistö Oy Joensuun Pilkontie 3

Kiinteistö Oy John Stenberginranta 2

Kiinteistö Oy Juhana Herttua 3

Kiinteistö Oy Jyväskylän Kylmälahdentie 6

Group companies 31 Dec 2017

Kiinteistö Oy Jyväskylän Mattilanniemi

Kiinteistö Oy Jyväskylän Saarijärventie 50–52

Kiinteistö Oy Jyväskylän Sorastajantie 1

Kiinteistö Oy Kaakkurinhovi

Kiinteistö Oy Kaikukatu 7

Kiinteistö Oy Keskustahotelli

Kiinteistö Oy Koroppa

Kiinteistö Oy Kotkan Jumalniementie 8

Kiinteistö Oy Kuntotalo

Kiinteistö Oy Lahden Virastotalo

Kiinteistö Oy Lappeenrannan Kodinkeskus

Kiinteistö Oy Lappeenrannan Patria

Kiinteistö Oy Lohjan Sampotalo

Kiinteistö Oy Lönnrotinkatu 12

Kiinteistö Oy Lönnrotinkatu 12 A

Kiinteistö Oy Lönnrotinkatu 13

Kiinteistö Oy Mannerheimintien Pysäköintilaitos

Kiinteistö Oy Menotie 1

Kiinteistö Oy Metsäpojanukuja 1

Kiinteistö Oy Nihtitorpanukuja 4

Kiinteistö Oy Nokian Nuijamiestentie 5

Kiinteistö Oy Oulun Aurora

Kiinteistö Oy Partolan Kauppajätti

Kiinteistö Oy Pirkkalan Myllyhaantie

Kiinteistö Oy Porin Itsenäisyydenkatu 5

Kiinteistö Oy Pyynikin Trikoo

Kiinteistö Oy Rajalla

Kiinteistö Oy Rajasampanranta 2

Kiinteistö Oy Salmisaaren Liikuntakeskus

Kiinteistö Oy Savonkatu 21

Kiinteistö Oy Seinäjoen Puskantie 13

Kiinteistö Oy Seinäjoen Rengastie 4

Kiinteistö Oy Sompasaaren Tukoeka

Kiinteistö Oy Tampereen Kalevanpaasi

Kiinteistö Oy Tampereen Harjuntausta 7

Kiinteistö Oy Tampereen Sarankulmankatu 20 A

Kiinteistö Oy Tavastkulla

Kiinteistö Oy Tietotalo

Kiinteistö Oy Vaasan Sampotalo

Kiinteistö Oy Vallilan toimisto

Kiinteistö Oy Vantaan Tasetie 8

Kiinteistö Oy Varkauden Kauppakatu 47

Kiinteistö Oy Varmantalo

Kiinteistöosakeyhtiö Mikkelin Karikontie 101

Kiinteistöosakeyhtiö Varma

Old Mill Oy

Osakevarma Oy

Oy Ässäkeskus Ab

Pitäjänmäen Kiinteistöt Oy

P-Turkuparkki Oy

Saimaan Kylpyläkiinteistöt Oy

Tampereen Kiinteistö Invest Oy

Tieto Esy Oy

Ässäparkki Oy

The following 15 real estate companies exited the Group during the year under review:

As. Oy Espoon Kyyhkysmäki 14

Asunto Oy Espoon Lintuvaarantie 37–39

Asunto Oy Lahden Lahdenkatu 39

Asunto Oy Merihauki

Asunto Oy Paratiisintie

Asunto Oy Tampereen Jankansampo

Asunto Oy Tampereen Kultaköynnös

Kiinteistö Oy Espoon Kamreerintie 2

Kiinteistö Oy Espoon Niittyhaka

Kiinteistö Oy Helsingin Satamakatu 3

Kiinteistö Oy Helsingin Takomotie 1–3

Kiinteistö Oy Kuopion Lukkosalmenportti

Kiinteistö Oy Pirkkalan Vesalanportti

Kiinteistö Oy Spektrin Trio

Kiinteistö Oy Vierumäen Portti

The following company is included as a new associate in Varma's consolidated financial statements:

Spektri Kiinteistöt GP Oy

In addition, the Group comprises the following 16 associates:

Aros Bostad III AB

CMCV Kungens Kurva Holdco Ab

Kiinteistö Oy Elocinkulma 1

Kiinteistö Oy Liikejalava

Kiinteistö Oy Pyynikin Parkki

Kiinteistö Oy Selloparkki

Kiinteistö Oy Suursuon Ostoskeskus

Leineläntien pysäköintikiinteistö Oy

NV Kiinteistösisjoitus Oy

Näkin Pihapuistikko II Oy

Oulun Lehmusparkki Oy

Ruohoparkki Oy

Group companies 31 Dec 2017

Salmiparkki Oy

Serena Properties Ab

Vaasan Toripysäköinti Oy

WT Kiinteistösijoitus Oy

**The following 5 associates exited the Group during the year
under review:**

Kamreerintien Pysäköintitalo Oy

Kiinteistö Oy Karkkilan Sähkökiinteistö

Spektri Business Oy

Spektri-Park Oy

Technopolis Plc

Notes to the income statement

1. Premiums written

1 Jan-31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Direct business				
Basic insurance under TyEL				
Employer's share	3,441.3	3,350.0	3,441.3	3,350.0
Employee's share	1,244.5	1,137.4	1,244.5	1,137.4
	4,685.9	4,487.4	4,685.9	4,487.4
Supplementary pension insurance under TEL	0.4	3.5	0.4	3.5
Insurance under minimum YEL cover	184.3	187.1	184.3	187.1
	4,870.6	4,677.9	4,870.6	4,677.9
Transition payment to the State Pension Fund	-3.1	-2.7	-3.1	-2.7
Reinsurance	0.1	0.0	0.1	0.0
Premiums written before reinsurance	4,867.5	4,675.3	4,867.5	4,675.3
Reinsurance share	-0.1	-0.2	-0.1	-0.2
Premiums written ¹⁾	4,867.4	4,675.1	4,867.4	4,675.1
Credit loss on premium receivables				
TyEL	10.1	18.0	10.1	18.0
YEL	2.3	2.2	2.3	2.2
	12.4	20.1	12.4	20.1

¹⁾ Less credit loss

2. Claims paid

1 Jan-31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Direct business				
Paid to pensioners				
Basic insurance under TyEL	5,172.9	4,982.1	5,172.9	4,982.1
Supplementary pension insurance under TEL	92.3	94.4	92.3	94.4
Insurance under minimum YEL cover	278.1	268.0	278.1	268.0
Supplementary pension insurance under YEL	0.7	0.7	0.7	0.7
	5,544.0	5,345.3	5,544.0	5,345.3
Clearing of PAYG pensions received ¹⁾				
TyEL pensions	-10.3	-51.7	-10.3	-51.7
YEL pensions	-54.4	-51.1	-54.4	-51.1
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	-198.3	-212.9	-198.3	-212.9
YEL state share	-31.8	-24.2	-31.8	-24.2
VEKL state compensation	-1.3	-0.5	-1.3	-0.5
	-296.2	-340.5	-296.2	-340.5
Reinsurance	0.0	0.0	0.0	0.0
	5,247.8	5,004.8	5,247.8	5,004.8
Claims handling expenses	31.2	33.9	31.2	33.9
Workability maintenance expenses ²⁾	5.9	5.7	5.9	5.7
Claims paid before reinsurance	5,284.9	5,044.4	5,284.9	5,044.4
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Total claims paid	5,284.9	5,044.3	5,284.9	5,044.3

¹⁾ The PAYG pensions paid/received do not include the share of the Unemployment Insurance Fund contribution, cost distribution of pension components accrued on no-pay periods, YEL state share, or VEKL compensation.

²⁾ Between 2000 and 2017 the administrative cost components of Varma's premium income totalled EUR 90 million, 100 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2017, the administrative cost components totalled EUR 5.9 million, and EUR 5.9 million were transferred to claims incurred.

3. Breakdown of net investment return

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Investment return				
Returns on investments in Group companies				
Dividend	0.4	0.3		
	0.4	0.3		
Returns on investments in associates				
Dividend	0.0	4.3		
	0.0	4.3		
Returns on investments in real estate				
Interest				
Group companies	30.7	32.8		
Other			0.5	0.5
Other returns	208.1	228.4	228.2	250.8
	238.8	261.2	228.7	251.3
Returns on other investments				
Dividend		463.4	581.3	463.6
Interest		249.4	203.9	249.4
Other returns		2,028.1	2,565.7	2,028.1
	3,350.7	2,740.9	3,350.9	2,741.1
	3,589.8	3,006.8	3,579.6	2,992.4
Reversed impairment			74.3	342.7
Sales proceeds			3,398.5	2,985.8
Total			7,052.4	6,321.0
Investment expenses				
On real estate			-89.1	-90.5
On other investments			-1,575.9	-1,886.5
Interest			-43.5	-3.8
	-1,770.0	-2,045.1	-1,708.6	-1,980.8
Impairment and depreciation				
Impairment		-457.8	-754.9	-395.2
Planned depreciation on buildings		-13.8	-70.2	-107.1
	-776.9	-471.6	-825.2	-502.3
Sales losses			-698.0	-1,721.4
Total			-3,231.7	-4,204.5
Net investment return in the income statement	3,827.8	2,097.9	3,820.7	2,116.4
Net investment return in the income statement includes other foreign exchange gains and losses of investment operations	592.8	253.2	592.8	253.2

4. Operating expenses in the income statement

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Insurance policy acquisition costs				
Direct business commissions	1.4	1.3	1.4	1.3
Other insurance policy acquisition costs	6.5	6.8	6.5	6.8
	7.9	8.1	7.9	8.1
Portfolio administration expenses	32.3	38.8	32.3	38.8
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	9.5	9.4	9.5	9.4
Judicial administration fee	1.1	0.9	1.1	0.9
Financial Supervisory Authority supervision fee	0.8	0.6	0.8	0.6
	11.4	11.0	11.4	11.0
Other administrative expenses	18.1	19.8	18.1	19.8
	69.6	77.7	69.6	77.7

5. Overall operating expenses by function

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Claims paid				
Claims handling expenses	31.2	33.9	31.2	33.9
Workability maintenance expenses	5.9	5.7	5.9	5.7
	37.1	39.6	37.1	39.6
Operating expenses	69.6	77.7	69.6	77.7
Investment management charges				
Expenses on real estate	3.3	3.0	3.3	3.0
Expenses on other investments	19.3	17.6	19.3	17.6
	22.6	20.6	22.6	20.6
Total operating expenses	129.3	137.9	129.3	137.9

6. Personnel expenses

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
Salaries and remunerations	39.3	36.0	39.3	36.0
Pension expenses	6.6	6.1	6.6	6.1
Other personnel-related expenses	3.0	7.7	3.0	7.7
Total	48.8	49.8	48.8	49.8

7. Management salaries and remunerations

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
President and CEO	0.7	0.8	0.7	0.8
Members and deputy members of the Board of Directors	0.4	0.4	0.4	0.4
Members and deputy members of the Supervisory Board	0.1	0.1	0.1	0.1
Total	1.2	1.3	1.2	1.3
Average number of personnel during the financial year	524	540	524	540

President & CEO Risto Murto was paid EUR 711,078 in salary and fringe benefits. President & CEO Murto's retirement age was raised from 63 to 65 in connection with the pension reform. At the same time, Murto transferred from the earnings-based supplementary pension system to a contribution-based arrangement as of 1 January 2017.

8. Auditors' fees

1 Jan–31 Dec, € million	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
KPMG Oy Ab				
Audit fees	0.2	0.2	0.2	0.2
Taxation advice	0.0	0.1	0.0	0.1
Other fees	0.0	0.0	0.0	0.0
Other audit firms				
Taxation advice	0.1	0.1	0.1	0.1
Other fees	0.2	0.2	0.2	0.2

9. Income taxes

Deferred tax liabilities or assets based on accumulated appropriations or other temporary differences between book value and taxable values have not been entered in the balance sheet, because such deferred tax liabilities or assets are unlikely to be realised in the financial statements of a company engaged in the statutory pension insurance business or of its Group.

Notes to the balance sheet

10. Investments at fair value and valuation differences, Parent Company

31 Dec, € million	Remaining acquisition cost 2017	Book value 2017	Fair value 2017	Remaining acquisition cost 2016	Book value 2016	Fair value 2016
Real estate investments						
Real estate	303.6	315.3	428.0	354.3	370.0	483.3
Shares in Group companies	1,229.5	1,229.5	1,693.6	1,246.5	1,246.5	1,707.4
Other real estate shares	11.3	11.3	11.6	14.3	14.3	14.6
Loans to Group companies	572.5	572.5	572.5	623.3	623.3	623.3
Loans to real estate companies	109.7	109.7	109.7	86.2	86.2	86.2
Investments in Group companies						
Shares and participations	4.3	4.3	4.3	4.3	4.3	4.3
Investments in associates						
Shares and participations	18.5	18.5	24.7	131.7	131.7	137.7
Other investments						
Shares and participations	23,640.7	23,640.7	31,867.6	21,991.9	21,991.9	30,710.3
Money-market instruments	6,890.4	6,890.4	7,105.3	6,530.4	6,530.4	6,758.6
Loans guaranteed by mortgages	269.8	269.8	269.8	289.4	289.4	289.4
Other loan receivables	1,213.1	1,213.1	1,215.3	1,160.7	1,160.7	1,162.5
	34,263.4	34,275.2	43,302.5	32,433.0	32,448.7	41,977.6
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-43.4			-33.7		
Book value includes						
Revaluations entered as income		11.8			15.7	
Valuation difference (difference between fair value and book value)			9,027.3			9,528.9
Non-hedging derivatives						
Valuation difference (difference between fair value and book value)		-58.6	62.2		-87.0	10.1
			120.8			97.1

11. Investments at fair value and valuation differences, Group

31 Dec, € million	Remaining acquisition cost 2017	Book value 2017	Fair value 2017	Remaining acquisition cost 2016	Book value 2016	Fair value 2016
Real estate investments						
Real estate	2,130.7	2,142.5	2,786.3	2,224.7	2,240.4	2,878.7
Other real estate shares	11.3	11.3	11.6	14.3	14.3	14.6
Investments in Group companies						
Shares and participations	0.5	0.5	0.9	0.6	0.6	0.9
Investments in associates						
Shares and participations	22.2	22.2	24.7	137.8	137.8	137.7
Other investments						
Shares and participations	23,652.7	23,652.7	31,879.7	22,003.8	22,003.8	30,722.2
Money-market instruments	6,890.4	6,890.4	7,105.3	6,530.4	6,530.4	6,758.6
Loans guaranteed by mortgages	269.8	269.8	269.8	289.4	289.4	289.4
Other loan receivables	1,213.1	1,213.1	1,215.3	1,160.7	1,160.7	1,162.5
	34,190.8	34,202.5	43,293.7	32,361.7	32,377.4	41,964.5
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-43.4			-33.7		
Book value includes						
Revaluations entered as income		11.8			15.7	
Valuation difference (difference between fair value and book value)			9,091.1			9,587.1
Non-hedging derivatives		-58.6	62.2		-87.0	10.1
Valuation difference (difference between fair value and book value)			120.8			97.1

12. Investments in Group companies and associates, Parent Company

31 Dec 2017, € million

Shares and participations in Group companies	
Acquisition cost, 1 Jan	4.3
Acquisition cost, 31 Dec	4.3
Shares and participations in associates	
Acquisition cost, 1 Jan	131.7
Increase	0.3
Decrease	-113.5
Acquisition cost, 31 Dec	18.5

Shares and participations in Group companies

31 Dec 2017	Domicile	Shares	Votes	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.9
Osakevarma Oy	Helsinki	100.0%	100.0%	3.3
				4.3
Housing associations and real estate companies				1,229.5

Shares and participations in associates

31 Dec 2017	Domicile	Shares	Votes	Book value € million
Aros Bostad III AB	Stockholm	35.1%	35.1%	0.0
CMCV Kungenskurva HoldCo AB	Stockholm	45.0%	45.0%	10.0
NV Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	0.0
Serena Properties AB	Stockholm	43.0%	43.0%	8.5
Spektri Kiinteistöt GP Oy	Helsinki	24.7%	24.7%	0.0
VVT Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	0.0
				18.5
Housing associations and real estate companies				9.7

13. Investments in Group companies and associates, Group

31 Dec 2017, € million

Shares and participations in Group companies	
Acquisition cost, 1 Jan	0.6
Increase	0.0
Decrease	-0.1
Acquisition cost, 31 Dec	0.5
Shares and participations in associates	
Acquisition cost, 1 Jan	137.8
Increase	3.9
Decrease	-119.5
Acquisition cost, 31 Dec	22.2

Shares and participations in Group companies

31 Dec 2017	Domicile	Shares	Votes	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.5
				0.5

Shares and participations in associates

31 Dec 2017	Domicile	Shares	Votes	Book value € million
Aros Bostad III AB	Stockholm	35.1%	35.1%	0.7
CMCV Kungenskurva HoldCo AB	Stockholm	45.0%	45.0%	9.9
NV Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	0.0
Serena Properties AB	Stockholm	43.0%	43.0%	11.5
Spektri Kiinteistöt GP Oy	Helsinki	24.7%	24.7%	0.0
VVT Kiinteistösjointus Oy	Helsinki	45.0%	45.0%	0.0
				22.2
Housing associations and real estate companies				15.4

14. Changes in investments in real estate

31 Dec 2017, € million	Parent Company Real Estate and real estate shares	Parent Company Loans to Group companies	Group Real Estate and real estate shares
Acquisition cost, 1 Jan	2,232.8	709.6	3,452.5
Increase	116.0	35.5	146.3
Decrease	-298.3	-62.8	-256.7
Acquisition cost, 31 Dec	2,050.5	682.2	3,342.1
Accumulated depreciation, 1 Jan	-212.2		-960.1
Accumulated depreciation from items sold	36.4		119.3
Depreciation for the financial year	-11.5		-70.2
Accumulated depreciation, 31 Dec	-187.3		-911.0
Impairments, 1 Jan	-405.5		-253.4
Impairments on items sold	134.1		3.3
Impairments for the financial year	-51.7		-48.1
Reversed impairment	4.3		9.1
Impairments, 31 Dec	-318.8		-289.1
Revaluations, 1 Jan	15.7		15.7
Revaluations on items sold	-4.0		-4.0
Revaluations, 31 Dec	11.8		11.8
Book value, 31 Dec	1,556.2	682.2	2,153.8

15. Real estate investments in own use

31 Dec 2017, € million	Parent Company	Group
Remaining acquisition cost	75.8	75.8
Book value	75.8	75.8
Fair value	88.2	88.2

16. Parent Company's other investments, shares and participations

31 Dec 2017	Shares %	Book value € million	Market value € million
Listed equities			
Finland			
Ahlstrom-Munksjö Oyj	1.4	14.4	23.6
Aktia Bank Plc	1.8	6.7	10.7
Alma Media Corporation	6.5	23.0	38.1
Amer Sports Corporation	2.2	31.7	59.5
Aspo Plc	4.6	6.0	14.3
Atria Plc	1.9	6.4	6.4
Bittium Corporation	3.8	7.7	7.7
CapMan Plc	2.4	6.5	6.5
Cargotec Corporation	0.8	12.2	23.6
Caverion Corporation	4.0	26.7	29.5
Componenta Corporation	5.9	1.5	1.5
Consti Group Plc	2.2	1.5	1.5
Cramo Plc	0.6	3.4	5.3
Detection Technology Plc	3.7	2.7	9.2
Digia Plc	3.8	2.6	2.9
DNA Plc	0.2	2.9	4.5
Elisa Corporation	3.1	65.6	169.6
Etteplan Oyj	4.0	3.3	7.5
Finnair Plc	0.9	4.5	14.2
Fiskars Corporation	3.0	24.9	58.7
Fortum Corporation	0.3	50.1	50.1
F-Secure Corporation	2.2	7.5	13.5
Glaston Corporation	6.6	6.0	6.0
Gofore Plc	4.0	3.3	3.6
HKScan Corporation	2.2	3.7	3.7
Honkarakenne Oyj	3.6	0.6	0.8
Huhtamaki Group	3.4	119.2	128.8
Kemira Oyj	3.4	61.1	61.1
Kesko Corporation	1.1	16.7	51.1
Kesla Oyj	4.4	0.7	0.7
Konecranes Plc	1.5	21.5	45.4
KONE Corporation	0.8	95.4	181.7
Kotipizza Oyj	3.1	1.0	2.8
Lassila & Tikanoja Plc	0.9	3.9	6.3
Lemminkäinen Corporation	4.7	8.4	24.1
Marimekko Corporation	4.8	3.4	3.9

31 Dec 2017	Shares %	Book value € million	Market value € million
Metso Corporation	2.5	100.7	105.3
Metsä Board Corporation	4.9	41.1	122.8
Neste Corporation	0.7	24.4	94.7
Next Games Corporation	2.1	3.0	3.4
Nixu Corporation	3.6	1.2	2.8
Nokian Tyres Plc	2.7	61.8	142.2
Nokia Corporation	1.0	222.5	222.5
Olvi Plc	4.0	17.6	24.6
Oriola-KD Corporation	4.2	12.9	22.1
Orion Corporation	0.3	11.8	12.8
Outokumpu Oyj	3.1	69.3	100.4
Outotec Oyj	7.0	68.6	90.3
Pihlajalinna Plc	2.6	5.9	7.3
Ponsse Plc	1.4	1.6	10.2
Pöyry Plc	4.5	13.4	13.4
Qt Group Plc	4.1	2.9	5.8
Raisio Plc	2.2	13.7	13.7
Ramirent Plc	0.3	2.7	2.7
Raute Plc	1.2	0.6	1.5
Restamax Plc	1.6	1.2	2.3
Robit Plc	7.9	10.7	10.7
Rovio Entertainment Corporation	3.4	24.5	24.5
Sampo Plc	5.3	239.0	1,368.6
Sanoma Corporation	0.1	0.7	2.2
Siili Solutions Plc	1.9	1.9	2.8
Silmäasema Oyj	4.6	4.3	4.3
Solteq Oyj	6.7	1.8	1.9
SRV Group Plc	0.9	2.6	2.6
SSH Communications Security Corporation	2.0	1.3	1.3
Stockmann Plc	9.1	28.8	28.8
Stora Enso Oyj	1.3	112.3	131.7
Suominen Corporation	7.7	10.1	19.8
Talenom Plc.	2.1	1.1	1.8
Technopolis Plc	19.0	89.9	125.8
Teleste Corporation	2.7	3.5	3.5
Terveystalo Plc	15.0	157.3	170.9

31 Dec 2017	Shares %	Book value € million	Market value € million
Tieto Corporation	0.1	1.3	1.9
Tikkurila Oyj	5.7	37.4	44.3
Tokmanni Group Corporation	7.4	30.7	31.4
UPM-Kymmene Corporation	0.6	36.6	79.6
Uponor Corporation	5.3	37.4	64.6
Valmet Corporation	2.8	34.9	68.4
Verkkokauppa.com Oyj	4.6	8.6	14.6
Vincit Group Plc	5.9	3.9	4.6
Wulff Group Plc	6.8	0.7	0.7
Wärtsilä Corporation	5.2	144.7	538.1
YIT Corporation	9.4	76.4	76.4
Other		1.0	4.2
Finnish equities, total		2,436.4	4,909.0
Other countries			
Australia			
Coca-Cola Amatil Ltd	0,1	2,8	2,8
Commonwealth Bank of Australia	0,0	2,6	2,6
GPT Group	0,1	5,0	5,0
Mirvac Group	0,1	4,3	4,6
National Australia Bank Ltd	0,0	4,2	4,2
Telstra Corp Ltd	0,0	4,7	4,7
Westpac Banking Corp	0,0	4,5	4,5
Austria			
Erste Group Bank AG	0,0	1,9	2,9
Palfinger AG	0,6	6,0	7,4
Belgium			
Ageas SA	0,0	0,9	1,2
bpost SA	0,1	3,9	4,0
KBC Groep NV	0,0	3,9	5,0
UCB SA	0,1	6,0	6,6
Bermuda			
Triton International Ltd	0,0	0,8	0,8
Canada			
Bank of Montreal	0,0	8,3	9,4
Bank of Nova Scotia	0,0	5,9	6,5
BCE Inc	0,0	4,0	4,0

31 Dec 2017	Shares %	Book value € million	Market value € million
Canadian National Railway Co	0,0	2,9	3,4
Canadian Pacific Railway Ltd	0,0	3,2	3,7
Royal Bank of Canada	0,0	5,6	6,8
TELUS Corp	0,0	6,6	7,1
Toronto-Dominion Bank	0,0	3,9	4,8
Denmark			
AP Moeller - Maersk A/S	0,0	5,1	5,1
Bavarian Nordic A/S	0,2	2,4	2,4
Carlsberg A/S	0,0	0,8	1,0
Coloplast A/S	0,0	3,3	3,3
Danske Bank A/S	0,0	7,4	8,1
DSV A/S	0,0	4,5	5,9
Genmab A/S	0,0	3,5	3,5
ISS A/S	0,0	1,0	1,0
Novo Nordisk A/S	0,0	10,3	11,7
Novozymes A/S	0,0	1,9	2,4
Orsted A/S	0,0	2,2	2,3
Pandora A/S	0,0	2,7	2,7
France			
AXA SA	0,0	5,6	7,4
BNP Paribas SA	0,0	12,0	13,1
Bouygues SA	0,0	3,6	5,2
Carmila SA	0,5	15,7	15,7
Credit Agricole SA	0,0	3,5	5,8
Elis SA	0,1	4,2	4,4
Eurazeo SA	0,0	3,0	3,1
Europcar Group SA	0,6	9,7	9,7
Fonciere des Regions SA	0,2	9,8	11,2
Gecina SA	0,0	3,7	4,2
Icade SA	0,1	5,3	6,2
Klepierre SA	0,1	7,7	7,7
Orange SA	0,0	7,1	7,2
Orpea SA	0,6	27,2	36,4
Sanofi SA	0,0	25,9	26,2
Schneider Electric SA	0,0	11,8	12,7
Scor SE	0,0	0,9	0,9
Societe Generale SA	0,0	5,9	6,9
Suez SA	0,1	7,2	7,4

31 Dec 2017	Shares %	Book value € million	Market value € million
Tarkett SA	0,6	12,8	13,6
Teleperformance SA	0,4	25,6	26,3
Ubisoft Entertainment SA	0,0	0,9	3,2
Unibail-Rodamco SE	0,0	7,1	7,1
Vallourec SA	0,1	2,0	2,2
Worldline SA	0,2	9,6	13,1
Germany			
Aixtron SE	1,4	19,7	32,3
Allianz SE	0,0	8,7	12,3
Alstria Office REIT-AG	0,8	10,9	15,7
Aumann AG	1,0	9,1	9,6
BASF SE	0,0	6,6	7,3
Bilfinger Berger SE	0,1	1,7	2,0
CTS Eventim AG & Co KGaA	0,3	10,1	11,4
Deutsche Post AG	0,0	0,8	1,1
Deutsche Telekom AG	0,0	6,6	6,6
Durr AG	0,0	1,8	1,8
Evonik Industries AG	0,0	1,9	2,0
Fresenius Medical Care AG & Co KGaA	0,0	3,7	4,4
Hannover Rueckversicherung AG	0,0	0,7	0,9
HelloFresh AG	0,2	2,4	3,1
Infineon Technologies AG	0,0	7,6	8,0
Jenoptic AG	0,8	8,4	13,3
Jungheinrich AG	0,1	1,6	1,7
KION Group AG	0,1	5,2	5,4
Merck KGaA	0,1	14,4	14,4
Münchener Rückversicherungs AG	0,1	15,1	16,3
Osram Licht AG	0,1	3,6	5,5
Porsche Automobil Holding SE	0,0	1,7	2,3
RIB Software AG	2,1	12,1	24,7
Siemens AG	0,0	30,3	30,7
Volkswagen AG	0,0	2,9	3,9
Wirecard AG	0,0	4,2	4,9
Ireland			
Accenture PLC	0,0	5,5	6,4

31 Dec 2017	Shares %	Book value € million	Market value € million
Ingersoll-Rand PLC	0,0	3,3	3,3
Medtronic PLC	0,0	6,7	6,7
Italy			
Anima Holding SpA	0,5	6,7	8,5
Assicurazioni Generali SpA	0,0	3,0	3,0
Atlantia SpA	0,0	2,7	3,2
Autogrill SpA	0,9	18,9	25,7
Brembo SpA	0,3	12,5	14,5
Buzzi Unicem SpA	0,3	9,3	12,3
De'Longhi SpA	0,2	9,3	9,3
DiaSorin SpA	0,2	6,5	8,3
Hera SpA	0,6	22,4	27,4
Intesa Sanpaolo SpA	0,0	0,8	1,1
Moncler SpA	0,3	14,9	22,0
Prysmian SpA	0,1	4,1	4,1
Terna Rete Elettrica Nazionale SpA	0,1	5,5	5,9
UniCredit SpA	0,0	1,6	1,6
Japan			
Daifuku Co Ltd	0,1	4,0	4,0
Keyence Corp	0,0	2,0	3,1
Kubota Corp	0,0	2,7	3,1
Mitsubishi Corp	0,0	4,0	4,6
Mitsubishi Electric Corp	0,0	2,5	2,8
Murata Manufacturing Company Ltd	0,0	3,9	3,9
Nidec Corp	0,0	3,6	4,7
Recruit Holdings Co Ltd	0,0	2,7	4,5
SMC Corp	0,0	3,6	4,8
YASKAWA Electric Corp	0,1	4,0	5,0
Jersey C.I.			
Shire PLC	0,0	17,5	17,5
Luxembourg			
Eurofins Scientific SE	0,1	6,7	7,6
Solutions 30 SE	1,8	11,1	11,1
Subsea 7 SA	0,1	2,5	2,5
Netherlands			
Aegon NV	0,0	1,4	1,4
Akzo Nobel NV	0,0	3,7	4,5

31 Dec 2017	Shares %	Book value € million	Market value € million
ASM International NV	0,2	4,6	6,3
ASR Nederland NV	0,0	0,6	0,6
CNH Industrial NV	0,0	3,3	3,3
IMCD Group NV	0,5	10,1	13,9
ING Groep NV	0,0	6,4	7,8
Koninklijke Ahold NV	0,0	10,1	10,1
Koninklijke KPN NV	0,1	7,5	7,5
Koninklijke Philips NV	0,0	1,6	1,6
NN Group NV	0,1	9,1	11,3
PostNL NV	0,2	4,1	4,4
Qiagen NV	0,1	3,8	3,8
Unilever NV	0,0	4,3	5,2
Norway			
Aker BP ASA	0,0	2,6	3,1
Aker Solutions ASA	0,3	3,3	3,3
Atea ASA	0,3	3,0	4,1
DNB ASA	0,0	7,6	7,7
Europris ASA	3,6	20,2	20,2
Evry ASA	0,1	1,6	1,6
Hofseth BioCare ASA	1,3	0,5	0,5
Marine Harvest ASA	0,1	5,6	5,6
Norsk Hydro ASA	0,1	6,2	7,0
Orkla ASA	0,2	18,2	19,7
Protector Forsikring ASA	0,9	1,6	6,8
Statoil ASA	0,0	12,5	14,4
Storebrand ASA	2,8	56,9	88,0
Telenor ASA	0,0	6,2	7,2
TGS Nopec Geophysical Co ASA	0,1	3,0	3,0
Yara International ASA	0,2	17,6	19,1
Portugal			
EDP - Energias de Portugal SA	0,0	2,0	2,0
Spain			
Abertis Infraestructuras SA	0,0	1,4	1,9
Amadeus IT Holding SA	0,0	4,0	4,0
Banco Bilbao Vizcaya Argentaria SA	0,0	2,8	3,6
Banco Santander SA	0,0	9,5	12,9
Enagas SA	0,1	8,0	8,0

31 Dec 2017	Shares %	Book value € million	Market value € million
Ferrovial SA	0,1	6,6	7,0
Gas Natural SDG SA	0,0	8,7	9,2
Grifols SA	0,1	6,2	7,3
Iberdrola SA	0,0	11,5	12,2
Red Electrica Corp SA	0,1	8,7	8,7
Telepizza Group SA	0,7	3,2	3,2
Sweden			
AF AB	0,2	1,2	2,9
Alfa Laval AB	0,1	4,9	4,9
Assa Abloy AB	0,0	6,3	6,9
Atlas Copco AB	0,1	28,5	39,7
Atrium Ljungberg AB	6,1	82,9	107,3
Boliden AB	0,2	15,9	17,1
Electrolux AB	0,1	4,5	5,4
Elektro AB	0,4	10,3	10,3
Essity AB	0,1	17,1	17,1
Fastighets AB Balder	0,5	14,8	17,8
Gefinge AB	0,2	7,7	7,7
Gränges AB	0,4	2,1	2,6
Gunnebo AB	0,3	0,8	0,8
Handicare Group AB	0,3	1,0	1,1
Hennes & Mauritz AB	0,0	7,7	7,7
Hexagon AB	0,1	8,1	8,3
Hexpol AB	0,2	2,9	4,2
Hufvudstaden AB	0,6	10,0	17,1
Investment AB Kinnevik	0,1	3,8	4,2
Investor AB	0,0	5,2	7,6
Inwido AB	0,7	3,7	3,7
Lundin Petroleum AB	0,1	4,4	5,7
Modern Times Group AB	0,1	1,5	1,7
Munters Group AB	0,1	0,6	0,6
Nobia AB	0,1	0,8	1,1
Nordea Bank AB	0,7	234,4	301,3
Sandvik AB	0,1	17,2	20,4
Securitas AB	0,1	3,5	3,6
Skandinaviska Enskilda Banken AB	0,1	14,0	14,6
SKF AB	0,1	5,5	5,5

31 Dec 2017	Shares %	Book value € million	Market value € million
SSAB AB	0,2	10,4	11,4
Svenska Cellulosa AB	0,2	9,5	12,0
Svenska Handelsbanken AB	0,1	13,6	13,6
Swedbank AB	0,0	10,0	10,0
Swedish Orphan Biovitrum AB	0,1	2,0	2,3
Tele2 AB	0,0	2,1	2,3
Telefonaktiebolaget LM Ericsson	0,1	10,9	10,9
Telia Company AB	0,0	1,9	1,9
Trelleborg AB	0,0	1,9	1,9
Volvo AB	0,1	24,6	26,6
Switzerland			
ABB Ltd	0,0	16,3	17,5
Aryzta AG	0,2	5,9	5,9
Baloise Holding AG	0,0	0,9	0,9
Flughafen Zurich AG	0,1	3,0	3,0
Julius Baer Group Ltd	0,0	2,9	4,0
Novartis AG	0,0	20,3	20,8
Roche Holding AG	0,0	5,3	5,3
Swisscom AG	0,0	3,5	3,6
Swiss Life Holding AG	0,0	1,1	1,4
Swiss Re AG	0,0	10,1	10,6
TE Connectivity Ltd	0,0	1,5	1,5
UBS Group AG	0,0	4,5	4,6
Zurich Financial Services AG	0,0	5,2	5,6
United Kingdom			
Admiral Group PLC	0,0	0,7	0,7
Ashtead Group PLC	0,0	4,0	4,0
AstraZeneca PLC	0,0	24,1	26,8
Aviva PLC	0,0	3,4	3,4
Barclays PLC	0,0	2,8	2,8
British Land Co PLC	0,0	2,7	3,0
Bunzl PLC	0,0	3,3	3,3
Capita PLC	0,0	1,0	1,0
ConvaTec Group PLC	0,1	2,3	2,3
Croda International PLC	0,1	3,1	4,0
Direct Line Insurance Group PLC	0,0	0,8	0,9
GlaxoSmithKline PLC	0,0	3,7	3,7

31 Dec 2017	Shares %	Book value € million	Market value € million
Halma PLC	0,2	8,0	9,9
Hikma Pharmaceuticals PLC	0,0	1,3	1,3
Hiscox Ltd	0,0	0,7	0,7
HSBC Holdings PLC	0,0	16,3	18,1
Inchcape PLC	0,4	12,0	13,2
Legal & General Group PLC	0,0	2,6	2,7
Old Mutual PLC	0,0	1,6	1,7
Prudential PLC	0,0	6,3	8,1
Reckitt Benckiser Group PLC	0,0	5,2	5,5
Rotork PLC	0,1	2,7	2,7
RPC GROUP PLC	0,1	3,7	3,7
RSA Insurance Group PLC	0,0	0,8	1,1
Smith & Nephew PLC	0,1	7,1	7,2
St James's Place PLC	0,0	1,0	1,1
The Weir Group PLC	0,0	1,2	1,2
United Utilities Group PLC	0,0	0,9	0,9
Vesuvius PLC	0,2	3,3	3,3
Vodafone Group PLC	0,0	11,6	11,8
WH Smith PLC	0,8	16,6	23,4
United States			
3M Company	0.0	3.1	3.9
Abbott Laboratories	0.0	4.2	4.8
AbbVie Inc	0.0	9.2	12.1
Akamai Technologies Inc	0.1	7.9	7.9
Amgen Inc	0.0	13.7	14.5
Antero Resources Corp	0.1	6.3	6.3
Apple Inc	0.0	48.4	57.2
Applied Materials Inc	0.0	11.2	14.9
Autodesk Inc	0.1	15.8	21.9
Autoliv Inc	0.1	10.3	10.6
Baxter International Inc	0.0	6.4	8.1
Biogen Inc	0.0	5.2	5.3
Boston Scientific Corp	0.0	5.2	5.2
Bristol-Myers Squibb Co	0.0	20.4	20.4
Broadridge Financial Solutions Inc	0.0	2.0	2.3
Caterpillar Inc	0.0	1.9	2.6
Cummins Inc	0.0	3.1	3.9

31 Dec 2017	Shares %	Book value € million	Market value € million
CVS Health Corp	0.0	7.3	7.3
Danaher Corp	0.0	4.3	4.5
Ebix Inc	1.1	18.4	23.1
Edwards Lifesciences Corp	0.0	8.6	9.4
Electronic Arts Inc	0.1	14.0	17.5
Eli Lilly and Company	0.0	17.2	17.6
Facebook Inc	0.0	22.8	29.4
FedEx Corp	0.0	3.2	4.2
Fidelity National Information Services Inc	0.0	1.9	1.9
General Electric Co	0.0	5.8	5.8
Gilead Sciences Inc	0.0	17.9	17.9
Global Payments Inc	0.0	4.8	5.0
Google Inc	0.0	56.3	67.2
HCA Holdings Inc	0.0	3.6	3.7
Illinois Tool Works Inc	0.0	5.1	6.7
Intuitive Surgical Inc	0.1	12.1	18.3
Johnson & Johnson	0.0	31.3	32.6
Kroger Co/The	0.0	1.7	2.3
Laredo Petroleum Inc	0.0	1.0	1.0
Match Group Inc	0.9	8.9	14.3
Microsoft Corp	0.0	37.9	48.2
NIKE Inc	0.0	6.0	6.3
PayPal Holdings Inc	0.0	8.6	8.7
Pfizer Inc	0.0	27.8	27.8
Power Integrations Inc	0.4	7.2	7.4
Rockwell Automation Inc	0.0	2.2	2.5
Salesforce.com Inc	0.0	24.5	29.8
Splunk Inc	0.1	8.2	10.7
Square Inc	0.4	12.0	31.8
Tableau Software Inc	0.3	7.7	10.4
Union Pacific Corp	0.0	5.9	7.8
UnitedHealth Group Inc	0.0	15.0	18.4
United Parcel Service Inc	0.0	3.9	4.0
United Technologies Corp	0.0	2.8	3.2
Vantiv Inc	0.0	3.9	4.0
Visa Inc	0.0	44.1	57.2
Waste Management Inc	0.0	1.1	1.3

31 Dec 2017	Shares %	Book value € million	Market value € million
XPO Logistics Inc	0.0	2.7	3.8
Zoetis Inc	0.1	15.2	18.0
Other		3.7	27.7
Foreign equities, total		2,575.0	3,085.8
Listed equities, total		5,011.4	7,994.8
Unlisted equities			
Finland			
Ahlström Capital Oy	3.7	8.4	30.9
Havator Group Oy	9.2	5.4	5.4
Kaleva Mutual Insurance Company	30.0	2.6	2.6
Kiitosimeon Oy	15.3	2.5	2.6
Kojamo Oyj	17.0	42.5	343.2
Sponff Oy	17.6	2.1	2.1
Tornator Oy	15.3	24.4	99.8
Other		0.7	0.7
Finnish equities, total		88.6	487.2
Other countries			
Luxembourg			
EPISO 4 Monopoly Finland S.á.r.l.	19.0	0.5	1.3
Netherlands			
BenCo Insurance Holding B.V.	3.5	0.7	1.8
Sweden			
Ambea Finland Group AB	3.0	4.2	20.1
Other		0.2	1.7
Foreign equities, total		5.6	24.8
Unlisted equities, total		94.2	512.0

31 Dec 2017	Book value € million	Fair value € million
Hedge funds		
Cayman Islands		
Bayview MSR Opportunity Offshore L.P.	89.1	106.1
Bayview Opportunity Offshore III a L.P.	8.7	18.4
Bayview Opportunity Offshore IV a L.P.	200.8	317.1
Blackstone First Avenue Offshore Fund B Ltd	221.1	232.8
Blackstone First Avenue Offshore Fund C Ltd	71.2	71.2
Blackstone First Avenue Offshore Fund Ltd	108.3	184.0
Blackstone Strategic Opportunity Offshore Fund Ltd	15.9	22.3
BlueMountain Equity Alternatives Fund Ltd	61.4	102.3
Capula Global Relative Value Fund Ltd	90.5	149.4
Capula Tail Risk Fund Ltd	50.1	50.1
Carlson Black Diamond Thematic Ltd	57.7	60.7
CarVal Credit Value Fund B II L.P.	41.4	70.6
CarVal Credit Value Fund B IV L.P.	6.3	6.3
CarVal Global Value Fund L.P.	13.0	37.3
Cerberus Global Residential Mortgage Opportunity Fund II L.P.	94.9	168.2
Cerberus Global Residential Mortgage Opportunity Fund L.P.	77.5	138.4
Chenavari European Deleveraging Opportunities Fund II L.P.	25.9	25.9
CS Iris V Fund Ltd	23.8	30.3
CVI Credit Value Fund B III L.P.	156.3	178.8
D.E.Shaw Composite International Fund	0.9	1.4
Dialectic Antithesis Offshore Ltd	10.3	10.3
Double Black Diamond Ltd	110.8	185.7
EJF Debt Opportunities Offshore Fund Ltd	124.2	204.0
EJF Financial Services Fund L.P.	25.8	45.7
EJF Speciality Finance Opportunities Offshore Fund L.P.	14.0	14.0
Elan Feeder Fund Ltd	109.3	158.8
Element Capital Feeder Fund Ltd	43.5	217.8
Elliot International Ltd	97.4	259.3
Fir Tree International Value Fund Ltd	13.3	23.9
Fir Tree Special Opportunities Fund VII L.P.	64.4	64.4
Five Mile Capital Partners II L.P.	3.5	4.5

31 Dec 2017	Book value € million	Fair value € million
Glenview Capital Partners Ltd	10.1	19.1
Golden Tree Credit Opportunities Ltd	7.7	36.7
Golden Tree Distressed Debt Fund (Cayman) Ltd	43.8	88.6
Golden Tree Distressed Fund 2014 (Cayman) L.P.	50.4	58.6
Golden Tree Offshore Fund II Ltd	9.5	11.9
Golden Tree Offshore Fund Ltd	112.6	112.6
GSA Quantitative Futures Master Fund Ltd	24.0	36.8
GSA Trend Fund Ltd	19.6	19.6
H/2 Credit Partners Ltd	27.4	44.9
HBK Merger Strategies	156.9	158.5
HBK Multi-Strategy Offshore Fund Ltd	123.5	206.0
King Street Capital Ltd	4.8	9.0
Kuttura Fund L.P.	34.9	61.1
Magnetar PRA Fund Ltd	67.2	71.1
Mortality Fund I	100.6	112.3
NWI Emerging Market Currency Fund	32.2	40.5
OZ Asia Overseas Fund Ltd	0.8	0.8
OZ Overseas Fund Ltd	0.5	1.0
Pentwater Event Fund Ltd	29.6	47.4
Reservoir Capital Overseas Partners II L.P.	5.9	8.9
Roystone Capital Offshore Fund Ltd	10.9	10.9
Soroban Opportunities Cayman Fund Ltd	42.7	60.6
Systematica BlueMatrix Ltd	30.3	40.3
Systematica BlueTrend Fund Ltd	10.9	13.8
Third Point Offshore Fund Ltd	52.1	80.2
Two Sigma Absolute Return Cayman Fund Ltd	63.6	85.2
Whippoorwill Distressed Opportunity Fund Ltd	2.6	5.2
Zais Opportunity Fund Ltd	29.4	90.2
Zebedee Core Fund Ltd	28.9	29.3
Zebedee Focus Fund Ltd B	27.1	29.4
ZP Offshore Utility Fund Ltd	42.7	53.2
Jersey C.I.		
Pharo Gaia	67.6	67.6
Pharo Macro Fund Ltd	34.0	53.0
Luxembourg		

31 Dec 2017	Book value € million	Fair value € million
Inari Fund	234.9	382.8
United States		
Aviator Capital Mid-Life Offshore Feeder Fund L.P.	45.4	61.7
Bayview Liquid Credit Strategies Domestic L.P.	23.2	28.0
Bayview Opportunity Domestic V L.P.	25.5	25.5
Dialectic Antithesis Opportunities Fund II L.P.	14.3	14.3
EJF Sidecar Fund L.L.C. - Series D	12.0	16.2
Five Mile Capital Partners L.L.C.	1.3	1.3
H/2 Special Opportunities II L.P.	16.5	32.8
H/2 Special Opportunities III L.P.	137.7	157.5
H/2 Special Opportunities IV L.P.	16.8	16.8
Ivalo Fund L.P.	346.9	637.1
Koitere Fund L.P.	185.4	243.2
Sevetti Fund L.P.	706.0	1,136.8
Zais Financial Corp	1.0	1.0
Virgin Islands		
Spinnaker Global Emerging Markets Fund Ltd	54.1	89.4
Other	4.1	14.2
Hedge funds, total	5,161.6	7,782.5
Real estate funds		
Finland		
CapMan Hotels RE Ky	5.8	10.6
CapMan RE II Ky	1.5	1.5
CapMan Real Estate I Ky	2.4	2.4
ICECAPITAL Housing Fund III Ky	20.0	26.0
ICECAPITAL Housing Fund IV Ky	2.6	2.6
ICECAPITAL Saint Petersburg Residential Fund I Ky	0.6	0.6
NV Property Fund I Ky	38.6	44.3
Spektri Kiinteistöt Ky	8.7	8.7
WT Property Fund I Ky	37.9	40.4
Germany		
TT Holdings SCSp	65.0	68.9
Luxembourg		
CapMan Nordic Real Estate FCP-SIF	23.4	32.5
Curzon Capital Partners IV L.P.	50.7	60.9
Curzon Capital Partners V Long-Life L.P.	10.4	10.4

31 Dec 2017	Book value € million	Fair value € million
ECE European Prime Shopping Centre II A SCSp SIF	14,9	19,5
Prologis Targeted European Logistics Fund FCP-FIS	74,9	78,7
Sweden		
Aros Bostad III AB	1,9	1,9
Aros Bostadskapital 11 AB	3,8	4,9
Aros Bostadskapital 12 AB	6,3	6,3
Aros Bostadskapital 8 AB	0,9	0,9
Aros Bostadskapital 9 AB	2,4	6,0
Serena Properties AB	23,2	23,2
United Kingdom		
Ares European Real Estate Fund II Euro L.P.	2,8	2,8
Ares European Real Estate Fund III Euro L.P.	7,0	7,0
AXA European Real Estate Opportunity Fund II L.P.	2,2	2,2
Benson Elliot Real Estate Partners IV L.P.	17,0	19,5
Blackstone Real Estate Partners Europe III L.P.	22,6	24,6
Blackstone Real Estate Partners International II L.P.	3,7	3,7
CCP IV SCSp	29,0	30,2
Clearbell Property Partners II L.P.	20,2	28,2
Clearbell Property Partners III L.P.	7,2	7,2
DRC European Real Estate Debt Fund III L.P.	16,4	16,4
Lumiere Holdings L.P.	58,5	72,9
Moorfield Audley Real Estate Fund B L.P.	26,8	28,7
Retail Centres V (Sweden) L.P.	61,3	61,7
Riverside Co-invest Partners L.P.	2,2	2,2
United States		
Colony Investors VII L.P.	6,4	6,4
Colony Parallel Investors VIII L.P.	1,6	1,6
Other	0,7	0,9
Real estate funds, total	681,7	767,4
Fixed-income funds		
Cayman Islands		
H/2 Targeted Return Strategies II Ltd	512,0	524,4
Finland		
Mandatum Life Nordic High Yield ABS	49,4	49,4
Ireland		

31 Dec 2017	Book value € million	Fair value € million
Wellington Emerging Local Debt USD Class G Accumulating Unhedged	335,8	337,9
Luxembourg		
BGF Emerging Markets Bond Fund I2 USD	168,6	168,6
GS Growth & Emerging markets Debt Local I USD Fund	349,9	355,2
Symbiotics-Seb Micro Fd V A/C-NH	25,1	25,1
Norway		
Pareto Nordic Corporate Bond I NOK SICAV	43,7	43,7
United States		
iShares Euro HY Corp Bond ETF	155,3	157,8
iShares iBoxx Corporate ETF	351,9	351,9
iShares iBoxx USD HY Corp ETF	196,4	196,4
OHA Finlandia Credit Fund L.P.	419,6	476,5
Vanguard Intermediate-Term Corporate Bond ETF	123,9	123,9
Fixed-income funds, total	2,731,5	2,810,7
Equity funds		
Finland		
Mandatum European Small & Mid Cap Equity Fund	9,0	10,6
Nordea 1 Emerging Stars Fund	123,2	145,8
Nordea 1 Global Climate and Environment Fund BI EUR	70,0	70,9
Taaleri Rhein Value Equity A	15,6	29,2
Germany		
iShares EURO STOXX 50 UCITS ETF DE	342,4	342,4
iShares EURO STOXX Banks 30-15 ETF	22,1	22,1
iShares EURO STOXX UCITS ETF DE	12,2	12,7
iShares STOXX Europe 600 UCITS ETF DE	449,5	449,5
Ireland		
Hermes Global Emerging Markets Fund Class F USD	109,9	149,4
iShares Russell 2000 ETF	186,9	192,9
Vanguard Emerging Markets Stock Index Fund	392,0	515,3
Vanguard Japan Stock Index Fund JPY	100,4	107,3
Japan		
iShares Core Nikkei 225 ETF	25,2	29,7

31 Dec 2017	Book value € million	Fair value € million
Nomura ETF – Nikkei 225	13,4	14,0
Nomura ETF Topix	17,4	21,0
Luxembourg		
Blackrock Asian Growth Leaders Fund I2 USD	78,5	86,1
East Capital Deep Value Fund Class A62 USD	0,8	0,9
Henderson Horizon Pan European Smaller Cies M2 EUR	54,7	55,1
Macquarie Asia New Stars Fund USD	44,1	57,9
RAM Emerging Markets Equities class I (P)	115,8	124,2
SSgA Enhanced Emerging Markets Equity Fund	230,4	329,2
SSGA Emerging market SRI Enhanced EQ Fund	101,5	103,2
William Blair US Small Mid Cap Growth Fund	57,0	103,7
Sweden		
East Capital Financials Investors AB	1,3	1,3
United Kingdom		
Threadneedle Pan European Smaller Companies Fund Institutional Accumulation	61,1	61,6
United States		
Fidelity Asian Special Situations Fund SS A ACC USD	65,1	98,6
First Trust Nasdaq Cybersecurity ETF	16,9	17,9
Guggenheim S&P 500 Equal Weight ETF	202,2	209,5
iShares Core FTSE 100 UCITS ETF	200,8	205,9
iShares Core MSCI Emerging Markets ETF	307,8	326,8
iShares Core S&P 500 ETF	395,7	395,7
iShares MSCI Canada ETF	9,4	10,0
iShares S&P 500 Value ETF	9,9	11,0
PowerShares KBW Bank Portfolio	31,3	31,3
Powershares QQQ Nasdaq 100 ETF	200,7	200,7
SPDR S&P 500 ETF TRUST	1,308,5	1,353,3
SPDR S&P Regional Banking ETF	44,9	44,9
Vanguard Institutional Index Fund Plus Shares	665,2	1,330,4
Vanguard S&P 500 ETF	1,219,8	1,222,7
Other	0,0	0,0
Equity funds, total	7,312,4	8,494,5
Private equity funds		

31 Dec 2017	Book value € million	Fair value € million
Australia		
CHAMP IV Funds	20.3	28.3
Cayman Islands		
1901 (Offshore) Partners I L.P.	21.2	26.0
Alinda Infrastructure Parallel Fund I L.P.	2.1	2.1
Alinda Infrastructure Parallel Fund II L.P.	53.7	62.1
BDCM Offshore Opportunity Fund IV Ltd	35.8	35.8
CDH Fund V L.P.	29.0	37.6
Elbrus Capital Fund I L.P.	32.5	32.5
Elbrus Capital Fund II L.P.	35.2	45.9
Gamut Investment Overseas Fund I L.P.	6.2	6.2
JPW TopCo L.P.	8.3	8.3
MBK Partners Fund II L.P.	12.1	17.1
MBK Partners Fund III L.P.	57.8	79.1
MBK Partners Fund IV L.P.	17.1	17.1
MBK Partners L.P.	10.2	13.2
Navis Asia Fund VII L.P.	52.2	62.1
Onex Richmond Co-Investment L.P.	13.4	13.4
Primavera Capital Fund II L.P.	58.4	60.9
Strategic Value Special Situations Feeder Fund III L.P.	64.2	85.7
Strategic Value Special Situations Feeder Fund IV L.P.	4.2	4.5
TPG Asia VI L.P.	63.6	64.9
TPG Wireman Co-Invest L.P.	17.3	17.3
VMPIC I L.P.	16.3	16.3
Finland		
AC Cleantech Growth Fund I Ky	10.4	10.4
MB Equity Fund IV Ky	11.4	24.0
MB Equity Fund V Ky	4.6	4.6
Nordic Mezzanine Fund III L.P.	0.9	7.3
Power Fund II Ky	2.3	2.3
Power Fund III Ky	3.2	3.2
Selected Mezzanine Funds I Ky	1.1	2.0
Selected Private Equity Funds I Ky	1.1	4.9
Sponsor Fund III Ky	4.3	4.3
Sponsor Fund IV Ky	10.1	10.1
Vaaka Partners Buyout Fund III Ky	0.8	0.8

31 Dec 2017	Book value € million	Fair value € million
France		
Ethypharm Co-Invest FPCI	13,4	17,0
Guernsey		
Adagio Co-Invest L.P.	7,5	8,3
Auda Asia II L.P.	14,9	18,9
Auda Secondary II Feeder Fund L.P.	4,8	4,8
CapMan Buyout X Fund A L.P.	19,2	23,0
CapMan Russia Fund L.P.	7,2	7,2
CapMan Technology Fund 2007 L.P.	2,2	2,2
CapVest Equity Partners II L.P.	9,7	12,5
Cinven Cullinan L.P.	7,5	7,5
EQT Aslan Co-Investment L.P.	15,0	15,8
Kool Investment L.P.	11,0	11,0
Macquarie European Infrastructure Fund II L.P.	54,4	103,1
Macquarie European Infrastructure Fund III L.P.	10,0	91,7
Permira Europe IV L.P.2	8,8	11,1
Jersey C.I.		
Alpha Private Equity Fund 5 – JABBAH CI L.P.	4,3	4,3
CapMan Buyout IX Fund A L.P.	18,2	18,2
CapVest Equity Partners III L.P.	5,9	13,6
Luxembourg		
Atos Medical Co-Invest SCSp	15,0	17,9
Calypso International S.à.r.l.	1,9	5,8
EQT Infrastructure Fund III (No.1) SCSp	17,9	17,9
EQT Prime Co-Investment SCSp	12,5	12,5
MTN Infrastructure Co-Invest 1 SCSp	8,3	8,3
Netherlands		
EQT Mid Mkt US Co-Inv Coöperatief U.A. – Class A	15,0	15,0
EQT Mid Mkt US Co-Inv Coöperatief U.A. – Class C	12,5	12,5
South Korea		
Dasan III Inc.	16,7	44,1
Taiwan		
Crown Co-Investor L.P.	16,6	42,7
United Kingdom		
Abingworth Bioventures III B L.P.	0,8	0,8

31 Dec 2017	Book value € million	Fair value € million
EQT Deck Co-Investment L.P.	13,9	14,5
EQT Infrastructure II No. 2 L.P.	37,4	39,7
EQT Infrastructure No. 1 L.P.	6,7	6,7
EQT Kiwi Co-Investment L.P.	14,9	16,8
EQT V No 1 L.P.	6,3	6,3
EQT VI No 1 L.P.	33,2	43,8
EQT VII No 1 L.P.	42,8	44,9
IK VII L.P.	38,2	44,1
IK VIII Fund No.3 L.P.	26,1	26,6
Industri Kapital 2007 Ltd III	2,3	2,3
Mezzanine Management Fund IV A L.P.	0,5	0,5
PAI Europe VI-1 L.P.	51,4	51,7
Permira VI L.P. 1	21,6	21,6
The Fifth Cinven Fund (No. 1) L.P.	33,7	41,2
The Fourth Cinven Fund (No. 4) L.P.	0,6	0,6
The Sixth Cinven Fund (No. 1) L.P.	14,3	14,3
United States		
American Global Logistics Co-Investment Blocker Corp	4,5	4,5
AP Socrates Co-Invest L.P.	8,4	8,4
Apollo Investment Fund VII Euro Holdings L.P.	19,5	19,5
Apollo Overseas Partners (Delaware) VIII L.P.	57,4	66,5
Behrman Capital IV L.P.	27,1	34,1
Blackstone Capital Partners IV L.P.	4,8	4,8
Blackstone Capital Partners V L.P.	9,0	9,0
Blackstone Capital Partners VI L.P.	88,0	111,4
Blackstone Capital Partners VII L.P.	18,4	18,4
Blackstone TN Partners L.P.	14,3	14,3
Blackstone V Co-Investors L.P.	2,3	2,3
BlueRun Ventures L.P.	2,2	2,2
GC Athena Co-Investment L.P.	13,6	15,8
Genstar Capital Partners VII L.P.	52,1	67,2
Genstar Capital Partners VIII BL (EU) L.P.	7,4	7,4
Green Equity Investors IV L.P.	1,0	1,0
Green Equity Investors V L.P.	14,0	24,9
Hamilton Lane Co-Investment Feeder Fund III L.P.	64,3	69,9
Hamilton Lane Co-Investment Fund L.P.	13,7	13,7
Hamilton Lane Co-Investment Fund II L.P.	26,2	49,7

31 Dec 2017	Book value € million	Fair value € million
Hamilton Lane Parallel Investors L.P.	72.5	87.8
I Squared Nautilus Partners L.P.	14.7	14.7
IT Co-Investment Holdings Inc.	4.5	12.5
Kelso Hammer Co-Investment L.P.	15.2	21.6
Kelso Investment Associates IX L.P.	52.3	63.9
Kelso Investment Associates VII L.P.	0.8	0.8
Kelso Investment Associates VIII L.P.	37.8	38.8
Kelso Sirius Co-Investment L.P.	4.5	8.8
K-P Co-Investment L.P.	19.1	20.5
MCP Co Invest L.P.	8.5	16.2
MHR Institutional Partners IV L.P.	20.9	20.9
Moelis Capital Partners Opportunity Fund I L.P.	0.7	24.6
Moelis Capital Partners Opportunity Fund I-B L.P.	10.5	10.5
New Mountain Partners IV L.P.	68.9	82.9
New Mountain Partners V L.P.	4.3	4.3
NexPhase Capital Fund III L.P.	16.7	16.7
NM Z Topco L.L.C.	4.2	12.2
Nokia Venture Partners II L.P.	2.7	2.7
Onex Partners II L.P.	4.1	4.1
Onex Partners III L.P.	30.4	50.6
Onex Partners IV L.P.	54.9	54.9
OSYS Holdings L.L.C.	6.3	8.0
Platinum Equity Capital Partners II L.P.	18.8	21.2
Platinum Equity Capital Partners III L.P.	28.4	43.2
Platinum Equity Capital Partners IV L.P.	20.7	20.7
Platinum Equity SCRS Co-Investors L.L.C.	8.3	8.3
RCM Co-Investment Blocker Corp	6.4	6.4
Saw Mill Capital Partners L.P.	9.5	22.6
TA XII-B L.P.	12.5	15.2
TCW Crescent Mezzanine Partners V L.P.	6.4	9.5
TPG Growth III (B) L.P.	22.1	22.1
Venari Co-Investment L.L.C.	5.5	5.5
Vista Equity Partners Fund VI-A L.P.	59.7	59.7
Warburg Pincus China L.P.	11.4	11.4
Warburg Pincus Energy L.P.	44.2	44.2
Warburg Pincus Private Equity IX L.P.	1.0	9.8
Warburg Pincus Private Equity X L.P.	25.4	58.4

31 Dec 2017	Book value € million	Fair value € million
Warburg Pincus Private Equity XI L.P.	61.4	90.6
Warburg Pincus Private Equity XII-E L.P.	43.6	43.6
Other	2.7	17.6
Private equity funds, total	2,647.8	3,366.8
Funds, total	18,535.0	23,221.9
Parent Company, total	23,640.7	31,728.7
The Group's shareholding deviates from the Parent Company's as follows:		
Kaleva Mutual Insurance Company guarantee capital	3.3	3.3
Ruohoparkki Oy	3.3	3.3
Vaasan Toripysäköinti Oy	2.3	2.3
Other	3.1	3.1
Group, total	23,652.7	31,740.8

17. Changes in tangible and intangible assets, Parent Company

	Intangible assets Other intangible assets	Tangible assets Equipment	Tangible assets Other tangible assets	Total
31 Dec 2017, € million				
Acquisition cost, 1 Jan	24.7	6.8	0.9	32.4
Completely depreciated in the previous year	-20.3	-0.3	0.0	-20.5
Increase	0.3	2.1	0.0	2.4
Decrease	0.0	0.0	0.0	0.0
Acquisition cost, 31 Dec	4.8	8.7	0.9	14.3
Accumulated depreciation, 1 Jan	-23.7	-4.7	0.0	-28.4
Completely depreciated in the previous year	20.3	0.3	0.0	20.5
Depreciation for the financial year	-0.6	-1.0	0.0	-1.7
Accumulated depreciation, 31 Dec	-4.1	-5.5	0.0	-9.6
Book value 31 Dec 2017	0.7	3.2	0.9	4.7
Book value 31 Dec 2016	1.0	2.1	0.9	4.0

Group figures are the same as those of the Parent Company.

18. Loan receivables itemised by guarantee

	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
31 Dec, € million				
Bank guarantee	66.9	96.5	66.9	96.5
Guarantee insurance	103.6	122.3	103.6	122.3
Other guarantee	42.6	62.0	42.6	62.0
Remaining acquisition cost, total	213.1	280.8	213.1	280.8
Unsecured, remaining acquisition cost, total	1,000.0	879.9	1,000.0	879.9

In the comparison figures, loans with a personal guarantee have been transferred to unsecured loans.

19. Total pension loan receivables itemised by balance sheet item

	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
31 Dec, € million				
Loans guaranteed by mortgages	215.3	241.1	215.3	241.1
Other loan receivables	147.6	191.7	147.6	191.7
Remaining acquisition cost, total	362.9	432.9	362.9	432.9

20. Loans to related parties

	Parent Company 2017	Parent Company 2016
31 Dec, € million		
Loans to Group companies	572.5	623.3

The loan period is usually at most 15 years, and the interest rate is mainly tied to a fixed interest rate or technical interest rate.

21. Derivatives

	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
31 Dec, € million				
Other receivables				
Advance payments for option contracts	123.3	9.5	123.3	9.5
Other liabilities				
Advance payments for option contracts	27.5	7.2	27.5	7.2
Value adjustments of derivatives	58.6	87.0	58.6	87.0

22. Liabilities to Group companies, other liabilities

	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
31 Dec, € million				
Other liabilities	0.2	0.4	0.2	0.4

23. Technical provisions

	Parent Company 2017	Parent Company 2016	Group 2017	Group 2016
31 Dec, € million				
Provision for unearned premiums				
Future pensions	16,310.5	16,243.9	16,310.5	16,243.9
Provision for future bonuses	2,264.5	-578.3	2,264.5	-578.3
Provision for current bonuses	161.9	122.0	161.9	122.0
Equity-linked provision for current and future bonuses	769.0	324.0	769.0	324.0
Total provision for unearned premiums	19,505.9	16,111.6	19,505.9	16,111.6
Provision for claims outstanding				
Current pensions	17,190.4	16,322.3	17,190.4	16,322.3
Equalisation provision	0.0	1,067.4	0.0	1,067.4
Total provision for claims outstanding	17,190.4	17,389.6	17,190.4	17,389.6
Total technical provisions	36,696.2	33,501.3	36,696.2	33,501.3

24. Solvency capital

	2017	2016
31 Dec, € million		
Capital and reserves	124.2	118.9
Interest on guarantee capital proposed for distribution	-0.6	-0.7
Valuation difference between fair values on assets and book values of balance sheet items	9,148.1	9,626.0
Provision for future bonuses	2,264.5	-578.3
Equalisation provision	0.0	1,034.5
Other liabilities not included in the balance sheet	-1.2	
Intangible assets	-0.7	-1.0
	11,534.4	10,199.5
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17	2,273.3	1,818.2

25. Guarantees and liabilities, Parent Company

	2017	2016
31 Dec, € million		
Guarantees given on own behalf		
Assets pledged as security for derivatives ¹⁾	3.1	510.6
Guarantees received		
Assets pledged as security for derivatives ²⁾	262.2	0.3

¹⁾ Given cash guarantees required for the clarification of derivative contracts to the value of EUR 3.1 million are included in the cash at bank and in hand balance sheet item.

²⁾ Received cash guarantees required for the clarification of derivative contracts to the value of EUR 262.2 million are included in the Other liabilities balance sheet item.

26. Capital and reserves

31 Dec, € million	Parent Company 2017	Group 2017
Guarantee capital	11.9	11.9
Other reserves, 1 Jan	100.3	100.3
Profit brought forward from 2016	5.5	5.5
Other reserves, 31 Dec	105.8	105.8
Profit/loss brought forward	6.7	-53.5
Transfer to contingency fund	-5.5	-5.5
Distributed interest on guarantee capital	-0.7	-0.7
	0.6	-59.7
Profit/loss for the financial year	5.9	2.8
Total capital and reserves	124.2	60.8

27. Capital and reserves after proposed profit distribution

31 Dec, € million	Parent Company 2017
Holders of guarantee capital	
Guarantee capital	11.9
Proposed distribution to holders of guarantee capital	0.6
Policyholders	111.7
Total	124.2

28. Distributable profits

31 Dec, € million	Parent Company 2017
Profit for the financial year	5.9
Other capital and reserves	
Other reserves	105.8
Profit brought forward	0.6
Total distributable profits	112.3

29. Guarantee capital

31 Dec 2017, € million	Number	Guarantee capital
Mandatum Life Insurance Company Ltd.	14	2.4
Sampo Plc	57	9.6
	71	11.9

30. Guarantees and liabilities, Parent Company

31 Dec, € million	2017	2016
Contingent liabilities and liabilities not included in the balance sheet		
Derivatives		
Derivatives for hedging purposes		
Currency derivatives		
Forward contracts		
Underlying instrument, absolute value	227.1	321.6
Underlying instrument, risk-adjusted value	-208.0	-321.6
Fair value	2.1	-7.4
Currency swap contracts		
Underlying instrument, absolute value	13,153.9	19,996.6
Underlying instrument, risk-adjusted value	-12,992.1	-17,461.0
Fair value	168.1	-366.3
Derivatives for other than hedging purposes		
Interest rate derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	2,133.2	5,355.0
Underlying instrument, risk-adjusted value	517.8	4,407.7
Fair value	4.5	0.1
Option contracts		
Bought		
Underlying instrument, absolute value		200.0
Underlying instrument, risk-adjusted value		62.6
Fair value		0.8
Credit risk derivatives		
Underlying instrument, absolute value	400.0	0.7
Underlying instrument, risk-adjusted value	400.0	0.7
Fair value	50.1	0.1
Interest rate swap contracts		
Underlying instrument, absolute value	4,183.8	3,432.6
Underlying instrument, risk-adjusted value	826.6	1,532.6
Fair value	-8.9	3.5

31 Dec, € million	2017	2016
Currency derivatives		
Option contracts		
Bought		
Underlying instrument, absolute value	383.4	469.0
Underlying instrument, risk-adjusted value	48.2	-28.6
Fair value	2.2	2.7
Sold		
Underlying instrument, absolute value	963.0	1,220.1
Underlying instrument, risk-adjusted value	-55.3	35.3
Fair value	-1.5	-3.6
Forward and futures contracts		
Underlying instrument, absolute value	1,374.9	1,834.7
Underlying instrument, risk-adjusted value	200.5	330.6
Fair value	7.9	-2.5
Currency swap contracts		
Underlying instrument, absolute value	1,487.6	582.0
Underlying instrument, risk-adjusted value	553.0	143.8
Fair value	-0.8	1.9
Equity derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	615.9	466.2
Underlying instrument, risk-adjusted value	254.4	147.0
Fair value	-3.2	1.2
Option contracts		
Bought		
Underlying instrument, absolute value	385.0	524.7
Underlying instrument, risk-adjusted value	136.6	55.5
Fair value	9.5	6.8
Sold		
Underlying instrument, absolute value	511.3	98.6
Underlying instrument, risk-adjusted value	-120.4	0.3
Fair value	-3.8	0.5

31 Dec, € million	2017	2016
Other derivatives		
Forward and futures contracts		
Underlying instrument, absolute value	735.1	741.0
Underlying instrument, risk-adjusted value	7.4	41.7
Fair value	2.7	-1.5
Option contracts		
Bought		
Underlying instrument, absolute value	38.3	0.0
Underlying instrument, risk-adjusted value	-8.3	0.0
Fair value	0.1	0.0
Sold		
Underlying instrument, absolute value	57.4	0.0
Underlying instrument, risk-adjusted value	6.0	0.0
Fair value	0.5	0.0
Swap contracts		
Underlying instrument, absolute value	1,000.6	94.9
Underlying instrument, risk-adjusted value	1,000.6	94.9
Fair value	3.1	0.0
Total		
Underlying instrument, absolute value	27,650.3	35,337.5
Underlying instrument, risk-adjusted value	-9,433.2	-10,958.7
Fair value	232.4	-363.7

The fair values of quoted derivatives have been calculated using the price quoted on the stock exchange. The fair values of other derivatives are based on market prices of corresponding quoted contracts or on estimates of the fair values presented by outside parties. Most of the derivative contracts will mature in 2018. Interest rate swap contracts have longer durations and will mature between 2022 and 2037.

Currency hedging

Currency hedging is used to protect against a fall in the value of foreign-currency-denominated investments due to the strengthening of the euro. Varma hedges its open exchange rate risks in all other asset classes except equity investments. The hedge accounting model used is fair value hedge. The risk that is hedged is the exchange rate risk. Varma hedges its foreign-currency-denominated investment position, and the amount of the position changes according to the investment decisions and the market situation. The hedging instruments used are foreign currency forwards, foreign currency swaps and foreign currency options, used to sell the currency risks that are included in Varma's investment portfolio. The duration of the financial instruments hedging against the exchange rate risk is mainly less than one year.

The hedged item and the hedging instrument can be considered to have an inverse correlation in terms of the hedged amount and the currency. The effectiveness of hedging is assessed day by day and currency by currency by means of hedge effectiveness testing. The hedge effectiveness testing shows the negative correlation between the hedged item and hedging instrument. Hedge effectiveness (negative correlation) must be within the range of 80–125%.

Accounting treatment complies with chapter 5, section 2 of the Accounting Act. Derivative contracts for hedging purposes are treated as items not included in the balance sheet when the fair value of the derivative contract is positive on the closing date. Derivative contracts with a negative fair value that are used for hedging purposes are treated as items not included in the balance sheet when their volume at any given moment is below the maximum hedging ratio established in the derivatives policy.

Varma applies continuous retrospective assessment of the effectiveness of derivative contracts. Furthermore, as part of its risk management activities Varma dynamically recalibrates currency hedges on a daily basis, if needed.

Currencies that made up a significant part of investments' currency distribution on 31 December:

	USD 2017	SEK 2017	NOK 2017	USD 2016	SEK 2016	NOK 2016
31 Dec, € million						
Foreign-currency-denominated investments	22,963.1	693.3	349.8	21,703.7	995.1	361.8
of which investments left unhedged against currency risk	10,410.5	498.5	214.0	0.0	0.0	0.0
of which investments hedged against currency risk	12,552.6	194.8	135.8	21,703.7	995.1	361.8
Hedging currency derivatives	-12,471.9	-192.3	-93.6	-14,741.3	-904.5	-219.9
Non-hedging currency derivatives	-290.2	148.2	504.0	-34.4	79.4	190.7
Open currency position	10,201.1	649.3	760.3	6,928.0	170.0	332.7
Hedging ratio according to the hedging policy	99%	99%	69%	68%	91%	61%

The principles applied to the use of derivative contracts and the risk management strategy for derivatives are described in the note on risk management.

31. Guarantees and liabilities, Parent Company

31 Dec, € million	2017	2016
Investment commitments		
Private equity funds	2,169.9	2,168.0
Other funds	1,501.9	1,127.4
Pension liabilities		
Pension commitments (recognised as debt)	1.5	5.8
The supplementary pension insurance TEL-L discontinued at the end of 2016. Varma and the persons covered by said pension system have agreed on lump-sum compensation, which was paid in 2017.		
Leasing and renting liabilities		
Expiring next year	0.6	0.6
Expiring later	0.6	0.6
Other liabilities		
Varma Mutual Pension Insurance Company belongs to a value-added tax liability group together with Veritas Pension Insurance, Tieto Esy Oy and real estate companies owned by the aforementioned companies.		
Group members are collectively responsible for the value-added tax payable by the group.	1.9	2.1
Obligation to verify VAT allowances of real estate investments	44.3	58.2
Loaned securities		
Bonds		
Nominal value	1,790.9	1,667.9
Remaining acquisition cost	1,827.8	1,690.2
Fair value	1,853.5	1,681.3
Equities		
Remaining acquisition cost	411.8	0.0
Fair value	450.4	0.0

Loaned securities are included in the balance sheet. The counterparty to the lending operations is the custodian bank, Northern Trust Co. London, with which borrowers post collateral. The collateral of the loans are securities. The loans can be cancelled at any time.

32. Balance sheet and income statement at fair values

Balance sheet at fair value, Parent Company

31 Dec, € million	2017	2016	2015	2014
ASSETS				
Investments	45,409	42,852	41,293	40,039
Receivables	747	604	654	545
Equipment	5	4	11	18
	46,161	43,460	41,958	40,601
LIABILITIES				
Capital and reserves	124	118	113	107
Valuation differences	9,147	9,625	9,755	8,213
Equalisation provision	0	1,034	1,171	1,180
Provision for future bonuses	2,265	-578	-1,083	753
Other liabilities not included in the balance sheet	-1	0	0	0
Total solvency capital	11,534	10,199	9,956	10,252
Provision for current bonuses (for client bonuses)	162	122	115	117
Equity-linked provision for current and future bonuses	769	324	1,402	1,007
Actual technical provision	33,501	32,599	30,260	29,013
Total	34,270	32,923	31,662	30,020
Other liabilities	195	215	225	212
	46,161	43,460	41,958	40,601

Income statement at fair value, Parent Company

1 Jan–31 Dec, € million	2017	2016	2015	2014
Premiums written	4,867	4,675	4,576	4,344
Claims paid	-5,248	-5,005	-4,835	-4,661
Change in technical provisions	-1,324	-1,063	-1,463	-1,040
Net investment income	3,373	1,982	1,713	2,729
Total operating expenses	-129	-138	-145	-142
Other result	-8	14	-3	0
Taxes	-7	-8	-8	-7
Total result ¹⁾	1,524	457	-164	1,223

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

Risk management

Risk management as an element of internal control

Internal control is a process that aims to ensure:

- the achievement of the goals and objectives set,
- economical and efficient use of resources,
- sufficient management of operations-related risks,
- reliability and correctness of financial and other management information,
- compliance with laws and regulations,
- compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices,
- the safeguarding of operations, information and assets, and
- the existence of sufficient and appropriately organised manual and IT systems in support of operations.

Risk management is an element of internal control and involves the identification, assessment, limitation and control of risks arising from and closely connected with the company's business operations. Internal control is a management tool that helps the company to function efficiently, economically and reliably.

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative targets for its core functions. Varma's risk management plan takes into account what the Board of Direc-

tors decides on the content and organisation of internal control, on implementation of the internal control sectors and principles and on the joint guidelines for the internal control of the Group.

The Board of Directors follows a charter, which defines its core tasks and operating principles. As part of the company's internal control function, the Board deals with such matters as the company's strategy, basic strategies connected with organisational development and management, risks, financial reporting, budgets, investments, pension insurance business, action plans, and key development projects.

Risk management – organisation, responsibilities, supervision and reporting

The Supervisory Board's task is to supervise the administration of Varma, which is entrusted to the Board of Directors and the President and CEO.

The Board of Directors annually approves the risk management system that covers all operations, the principles of internal control, the risk and solvency assessment, and the contingency plan. The Board also assesses whether the company's internal control is appropriately arranged. The Board of Directors' Audit Committee supervises financial and other reporting and the status of internal control, e.g. by tracking the work in progress of internal and external auditing and by reviewing a variety of audit reports. The President and CEO monitors the company's risks

in accordance with the principles of the risk management system, and the principles laid down in investment and contingency plans approved by the Board of Directors.

The Executive Group monitors the risk management processes and maintains and develops guidelines for risk management and contingency planning.

Risks are reported to the Board of Directors quarterly and, if the risks have changed significantly, without delay.

The company's supervisory auditors and the person in charge of the internal audit take part in the meetings of the Audit Committee.

Managers are responsible for organising internal control, risk management, the legal compliance function and good governance in their areas. This ensures that internal control is fully integrated into company operations. The detailed plans and guidelines of each business function supplement the plans and principles approved by the Board of Directors. Risk-taking limits and the indicators used are laid down and monitored separately by each function. Each function is responsible for implementing action plans and budgets, and for operating efficiency, the supervision of outsourced operations and preparing for unsettled conditions. Information Management provides the expertise for the development, maintenance, project management, infrastructure and risk management of systems that are the responsibility of the business functions. The targets, responsibilities and means of information security management are defined in the information security policy

approved by the IT Executive Group. Information Management maintains a separate recovery plan relating to IT disruption.

The function responsible for preparing and implementing investment decisions (Investment Operations) and the supervisory and reporting function (Financial Administration and Actuaries) have been separated. The decision-making powers and the maximum limits for investments are presented as separate risk limits in the investment plan. The risk control function, which is independent of the Investment Operations, is responsible for monitoring investment risks in accordance with the limits set by the Board of Directors, including a financial-theory- and risk-theory-based assessment of investment risks and the reporting of results. The independent risk control function is involved in reviewing the changes in the investment plan and in the implementation process of new investment products, controls through random inspections instrument pricing, is in charge of calculating the solvency limit and reports on the impact of derivatives on the solvency position.

The Chief Financial Officer is responsible for the independent monitoring of investment positions and risks. Financial Administration reports monthly to the Board of Directors on observations relating to investment risk management. Major observations are reported to the management without delay.

According to the Act on Insurance Companies, the company's responsible actuary must prepare, for the purpose of arranging

risk management and investment operations, a statement for the company's Board of Directors on the requirements posed by the nature of and return requirement on technical provisions and maintaining the company's solvency and liquidity, and on the appropriateness of the company's underwriting risk management, taking into account the nature and scope of the company's operations. Pursuant to the Finnish Employee Pension Insurance Companies Act, the company's actuary must provide a written statement on whether the drafted investment plan meets the requirements posed by the nature of technical provisions on the company's investment operations. The tasks of the investment risk management within the Actuaries include the identification of the risks contained in the investments, measurement of risk levels and reporting on these. The officer responsible for investment risk management within Actuaries reports to the Investment Committee on a monthly basis.

Investment risks and the impacts their realisation would have on Varma's risk-bearing capacity are monitored in a monthly report by the officer responsible for investment risk management in the Actuaries function. The Actuaries function also reports to the Board of Directors on Varma's risk level in relation to the risk level of the earnings-related pension system.

Investment management is responsible for arranging the handling of the investment portfolio and operative investment risk management. The risk management function of Investment Operations monitors the trends in the portfolio position vis-à-vis the risk limits defined in the investment plan and the basic allocation, and reports on them on a daily basis. Adherence to decision-making powers

and allocation and investment assignments are monitored by the Investment Operations on a daily basis.

The Financial Administration coordinates the identification and management of operational and other risks in different functions. It also prepares a summary of the risk assessments drawn up by the functions. The Chief Financial Officer is in charge of monitoring operational risks.

The Compliance Officer reports to the Board of Directors on compliance with the insider guidelines. In order to manage the risks relating to malpractice, Varma emphasises the continuous observing of ethical operating principles and applies different control methods for protection against malpractice risks. Each function bears responsibility for managing risks relating to malpractice. Varma has specific guidelines in place to prevent money laundering and the financing of terrorism.

Varma complies with the Finnish Corporate Governance Code for listed companies where applicable.

Goals and general risk management principles

Risk management aims to secure the rights of pensioners and policyholders. Risks relating to the company's operations are identified, assessed, limited and supervised, taking a long-term perspective. Risk management ensures that if risks are realised, they will not cause significant financial losses, or endanger Varma's customer service and other services, the continuity of operations, the attainment of the company's business targets, or affect trust in the company. Varma applies efficient and reliable processes both internally and when co-operating with its partners.

In order to ensure efficient risk management, the company relies on, among other things, the careful preparation of decisions, use of experts, risk insurance, detailed job descriptions, approval routines, decentralisation of functions and tasks, physical control, data protection and security, personnel training, planning process, maintenance of different backup arrangements, distribution of confidential information and limiting access to necessary information and limiting access to those who need it. As tasks, power of decision and responsibility are divided, no one person is allowed to deal with a single matter throughout the handling chain, whereupon potentially dangerous combinations have been separated. Actions are subject to independent supervision and approval mechanisms. Personnel are not allowed to participate in the preparation of or decision-making on a matter concerning themselves, their family or friends. IT systems are assigned owners from the line organisation, and the functioning of the IT systems is monitored by the business functions and the IT Executive Group.

When agreeing on the terms of outsourcing, Varma's responsibility for the outsourced functions, e.g. for conforming to regulations, continuous and disturbance-free business operations and contingency planning, are taken into account. The function in charge of outsourcing must take into consideration clear contracts and processes, supervision of the outsourced activities and risks relating to the outsourcing.

Varma also observes good insurance principles and treats all policyholders in a fair manner. All business transactions with policyholders are on market terms. Particular attention is paid to transactions covering the

financing of a policyholder's operations, real estate and other transactions, and leases.

The Corporate Governance Report drawn up by the Board and the Salary and Remuneration Statement are published on Varma's website.

Business risks

The company's core processes comprise insuring entrepreneurs and employees, maintaining workability, securing pensions and retiring. Essential risks are related to investments, information management, the networked operation of the pension system, and to adjusting the control system and operating models to changes in the operating environment and legislation.

Varma's most important operational requirement is to manage all pension benefits and insurance transactions correctly and on time. Financially the most important risks are those concerning investment operations.

The pension system may also be affected by risks connected with its structure and functioning, and the country's economy. These are discussed in more detail in the section Other risks.

Varma has one head office, a simple group structure, statutory products, a small number of staff relative to its turnover, and a low number of transactions relative to its investment volume. Varma analyses its risks from bottom to top and from top to bottom so that it can ensure that all company risks are comprehensively covered from different perspectives.

Insurance risks

The Finnish earnings-related pension system functions on a partially funded basis with respect to the Employees Pensions Act (TyEL).

Around one fifth of the pensions paid each year is previously funded, while the remaining part is a pooled component, which is covered by annually collected insurance contributions. The funded parts of the pension are the responsibility of individual pension institutions, while the pooled components are the joint responsibility of all the pension institutions.

The provision for pooled claims contained in the technical provision acts as a buffer for jointly managed insurance business. The amount of the provision for pooled claims in the entire earnings-related pension system is estimated to correspond to nearly 80% of the following year's PAYG pension expenditure, but a relatively rapid decline is foreseen. The clearing system eliminates the effects caused by the varying development of the number and age structure of employees insured by different pension insurance institutions. Thus the cost of the pooled components presents no risk for the individual pension institution.

Basic pensions under the Self-employed Persons Pensions Act YEL are financed in full by the insurance contributions collected annually in accordance with the pay-as-you-go system and by the State's contribution and do not present a risk for the individual pension institution.

The level of earnings-related pension cover is based on a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy that applies to all earnings-related pension insurance institutions. The costs of pension provision are borne by employers

and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. Under the TyEL act, the calculation bases must be secure and, should the base for technical provisions prove insufficient for all earnings-related pension insurance institutions, the technical provisions can be supplemented with a clearing system. An example of this is the adjustment of the mortality model at the end of 2016 which will increase old-age pension liabilities.

The risks of Varma's insurance business are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the company's responsibility. Because common calculation bases can be changed annually, and the clearing system acts as a buffer for all insurance risks concerning earnings-related pension insurance institutions, the risk for the individual pension institution lies in its deviation from the average of the pension system.

Until the end of 2016, the equalisation provision was used to prepare for fluctuations in the annual insurance business results.

At the beginning of 2017, the equalisation provision was incorporated in other solvency capital and is no longer monitored as a separate item. Insurance risks are carried by the provision for future bonuses, which is a component of the solvency capital, and they are also taken into account in the calculation of the solvency limit.

All supplementary pension insurances under YEL ended years ago, and pension liabilities related to these were transferred to the joint liability system on 1 January 2014. Supplementary pension insurances under TEL ended on 31 December 2016, and the pension liabilities were transferred to the joint liability system on 1 January 2017.

Technical provisions are calculated per person and insurance during the spring following the financial year in an annual

calculation, after employers have provided the required earnings data. The Finnish Centre for Pensions carries out the clearing in the autumn following the financial year, at which time the remaining components of the technical provisions can be calculated. The calculation of the technical provisions in the Financial Statements is based on estimates.

According to the calculation, the structure of Varma's technical provisions on 31 December 2017 was as follows:

Technical provisions 31 Dec 2017

	€ million	%
TyEL basic insurance		
Provision for unearned premiums		
Future pension liabilities	16,292.1	44.4
Provision for future bonuses	2,264.5	6.2
Provision for current bonuses	161.9	0.4
Equity-linked provision for current and future bonuses	769.0	2.1
Total provision for unearned premiums	19,487.5	53.1
Provision for claims outstanding		
Current pension liabilities	16,699.5	45.5
Total provision for claims outstanding	16,699.5	45.5
TyEL basic pension insurance, total	36,187.0	98.6
TEL compliant supplementary pension insurance, total	490.5	1.3
YEL basic pension insurance, total	18.4	0.1
YEL compliant supplementary pension insurance, total	0.4	0.0
Total technical provisions	36,696.2	100.0

Neither the age structure of the employees insured by Varma nor the employers' size or lines of business deviate significantly from the average for all earnings-related pension institutions, and the company's equalisation provision is somewhat higher than the average. Thus Varma carries little risk relating to an atypical insurance portfolio.

Risk management in insurance business applies insurance technique analyses. Insurance risks are analysed using, for example, a risk assumption analysis (mortality, disability intensity), financial statements and business result analyses (insurance technique, distribution of responsibility) and, e.g., by compiling statistics on contribution losses and disability pension expenditure. In drawing up the financial statements, in particular the estimate of the insured's payroll may deviate from the final sum. This is reflected in the company's premium income and in the amount of technical provisions, but has little effect on the company's result.

The risks involved in technical provisions and the assets covering technical provisions, i.e. insurance and investment risks, are provided for by the solvency capital. The amount of solvency capital is monitored in relation to the technical provisions and to the solvency limit calculated on the basis of investment allocation. The calculation of the solvency limit also takes into account the insurance risk. Thus, solvency capital provides the company with a buffer especially for years in which the return on the assets covering the technical provisions is below the interest credited on technical provisions. The calculation of the solvency limit was renewed as of 1 January 2017. All investment and insurance risks are taken into account in the calculation more

comprehensively than before. At the same time, the separate regulation on the assets covering technical provisions were abolished.

A part of the interest credited on technical provisions (15% in 2017, and 20% from 1 January 2018) is determined retroactively and is based on the pension insurance companies' actual equity returns. An equity-linked provision for current and future bonuses, which is between -20% and +1% of the technical provisions, helps insurance companies to carry the risks involved. If a pension institution's equity returns differ from the average, it must employ its solvency capital to carry the risks that this involves. When the average equity return is calculated, the weight of the largest pension institutions is limited to 20%.

Investment Risks

Investment risk definitions

Varma's investment risks are described as follows.

Market risk is the fluctuation of the value of investments. The greatest market risk relates to equities. Other market risks are the interest rate risk, foreign currency risk, and the value change risk of real estate. Interest rate risk can be realised as a price risk, or as a reinvestment risk.

Inflation risk means the decrease of the real value or return of assets.

Credit risk refers to a danger of loss caused by the inability of the counterparty to honour its commitment.

Liquidity risk refers to the realisation of cash flow at a different amount than expected. A risk is also constituted by investments that cannot be converted into cash at all or can only be converted at a major loss.

Concentration risk refers to the increase in market, credit and liquidity risks as a result of insufficient diversification of the portfolio.

The model risk is constituted by the risks involved in risk measurement. In measurement it is necessary to make assumptions and simplifications concerning calculation methods and data, which may deviate from reality. There may also be risks related to the valuation of investments, and some of the investments' values are available with a delay.

General risk management principles for investments

Management of investment risks involves the determination of acceptable risk levels for different investment categories within the framework approved by the Board of Directors, continuous risk measurement using selected methods, comparison with acceptable levels, and reporting. Risk management also involves adaptation of the investment portfolio so that a correct risk/return ratio can be maintained. The nature of technical provisions and their return requirement are also taken into account when the time span and liquidity of investments are considered.

The investment plan approved by the Board of Directors defines, among other things, the following:

- the general security goals set for investments,
- the general principles for investment allocation,
- the return, diversification and liquidity goals of investments,
- the criteria for using derivative contracts, and
- the principles for arranging currency risk hedging.

At least once a year, the Board of Directors assesses the status and outlook of Varma's operating environment, the investment risks in terms of changes in value, expected returns, security, and the principles of foreign currency policy. The Board also assesses the requirements imposed by the nature of technical provisions on investment returns and liquidity, and on the foreign currency policy. The company's short-term and long-term risk-bearing capacity and the development of the company's solvency is also assessed by the Board at least once a year.

The basic allocation of the investment portfolio laid down in the investment plan approved by the Board of Directors also determines the basic level for the total portfolio risk. The investment portfolio may differ from the target allocation within the allocation limits specifically defined in the investment plan.

Varma aims to maximise the yield expectation at the selected total risk level, which means that investments will have optimum profitability to the extent allowed by the company's risk-bearing capacity. The portfolio's realised market risks and returns generated by investments are regularly monitored and reported in Investment Operations.

Furthermore, in making investment decisions, Varma takes into account the corporate responsibility principles and the ownership policy in which, among other factors, high-quality governance and the operational transparency of domestic and foreign companies are important selection criteria.

Varma's investment portfolio's risk structure

Varma's investment portfolio's structure by asset class and returns by asset class for 2017 are presented in the Notes to the Financial Statements.

Geographical allocation of investments in listed equities:

	Risk position 31 Dec 2017		Risk position 31 Dec 2016	
	€ million	%	€ million	%
American equities	6,019	35.9	3,715	25.1
European equities	3,306	19.7	2,915	19.7
Other areas	2,212	13.2	2,762	18.7
Finnish equities	5,216	31.1	5,400	36.5
Listed equities	16,753	100.0	14,793	100.0

Direct investments in real estate according to purpose of use:

	Risk position 31 Dec 2017		Risk position 31 Dec 2016	
	€ million	%	€ million	%
Residential premises	778	27.8	753	26.0
Business premises	548	19.6	570	19.7
Other premises	398	14.2	406	14.0
Industrial and warehouse premises	128	4.6	150	5.2
Office premises	945	33.8	1,019	35.2
Direct real estate investments	2,797	100.0	2,897	100.0

The vacancy rate of business premises was 7.0% (6.2%).

Bonds according to credit rating:

	Market value (excl. derivatives) 31 Dec 2017		Market value (excl. derivatives) 31 Dec 2016	
	€ million	%	€ million	%
AAA	340	3.4	721	6.3
AA	1,891	18.9	1,782	15.6
A	1,364	13.7	1,094	9.6
BBB+ - BBB-	3,088	30.9	3,015	26.4
BB+ or worse	2,638	26.4	3,138	27.5
Not rated	662	6.6	1,679	14.7
	9,981	100.0	11,429	100.0

Loans itemised by guarantee are presented in the Notes to the Financial Statements under Loan receivables.

Varma's foreign-currency-denominated investments amount to EUR 25,344 (25,306) million, accounting for 56% (59%) of all investments. The investments' currency risk is partly hedged through currency derivatives. The open currency position amounted to EUR 12,865 (8,004) million on 31 December 2017.

Varma's largest individual corporate risk position is in Sampo Plc, the market value of which was EUR 1,395 (1,528) million on the closing date.

The table below shows how falls in equity prices and real estate values and increases in interest rates would affect return and solvency in the financial statements.

	Value 31 Dec 2017	Effect Share prices -30%	Effect Interest rates +100 bp	Effect Real estate value -10%
Solvency capital, € million	11,534	6,236	10,745	11,175
% of technical provisions	133.5	119.0	131.2	132.5
in relation to solvency limit	1.7 times	1.2 times	1.6 times	1.6 times
Return on investments, % 1 Jan-31 Dec 2017	7.8	-8.1	5.9	6.9

As regards the calculation of the solvency limit, the Board of Directors decides on the criteria concerning how indirect investments' risks are taken into account, the criteria for using risk category 18, and the criteria for calculating the duration of investments exposed to interest and credit margin risk.

Investment risk measurement and mitigation

The market risk of investments, mainly equities, constitutes the biggest risk relating to the return and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at EUR 1,218 million (EUR 1,633 million) at year-end 2017. The figure indicates the greatest possible fall in the market value of the company's investment portfolio over a period of one month at a probability of 97.5%. The CVaR (Conditional Value at Risk) figure refers to expected losses exceeding VaR, and this figure amounted to EUR 1,453 (1,948) million.

The general security goals for investments are catered for by ensuring that the total risk caused by fluctuating portfolio returns remains within the risk-bearing capacity. The total portfolio risk in relation to the risk-bearing capacity is dynamically limited using an internal risk indicator defined in the investment plan. The indicator is used to determine the maximum risk-management weight for listed equities. By determining the maximum risk level, the company strives to ensure disruption-free operation also after capital market shocks. Furthermore, investments are diversified in accordance with diversification objectives.

The maximum risk level is measured such that even after a 25% drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital (1/3 of the solvency limit) by at least the amount of the VaR and is, in any case, always at least at the solvency limit.

The different maximum limits of investments are presented as separate risk limits in the investment plan. The diversification of the

investment portfolio is based on allocation that takes into account the return correlations of asset classes.

Investment risks can be abated and eliminated, for example

- by diversifying investments by asset class and item,
- by analysing the investment portfolio and items,
- by avoiding risk concentrations,
- by limiting the amount of unlisted securities,
- through a securing guarantee policy,
- through careful valuation practices,
- by integrating assets and liabilities,
- by using derivatives,
- by applying adequate and on-time supervision and monitoring arrangements, and
- by minimising counterparty risks.

The risk limits and authorisations laid down in the investment plan are regularly monitored. In addition to analyses of investment markets, Varma monitors matters such as investment duration, credit rating and liquidity. In real estate investments, Varma pays special attention to technical and location risks, among others.

New investment instruments with return and risk profiles that are significantly different from the instruments contained in Varma's present portfolio are examined by the Investment Committee and are also presented to the Board of Directors before the investments are made.

Principles for using derivative contracts

Here we describe the principles applied to the use of derivative contracts and the risk management strategy for derivatives. The Board

of Directors decides on the principles for the use of derivative contracts. In the investment portfolio, derivative contracts are considered equal with their underlying instruments and are allocated to the asset class in question.

Limits by asset class are examined in terms of the overall position, combining cash instruments and derivative instruments. The value change risk inherent in cash instruments and derivative contracts is made commensurable by converting derivative contracts mainly into delta-adjusted risk positions.

The main purposes for the use of derivatives are:

- currency hedging
- managing overall portfolio risk
- increasing or reducing equity risk through index derivatives
- reducing or increasing the fixed-income portfolio's interest risk (duration) through interest rate futures or swaps
- managing the fixed-income portfolio's credit risk through credit default swaps
- commodity and factor investing is mainly implemented through derivative instruments.

In terms of risk management, derivative contracts are classified in risk-decreasing and other than risk-decreasing derivatives. In the investment organisation, authorisations to use derivatives are laid down in the investment plan. They have been set in euro amounts by contract type and by underlying instrument, separately for risk-decreasing and other derivatives.

Operational risks

Operational risks entail

- a danger of loss,
- a threat to the continuity of operations, or

- a diminishing of trust in the company, caused either by the company's internal processes or by unanticipated external events.

Operational risks are related to processes and methods, information systems, possible malpractice, property damage and staff competence.

The company makes every effort to eliminate any defects in its supervision systems that would permit unintentional or intentional errors or misuse concerning such matters as insurance or claims handling, investments, reporting, payment transactions, register details, data processing, division of work, partners' operations, or documentation.

Operational risks are charted on a regular basis. The potential impacts and likelihood of identified risks are assessed on a risk-specific basis, and the risks are linked to strategic aims and processes. Identified risks are compiled in a risk chart in which risks are classified on the basis of an overall evaluation and in accordance with their potential to threaten Varma's success and the goals approved by the Board of Directors. Overall consideration of the impacts of the risks and deciding on measures take place in accordance with Varma's standard planning and decision-making system. A continuity plan is drawn up for functions that may involve substantial risks. The preparation of the plan is at the discretion of the line management.

Other risks

The earnings-related pension system is based on insuring work carried out in Finland.

Finland's economy has taken a strong and broad upswing. All components of aggregate demand are showing positive development.

Growth in export demand and the reviving investment appetite create a foundation for future economic growth.

The economic recovery is also showing as an improvement in the employment rate. The labour market still faces major issues in terms of a mismatch between supply and demand, which may cause bottlenecks in growth. The strong economic recovery is not yet sufficient to bridge the budget deficit. This will be highlighted in the coming years, as the ageing of the population increases pension and care expenditure.

The reformed earnings-related pension legislation has been in force for a year now. The purpose of the pension reform is to lengthen careers and strengthen the financial and social sustainability of the earnings-related pension system. The pension reform will also help close the sustainability gap in public finances. This requires longer careers.

The global economy has been growing for a long time, and companies' good financial performance and bright outlooks have propelled capital market asset values to strong growth. Central banks' accommodative monetary policies have also played a major role in this. However, a shift in monetary policy is in the cards. From an investor's point of view, the operating environment is highly challenging, despite the strong development. Share prices have been rising continuously for a long time now. Varma's strong competence in the careful diversification of investment assets and investment risk management gives the company an edge in a challenging competitive environment.

Varma manages other risks in close co-operation with its stakeholders and other players in the sector and is developing its processes so that it can react to any changes in the earnings-related pension system on time.

Varma's preparation for unsettled and exceptional circumstances

Earnings-related pension institutions are under statutory obligation to ensure their tasks can be handled with minimum disruption, even under exceptional circumstances. According to the National Security Strategy, the pension and book entry systems, among others, are functions that must be secured.

Principal threat types and their concomitant special circumstances related to pension payments and funding include serious perturbations in the infrastructure required by the networked operating model, citizens' health and income security, and society's economic capacity. Due to the distributed management of pension cover, there is a lot of co-operation within the earnings-related pension system. This increases mutual dependency and vulnerability. The globalisation of information technology services and bank services creates challenges for contingency operations.

Contingency operations secure critical activities in exceptional circumstances and in serious disturbances within normal circumstances. Also in exceptional circumstances or when threatened by them, Varma will fulfil its statutory and contractual obligations as comprehensively and for as long as possible. In co-operation with other operators, banks, authorities, and the emergency supply organisation, priority will be given to securing services connected with citizens' income security.

Varma has a recovery plan for situations where IT is disrupted and a contingency plan approved by the Board of Directors, which is supplemented by detailed plans prepared by different functions. A contingency unit, which the managers of core functions belong to, coordinates the activities in possible contingencies.

The contingency unit is responsible for preparing the contingency plan, for preparing for unsettled situations, for preparing and maintaining other plans (such as the recovery plan and the security and rescue plan) and instructions based on it, for managing unsettled situations, for contingency actions, for building, maintaining and testing contingency systems, and for taking into account the experiences gained from exercises organised within the sector in the company's operations. The members of the contingency unit, in their own area of responsibility, take care of emergency planning, construction and testing of contingency systems, providing timely information and securing information storage.

Significant risks in exceptional circumstances include

1. the payment of pensions is jeopardised,
2. the financing of pensions and liquidity management become more difficult,
3. the implementation of processes during exceptional circumstances does not happen quickly enough,
4. bank systems, investment trading systems or other societal infrastructures fail to work,
5. the earnings-related pension systems, telecommunication lines or co-ordination within the sector fail to work
6. our own IT applications or networks fail to work, stoppage of services provision,
7. counterparty risks and the invalidity of contracts under exceptional circumstances, and
8. risks related to the availability of data at the onset of a crisis.

Varma participates in operational exercises together with other pension insurance institutions, insurance companies, banks and financial operators.

Internal audit

Internal audit operates in accordance with the principles defined in the professional standards of internal audit. It comprises independent and objective assessment, assurance and consulting activities whose purpose is to support the organisation in achieving its goals by producing assessments and development proposals concerning the status of risk management and other internal controls. The organisational status, tasks, responsibilities and powers of the internal audit are laid down in the instructions approved by the Board of Directors. The areas to be audited are set out in an annual audit plan, which is approved by the Board of Directors after it has been discussed by the Executive Group and the Audit Committee. The audit observations are reported to the company management, the Audit Committee and the Board of Directors. The internal audit is organised under the supervision of the CEO.

Supervision by authorities

In addition to laws and decrees, Varma's operations are governed by the instructions and regulations of the Financial Supervisory Authority. Varma provides the Financial Supervisory Authority with information and reports on a regular basis or as required. The supervising authority carries out appropriate inspections related to administration, solvency, investment operations and operational risks, among other things.

Key figures and analyses

33. Summary

31 Dec, € million	2017	2016	2015	2014	2013
Premiums written, € million	4,867.4	4,675.1	4,576.4	4,343.6	4,258.0
Pensions paid and other payments made, € million	5,247.8	5,004.7	4,834.6	4,660.7	4,445.5
Net investment income at fair value, € million	3,342.7	1,952.7	1,681.8	2,699.0	3,154.2
Net return on invested capital, %	7.8	4.7	4.2	7.1	9.0
Turnover, € million	8,707.7	6,793.2	4,748.5	5,480.0	6,228.3
Total operating expenses, € million		137.9	144.6	142.0	142.7
Total operating expenses of turnover, %		2.0	3.0	2.6	2.3
of TyEL and YEL payroll, %	0.4	0.5	0.5	0.5	0.5
Total result, € million		456.9	-163.6	1,223.0	1,558.5
Technical provisions, € million		33,501.3	31,865.6	32,069.7	31,399.1
Solvency capital, € million	11,534.4	10,199.5	9,956.1	10,252.5	9,139.7
in relation to solvency limit	1.7	1.9	1.9	2.2	2.2
Pension assets, € million	45,947.7	43,127.2	41,628.5	40,297.5	38,040.2
of technical provisions, %	133.5	130.9	131.4	134.0	131.6
Transfer to client bonuses of TyEL payroll, %	0.83	0.64	0.63	0.66	0.59
TyEL payroll, € million	19,366.7	18,834.8	18,367.4	17,826.9	17,813.4
YEL payroll, € million	802.0	830.6	870.8	894.4	901.7
TyEL policies	25,575	26,120	27,150	27,200	26,900
TyEL insured persons	501,320	493,890	486,960	488,200	491,400
YEL policies	35,900	36,000	37,380	38,940	39,810
Pensioners	342,600	340,100	337,100	334,500	333,700

34. Performance analysis

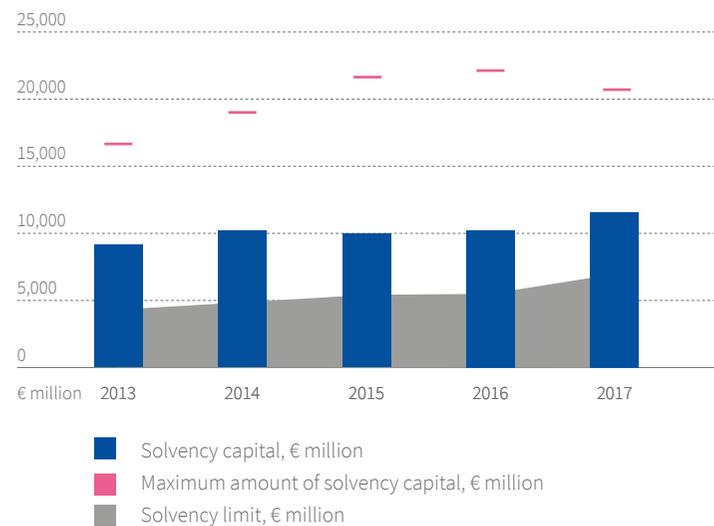
31 Dec, € million	2017	2016	2015	2014	2013
Sources of profit					
Technical underwriting result ¹⁾	33.8	-37.8	22.9	64.1	14.5
Investment surplus at fair value	1,453.2	441.5	-220.0	1,125.6	1,506.0
+ Net investment income at fair value ²⁾	3,342.7	1,952.7	1,681.9	2,699.0	3,154.2
- Return requirement on technical provisions	-1,889.5	-1,511.2	-1,901.9	-1,573.4	-1,648.3
Loading profit ³⁾	44.7	39.0	36.1	33.4	32.0
Other result	-7.9	14.3	-2.6	-0.1	5.9
Total result	1,523.8	456.9	-163.6	1,223.0	1,558.5
Appropriation of profit					
Change in solvency	1,362.8	335.3	-278.6	1,106.0	1,453.5
Change in equalisation provision included in the solvency capital ⁴⁾	0.0	-38.5	22.9	61.9	10.5
Change in provision for future bonuses	1,834.8	504.4	-1,843.6	-548.6	228.4
Change in difference between fair value and book value	-477.9	-136.9	1,535.1	1,586.8	1,209.3
Profit for the financial year	5.9	6.2	7.1	5.9	5.2
Change in the equalisation provision ⁵⁾	0.0	0.7	0.0	0.0	0.0
Transfer to client bonuses	161.0	121.0	115.0	117.0	105.0
Total	1,523.8	456.9	-163.6	1,223.0	1,558.5

- ¹⁾ Technical underwriting result is reported in a separate note
²⁾ Investment surplus at fair value is reported in a separate note
³⁾ Loading profit is reported in a separate note
⁴⁾ Applies only to Etera as of 2017
⁵⁾ Applies only to Etera as of 2017

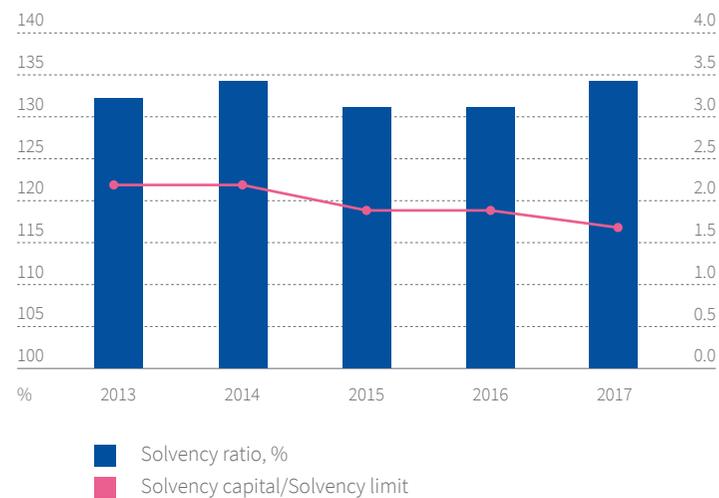
35. Solvency

Solvency capital and limits	2017	2016	2015	2014	2013
Solvency limit, € million	6,820	5,455	5,348	4,750	4,186
Maximum amount of solvency capital, € million	20,459	21,819	21,393	19,001	16,743
Solvency capital, € million	11,534	10,199	9,956	10,252	9,140
Solvency capital (solvency ratio), %	133.5	130.9	131.4	134.0	131.6
Solvency capital/Solvency limit, %	1.7	1.9	1.9	2.2	2.2

Solvency capital and limits



Solvency capital/Solvency limit



36. Investment allocation at fair value

	Market value 2017 € mill.	%	Market value 2016 € mill.	%	Risk position 2017 € mill.	%	Risk position 2016 %	Risk position 2015 %	Risk position 2014 %	Risk position 2013 %
Fixed-income investments	13,480.7	29.7	13,695.1	32.0	12,578.9	27.7	42.2	29.7	32.1	31.1
Loan receivables	1,452.7	3.2	1,432.0	3.3	1,452.7	3.2	3.3	3.3	3.9	5.4
Bonds	10,027.5	22.1	11,435.1	26.7	10,509.7	23.1	29.8	21.2	26.5	13.2
Other money-market instruments and deposits	2,000.5	4.4	828.0	1.9	616.6	1.4	9.0	5.2	1.7	14.2
Equity investments	20,426.6	45.0	18,332.5	42.8	20,687.3	45.6	43.2	44.7	40.8	39.1
Listed equities	16,492.5	36.3	14,598.9	34.1	16,753.1	36.9	34.5	36.2	32.2	30.7
Private equities	2,767.0	6.1	2,793.7	6.5	2,767.0	6.1	6.5	6.3	6.1	5.8
Unlisted equities	1,167.1	2.6	940.0	2.2	1,167.1	2.6	2.2	2.2	2.5	2.7
Real estate investments	3,602.0	7.9	3,642.9	8.5	3,602.0	7.9	8.5	9.5	9.6	11.4
Direct real estates	2,796.9	6.2	2,897.2	6.8	2,796.9	6.2	6.8	8.0	8.4	9.9
Real estate funds	805.1	1.8	745.7	1.7	805.1	1.8	1.7	1.4	1.2	1.5
Other investments	7,900.0	17.4	7,181.7	16.8	8,906.7	19.6	17.1	16.9	17.7	16.3
Hedge funds	7,886.4	17.4	7,184.3	16.8	7,886.4	17.4	16.8	16.1	16.8	12.9
Commodities	10.7	0.0	-1.1	0.0	178.7	0.4	0.3	0.9	0.9	0.5
Other investments	2.9	0.0	-1.5	0.0	841.5	1.9	0.0	-0.1	0.0	2.9
Investments	45,409.4	100.0	42,852.2	100.0	45,774.9	100.8	111.0	100.8	100.2	95.0
Impact of derivatives					-365.5	-0.8	-11.0	-0.8	-0.2	5.0
	45,409.4	100.0	42,852.2	100.0	45,409.4	100.0	100.0	100.0	100.0	100.0
Modified duration of the bond portfolio	3.9									

37. Investment return breakdown and result

	Net return on invested capital, market value 2017 € million	Invested capital 2017 € million	Return on invested capital 2017 %	Return on invested capital 2016 %	Return on invested capital 2015 %	Return on invested capital 2014 %	Return on invested capital 2013 %
Return on invested capital, €/%							
Fixed-income investments	562.6	15,005.4	3.7	4.2	-0.4	5.8	0.8
Loan receivables	32.1	1,439.8	2.2	4.2	2.4	2.6	3.3
Bonds	584.2	10,772.1	5.4	5.3	-0.9	7.1	0.8
Other money-market instruments and deposits	-53.7	2,793.5	-1.9	-0.4	0.5	0.5	-0.4
Equity investments	2,000.3	17,554.1	11.4	6.4	8.8	9.1	21.8
Listed equities	1,592.9	13,762.6	11.6	4.5	8.0	7.4	23.7
Private equities	217.3	2,766.0	7.9	11.2	7.8	13.5	12.1
Unlisted equities	190.0	1,025.6	18.5	23.7	21.2	19.7	26.7
Real estate investments	174.9	3,582.4	4.9	-0.9	3.3	3.8	3.1
Direct real estates	82.9	2,817.6	2.9	-2.6	2.3	3.2	2.0
Real estate funds	92.0	764.8	12.0	6.8	9.9	8.0	11.6
Other investments	640.7	6,895.9	9.3	5.3	3.5	8.4	4.5
Hedge funds	586.8	6,928.3	8.5	5.6	3.9	7.8	8.8
Commodities	-2.2	4.0					
Other investments	56.0	-36.3					
Investments	3,378.4	43,037.9	7.8	4.8	4.3	7.2	9.1
Unallocated income, costs and operating expenses from investment activities	-35.7	18.4					
Net investment income at fair value	3,342.7	43,056.3	7.8	4.7	4.2	7.1	9.0

38. Loading profit

31 Dec, € million	2017	2016	2015	2014	2013
Expense loading components included in contributions	127.6	132.6	132.0	126.2	126.6
Components available to cover operating expenses arising from compensation decisions	6.1	6.7	6.8	5.5	5.8
Other income	0.4	0.3	0.9	0.9	0.9
Total loading income	134.1	139.6	139.8	132.6	133.3
Operating expenses covered by loading income ¹⁾	-89.4	-100.6	-103.7	-99.1	-101.3
Total operating expenses	-89.4	-100.6	-103.7	-99.1	-101.3
Loading profit	44.7	39.0	36.1	33.4	32.0
Operating expenses in relation to loading income, %	67	72	74	75	76

¹⁾ Excluding operating expenses related to investments and maintenance of workability and statutory charges.

39. Workability maintenance expenses

31 Dec, € million	2017	2016	2015	2014	2013
Premiums written; the administrative cost component of the disability risk	5.9	5.7	5.6	5.4	5.4
Claims incurred; workability maintenance expenses	5.9	5.7	6.1	6.5	6.5
Expenses arising from the management of the disability risk, entered under operating expenses and covered by the expense loading ²⁾	4.6	8.2	11.1	7.9	7.5
Expenses covered by the administrative cost component of workability maintenance/ The administrative cost component of the disability risk, %	100.0	99.7	109.5	120.5	121.0

²⁾ As of 2016, does not include personnel expenses related to the management of the disability risk of the company's own personnel.

40. Technical underwriting result

31 Dec, € million	2017	2016	2015	2014	2013
Premium income from underwriting business under the company's own account	759.9	655.0	691.7	690.6	616.4
Interest rate on the technical provisions of the underwriting business under the company's own account	839.3	812.1	806.8	769.3	748.9
Underwriting income	1,599.2	1,467.1	1,498.4	1,459.9	1,365.3
Pensions paid out of funds	1,137.2	1,087.4	1,023.5	968.6	919.2
Contribution losses	10.4	18.5	16.3	16.4	18.2
Change in the technical provisions of the underwriting business under the company's own account	417.9	399.0	435.7	410.8	413.4
Total claims incurred	1,565.4	1,504.9	1,475.5	1,395.8	1,350.8
Technical underwriting result	33.8	-37.8	22.9	64.1	14.5

Distribution of profit

Distributable profits as presented in the notes to the financial statements	112,298,881.06 euros
The Board of Directors proposes that the profit for the year be distributed as follows:	5,947,138.68 euros
to be transferred to the contingency fund (optional reserve)	5,300,000.00 euros
to be paid as interest on guarantee capital	597,031.60 euros
to be carried over on the Profit and Loss Account	50,107.08 euros

Helsinki, 15 February 2018

Jari Paasikivi, Chairman of the Board

Antti Palola	Kai Telanne	Riku Aalto
Johanna Ikäheimo	Rolf Jansson	Ari Kaperi
Casimir Lindholm	Jyri Luomakoski	Petri Niemisvirta
Ilkka Oksala	Pekka Piispanen	Risto Murto, President & CEO

Auditor's Report

To the Annual General Meeting of Varma Mutual Pension Insurance Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Varma Mutual Pension Insurance Company (business identity code 0533297-9) for the year ended 31 December, 2017. The financial statements comprise the balance sheets, income statements, statements of source and application of funds and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group's and the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into

account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Most significant assessed risks of material misstatement

Below we have described our assessment of the most significant risks of material misstatement, including risks of material misstatement due to fraud, and presented a summary of our response to those risks.

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

AUDITOR'S RESPONSE TO THE RISKS

Calculation of technical provisions (Accounting Principles and Note 23 to the consolidated financial statements)

- Technical provisions in Varma's financial statements amount to EUR 36.7 billion, making up the most significant liability item in the balance sheet.
- The technical provisions in the financial statements are required to be calculated according to the confirmed calculation bases. The Finnish Ministry of Social Affairs and Health annually confirms the common calculation bases for insurance contributions and technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate.
- The final technical provisions are calculated per person and insurance during the spring following the financial year in an annual calculation, after employers have provided the required earnings data. The Finnish Centre for Pensions carries out the clearing in the autumn following the financial year, at which time the remaining components of the technical provisions can be calculated.
- The calculation of technical provisions is based on both the information collected by the company and the external data produced by the Finnish earnings-related pension system.
- Given the significance of technical provisions and other above-mentioned factors and the related risks, we have in our audit assessed technical provisions an item which includes risk of material misstatement.

- Our audit procedures included the assessment of Varma's recognition and calculation principles for the technical provisions.
- We evaluated the calculation process of technical provisions and tested the functioning of the related internal control environment. The functioning of the internal control environment was also evaluated with the help of assurance reports received from external service providers.
- We involved our actuary that assessed the principles and estimates for recognition and calculation of technical provisions, and the accuracy of the applied calculation bases. We specifically assessed the bases of the payroll estimate included in the calculation.
- Additionally, we considered the accuracy of the accounting treatment of technical provisions and the related notes.

MOST SIGNIFICANT ASSESSED RISKS OF MATERIAL MISSTATEMENT

AUDITOR'S RESPONSE TO THE RISKS

Valuation of investments (Accounting Principles and Notes 10–16 and 18–22 to the consolidated financial statements)

- The book value of investments in Varma's financial statements is EUR 34.3 billion, making up the most significant asset in the balance sheet.
- In financial statements investments are in general valued at the acquisition cost or, as with investments in land and buildings, at the lower of acquisition cost less depreciation according to plan and fair value.
- Investments are valued at fair value for solvency calculation purposes. The new solvency regulation was entered into force at the beginning of 2017. In addition, investments and net investment income based on fair value accounting are presented in the notes to the financial statements.
- The fair values of assets are based either on market quotes or determined by applying general fair value principles. Determining fair values for investments involves management judgement, particularly with regard to those assets and instruments for which market value is not available from public market quotes; these include, for example, private equity and real estate investments.
- The valuation of investments is determined as a key audit area because investments are a significant item in Varma's balance sheet and the fair values of investments have a significant impact on the company's solvency.

- We evaluated the appropriateness of the accounting principles and valuation methods applied by Varma.
- We tested the internal controls over the recognition and valuation processes for securities, derivatives and real estate investments.
- As part of our audit, we also compared the fair values used in the valuation of investments to external price quotations and results generated by other valuation methods applied, as well as evaluated the appropriateness of the company's own valuation procedures.
- In addition, we considered the accuracy of the notes relating to investments.
- Our audit procedures also included, for example, the assessment of calculation of the solvency limit and the classification principles of investments according to the new solvency regulation.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related

disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Information on our audit engagement

Authorised Public Accountants representing KPMG Oy Ab or KPMG Oy Ab were first appointed as auditors by the Annual General Meeting on 28 December 1983, and our appointment represents a total period of uninterrupted engagement of 34 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Other Opinion

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Finnish Insurance Companies Act. We support that the members of the Supervisory Board and the Board of Directors and the Managing Director be discharged from liability for the financial period audited by us.

Helsinki, 1 March 2018

Petri Kettunen

Authorised Public Accountant, KHT

Paula Pasanen

Authorised Public Accountant, KHT

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