



# Annual and Sustainability Report 2021

VARMA



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RESPONSIBILITY FOR  
PENSION ASSETS



39  
RESPONSIBILITY FOR  
CUSTOMERS



57  
RESPONSIBILITY FOR  
THE ENVIRONMENT





## The year 2021

2021 was a surprisingly good year for Finland's economy and most of Varma's client companies, in spite of the continued Covid-19 pandemic. For Varma, the year was unprecedented, with record-high investment returns. The value of pension assets managed by Varma is higher than ever.

The Covid-19 pandemic has changed working life and has affected people's work ability. The impacts have varied among the insured working in different tasks and our client companies in various sectors.



# Varma in brief

**Our core task is to secure pensions. We invest the assets collected as pension contributions profitably and securely for current and future pensions. Sustainability is an essential part of all our operations.**

Varma provides pension insurance for work carried out in Finland. Our core task is to secure pensions. We take care of the statutory earnings-related pension cover of entrepreneurs and employees. Companies take out TyEL insurance for their employees, while entrepreneurs insure themselves with YEL insurance. Varma is a responsible and solvent investor. We invest the assets collected as pension contributions profitably and securely for current and future pensions. We mainly invest in fixed income, equities and real estate, and in hedge funds. As a real-estate investor, we focus on offering high-quality business premises and rental flats in growth centres. We also offer corporate financing

to our customers. Varma provides pension cover for more than 900,000 employees, entrepreneurs and pensioners. Our services in disability risk management help client companies to save in pension costs and private customers to continue in working life.

Varma is a mutual company, owned by its client companies, self-employed customers and insured employees. Varma's head office is located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire country. Varma has 527 employees. Our success is based on our competent employees, who are passionate about their work. The slogan for our modern work culture is "Varma employees – agile responsibility bearers".

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





# Varma's highest investment return ever will go down in history

**For Varma, 2021 was unprecedented, with a record-high investment return of 18.5 per cent. Right now, the value of pension assets managed by Varma is higher than ever, and the same applies to the entire earnings-related pension insurance sector. This supports the long-term development of the Finnish pension system.**

2021 was a surprisingly good year for Finland's economy and most of Varma's customers, in spite of the continued Covid-19 pandemic. In practical terms, the economy was on an upswing for most of the year. Despite this, certain companies and sectors, especially in the service and travel industries, suffered from the Covid-19 restrictions, but the overall economic picture was positive. All in all, this crisis progressed very differently compared to the financial crisis more than a decade ago.

Last year will go down in history as the best ever for Varma's annual investment return, which was 18.5 per cent, or EUR 9.3 billion. The value of pension assets managed by Varma is currently higher than ever, at EUR 59.0 billion, and the same applies

to the entire earnings-related pension insurance sector. This supports the long-term development of the Finnish pension system.

The financial situation of Varma's client companies and entrepreneurs improved in 2021 from the previous year, and this was mirrored in the significant increase in the TyEL payroll and fewer payment reminders of Varma's customers. The TyEL payroll forms the basis for pensions to be paid. The pension system is also dependent on work carried out in Finland, which is why the success of Finnish companies and entrepreneurs and employment are important to us.

Our solvency capital also reached a new record high. Varma's operational efficiency was at an

**Varma assesses the impacts of the pandemic and rapid changes in working life on our customers' needs. Our goal is to have the greatest impact on lengthening careers in the industry.**





excellent level. Thanks to the record year, Varma will also refund the highest client bonuses in the company's history, EUR 222 million, to its customers.

### Covid-19 pandemic had no broad effects on work ability

The impacts of the pandemic have been sizable, and they have varied among the insured working in different tasks and our client companies. The prolonged pandemic may have weakened work engagement and increased the risk of burnout. Furthermore, not all types of work can be done remotely, and such work may be linked to additional stress during the pandemic. The prolonged Covid-19 situation has put a burden on work ability but has not led to disability cases on a broad scale, at least for now, which is good news. This is indicated by the fact that the number of disability pension applications submitted by Varma's client companies continued to decline last year.

Varma employees have also been working primarily remotely, and I would like to take this opportunity to express my gratitude to our employees: you have done excellent work, and our processes worked extremely well. Pension provision continued uninterrupted, and private customers' satisfaction with our phone service rose to an all-time high: on a scale of 0–10, it was rated 9.4. According to our customers, our customer service personnel are competent, friendly and empathic, and show respect for the customer. The results of the annual employee experience survey also propelled Varma to the list of Finland's Most Inspiring Workplaces for the fourth time in a row.

Varma is one of Finland's largest real estate investors, and this is also reflected in our construction

projects. Right now, we have an exceptionally high number of major developments under way in the Helsinki metropolitan area, for instance, in Katajanokka and Pasila in Helsinki, and in Keilaniemi in Espoo. It is great that there continues to be demand for real estate in spite of the Covid-19 crisis and that we are able to invest in Finland also through construction projects.

### Taking sustainable business to a new level

Sustainability is an integral part of Varma's strategy, and our goal is to be a leader in sustainability. Especially in terms of climate-friendly investment, we have already claimed our place.

Varma aims for a carbon-neutral investment portfolio by 2035, and in the year under review, we continued our systematic work to build an even more environmentally friendly investment portfolio. In five years, the carbon footprint of Varma's equity investments declined 30 per cent and that of listed corporate bond investments 23 per cent. The carbon footprint of real estate investments was down as much as 57 per cent compared to 2015. We have focussed on low-emission investments, and in real properties, the share of emission-free electricity and heat has been increased by using geothermal heat, among other measures.

Varma joined the world's largest corporate sustainability initiative, the UN Global Compact, in the review year. We are committed to following the Global Compact's ten principles in the areas of human rights, labour, environment and anti-corruption, and we are continuing our efforts to promote

socially, economically and environmentally sustainable business.

In 2022, we will publish our new sustainability programme and related targets, which will take our sustainable business to a new level and motivate our stakeholders to operate more sustainably.

### Targeting the greatest impact on lengthening careers in the industry

In early 2022, economic expansion has continued, but future development depends on what will happen with inflation, central banks' monetary policy and geopolitical tensions on a global scale.

Here at Varma, we will keep working in the name of even more effective and influential earnings-related pension insurance. We will continue to develop our digital services and increasingly effective disability risk management offering. Varma assesses the impacts of the pandemic and rapid changes in working life on our customers' needs. Our goal is to have the greatest impact on lengthening careers in the industry. At the same time, we will reform Varma and our agile operating models and management. At the core of our work culture is a hybrid model, meaning we work wherever we achieve the best results.

I do hope that in 2022 we will be able to meet more Varma employees and our customers face-to-face. I want to express my gratitude to our customers for their trust in us. It has been a pleasure to work for the Finnish pension system and employees' pension cover. We will continue this work in 2022.

#### Risto Murto

President and CEO

**In 2022, we will publish our new sustainability programme and related targets, which will take our sustainable business to a new level and motivate our stakeholders to operate more sustainably.**



# The year in figures

Value of investments

59.0

€ bn

18.5%

In 2021, the return on Varma’s investments was 18.5 per cent or EUR 9.3 billion, the highest annual return ever in Varma’s history. The value of investments and solvency capital also reached new record highs.

Investment portfolio’s emissions down

Since 2016

30%

Equities

23%

Corporate bonds

Since 2015

57%

Real Estate

Solvency

16.9

€ bn

Pensions paid

6.2

€ bn

Efficiency

62%

Premiums written

5.6

€ bn



Equities generated the strongest return

In 2021, the return on Varma’s investments was 18.5 (2.8) per cent, or EUR 9.3 (1.4) billion, the highest annual return ever in Varma’s history. The value of investments grew to EUR 59.0 (50.2) billion at the end of the second year of the coronavirus. The 10-year nominal return on Varma’s investments is 7.1 per cent.

The best returns were generated by equities, 32.2 (5.9) per cent, of which private equity investments generated 49.6 (7.8) per cent, unlisted equities 26.3 (8.6) per cent, and listed equities 26.4 (5.2) per cent. Hedge fund investments also generated very good returns, at 15.3 (-1.0) per cent. Real estate investments generated a return of 5.9 (2.0) per cent, and fixed income investments 1.9 (1.9) per cent.

Varma’s solvency capital reached a new record high of EUR 16.9 (11.5) billion and was 2.0 times (1.7) the solvency limit at the end of the year. Varma’s operational efficiency was also at an excellent level. In 2021, administrative costs totalled EUR 84 (78) million, which is 62 (61) per cent of the expense loading included in the insurance contributions. The smaller the percentage is, the more efficient the earnings-related pension company is.

The financial situation of Varma’s client companies and entrepreneurs improved in 2021 from the previous year, and this was mirrored in the increased TyEL payroll and fewer payment reminders. The total TyEL payroll of Varma’s client companies increased 6.6% from 2020. The TyEL payroll forms the basis for pensions to be paid.

Climate actions substantially drive down carbon footprint of investments

By the end of 2021, Varma achieved the carbon footprint targets established in 2016 for equity investments and listed corporate bonds. In five years, the carbon footprint of equity investments has declined 30 per cent from the 2016 level, and at year-end, the weighted carbon footprint of Varma’s equity portfolio was smaller than that of the global equity market. In listed corporate bond investments, carbon intensity was down 23 per cent from the 2016 level. The CO<sub>2</sub> footprint of real estate investments was down 57 per cent compared to 2015. We have focussed on low-emission investments, and in real properties, the share of emission-free electricity and heat has been increased by using geothermal heat, among other measures. Varma aims for a carbon-neutral investment portfolio by 2035.

**Varma to refund record amount, EUR 222 million, in the form of client bonuses**

Varma will refund EUR 222 (54) million to its customers, i.e. the highest amount of client bonuses in the company’s history. The change compared to the previous year is primarily due to the temporary reduction in insurance contributions that was implemented in 2020, due to which the amount of client bonuses was limited through legislation to one third in the comparison year. Varma’s solvency capital increased in 2021, which raised the amount of client bonuses by EUR 55 million.

By the end of 2021, we achieved the carbon footprint targets established in 2016 for equity investments and listed corporate bonds.

More information about our work for our customers is in the section Responsibility for customers.

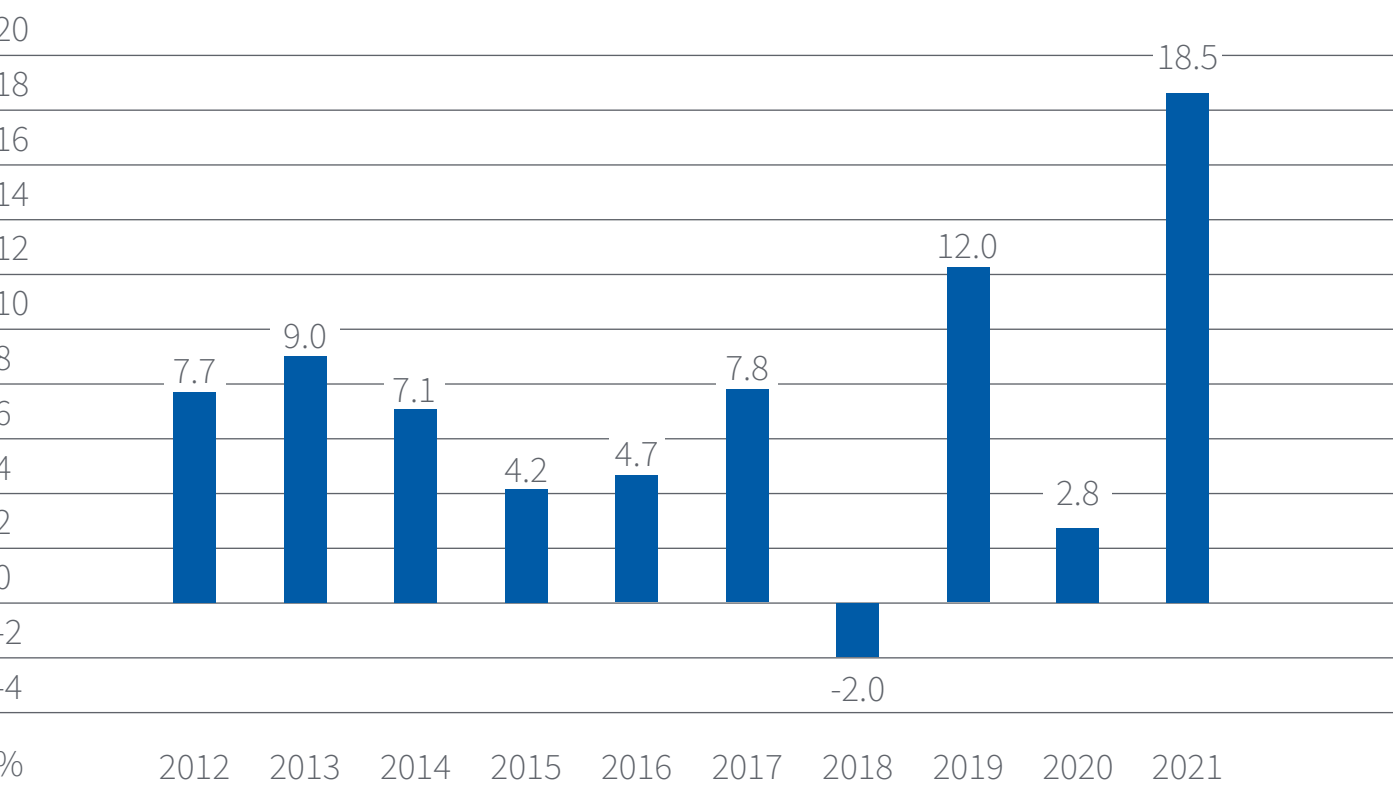
Key figures 2021

	2021	2020
Premiums written, € million	5,634.6	4,930.9
Pension payments to pensioners, € million*	6,235.6	6,028.3
TyEL insured 31 December	531,200	505,170
YEL policies	40,000	37,800
Pensioners	345,700	347,100
Investments, € million	59,023.6	50,156.6
Investment income, € million	9,256.5	1,371.6
Return on investment capital, %	18.5	2.8
Total result, € million	5,586.5	-230.6
Loading profit, € million	51.2	49.3
Operating expenses as % of loading income	62.0	61.2
Transfer to client bonuses, € million	222	54
% of TyEL payroll	0.99	0.26
Technical provisions, € million	45,225.0	40,725.7
Solvency capital, € million**	16,890.3	11,516.8
in relation to solvency limit	2.0	1.7
Average number of personnel	527	537
Personnel expenses, € million	52.8	45.1
Donations, € million	0.05	0.02
Membership fees in sectoral organisations, € million	0.9	1.0
Purchases from service providers and suppliers, € million***	55.3	48.9

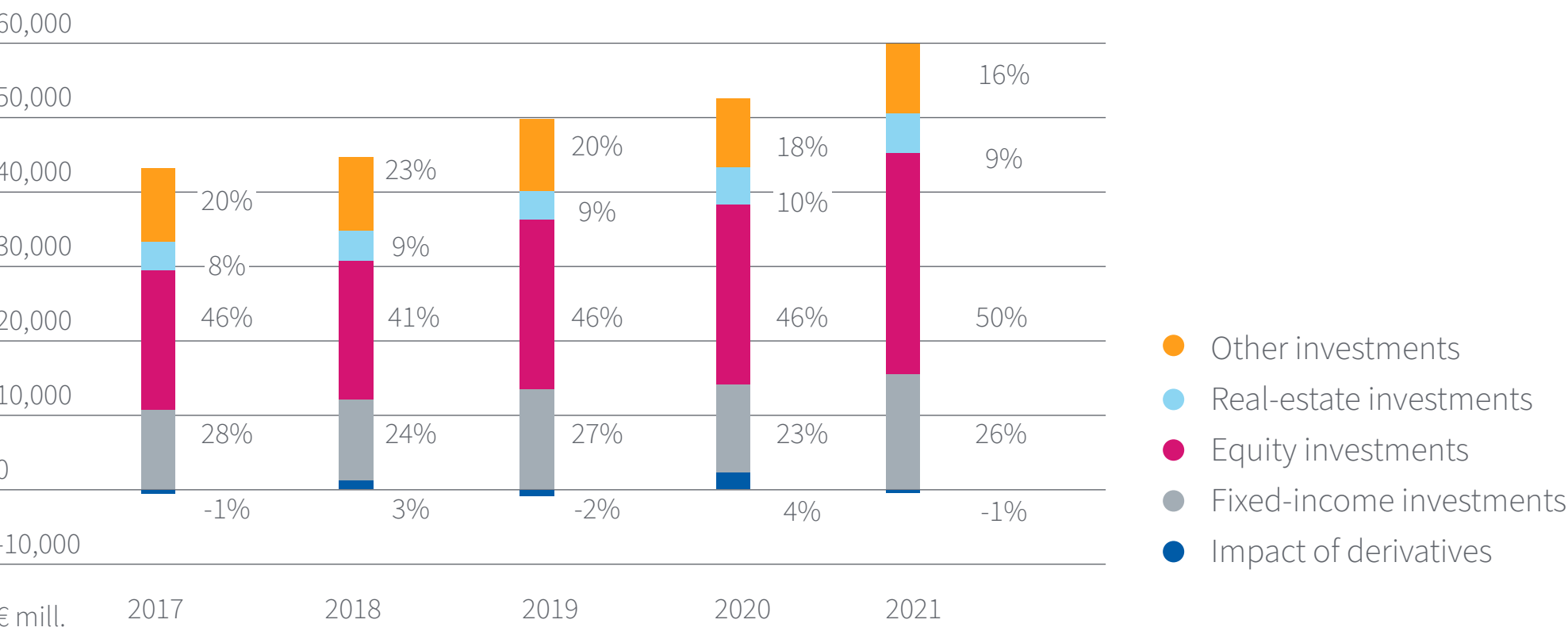
\*Before the reduction of received clearing of pay-as-you-go (PAYG) pensions  
\*\*Calculated according to the regulations valid at the time (same principle applies to other solvency indicators)  
\*\*\*Excluding costs for investment operations (such as real estate development purchases)



Investment returns, (%)



Investment portfolio (€ million)



571,000 individuals were insured by Varma.

Varma gained a total of EUR 45.9 (105) million in new premiums written during the year. This includes the net impact of new sales and premiums written transferred from other pension institutions. Premium income stood at EUR 5.6 (4.9) billion.

Over 21,000 new pension decisions were made during the year – disability pension applications decline

Varma has continued to provide uninterrupted earnings-related pension cover during the pandemic. We paid out pensions in the amount of EUR 6.2 (6.0) billion to 346,000 (347,000) people during the year under review. A total of 21,131 (21,100) new pension decisions were made during the year. Varma’s total processing time for pension applications was 18.8 days, which means that the company processes pension applications 0.8 days faster than the sector average.

Of single pension types, the number of disability pension applications declined. In 2021, the number of applications received by Varma was down 4.1 per cent compared to the previous year, and new disability pension applications were down 8.4 per cent. The main reasons for disability were mental health disorders (34.2 per cent) and musculoskeletal diseases (31.6 per cent). During the year, Varma processed 21 disability pension applications in which coronavirus infection (Covid-19) was a main reason for disability. Of these, two people were granted disability pension until further notice, eight were granted the cash rehabilitation benefit for a fixed term and one was granted the partial cash

The financial situation of Varma’s client companies and entrepreneurs improved in 2021 from the previous year, and this was mirrored in the increased TyEL payroll and fewer payment reminders.

rehabilitation benefit. Rehabilitation applications and rehabilitation programmes were also down, approximately 4 per cent, in 2021.

At the end of the year, 571,000 (543,000) individuals were insured by Varma.



# Impacts of the Covid-19 pandemic on working life and work ability

The Covid-19 pandemic has changed working life and has affected people's work ability.

## Jan Schugk Senior Physician

### How is Covid-19 reflected in the illnesses stated as reasons for disability pension applications?

During the pandemic, mental health disorders have remained the main reason for disability, and their share has even increased. Another key reason is musculoskeletal diseases. Although no major changes have taken place in the main illness groups, there has been an increase in the share of disability pension applications based on mental health disorders by the youngest applicants within the group. Disability caused by Covid-19 is barely noticeable in the pension applications: in 2021, Varma processed 21 disability pension applications in which the long-term effects of Covid-19 were indicated as the main reason for disability.



supervisory work and encounters that support a sense of community. We have paid special attention to managing one's work by ensuring proper lunch breaks and uninterrupted working hours through joint calendar entries. In autumn 2021, we introduced a flexible approach to work, in which we combine the best parts of remote and office work based on the requirements of the work, striving for a common understanding and fostering the freedom of remote work.

## Auli Airila Research Manager

### What does research reveal about the impacts of the Covid-19 pandemic on Finnish working life and work ability?

Research shows that the Covid-19 pandemic has had both positive and negative impacts on working and work ability. We have managed to ensure health security in on-site work, and team spirit has been strengthened. The fear of falling ill has caused concern. The positives of remote work include increased autonomy and flexibility, while the lack of social interaction and insufficient work ergonomics are examples of the challenges. There are indications that work ability may have deteriorated, especially in on-site work. Work ability challenges have been detected among young people and those living alone. At the same time, the prolonged stress may cause challenges that remain hidden for now. Support for work ability is even more important in the current situation. The ability to change and develop operations is also needed going forward.



## Eeva Reponen HR Manager

### How has the Covid-19 pandemic been reflected in Varma employees' work ability and ways of working?

Varma employees' satisfaction and productiveness have remained high, their work ability is good, and absences due to illness are at a minimum level. We have invested in the flow of information, smart meeting practices and availability of support through active



## Jyrki Rasi Pensions Director

### How have the volumes of disability pension applications and rehabilitation applications changed, and what impacts has the pandemic had on rehabilitation?

Disability pension applications have been declining during the Covid-19 pandemic. In 2021, the number of new applications decreased by as much as 8 per cent from the previous year. Rehabilitation applications have also been slightly declining and were down 3.5 per cent. Impacts on rehabilitation that are specifically due to the pandemic have not been observed, except that some student rehabilitants say they have faced difficulties in obtaining traineeship positions, which is hindering the progress of their studies.



## Pia Kontti Director, Work ability management

### How is the Covid-19 situation reflected in the demand for and service development of work ability management services?

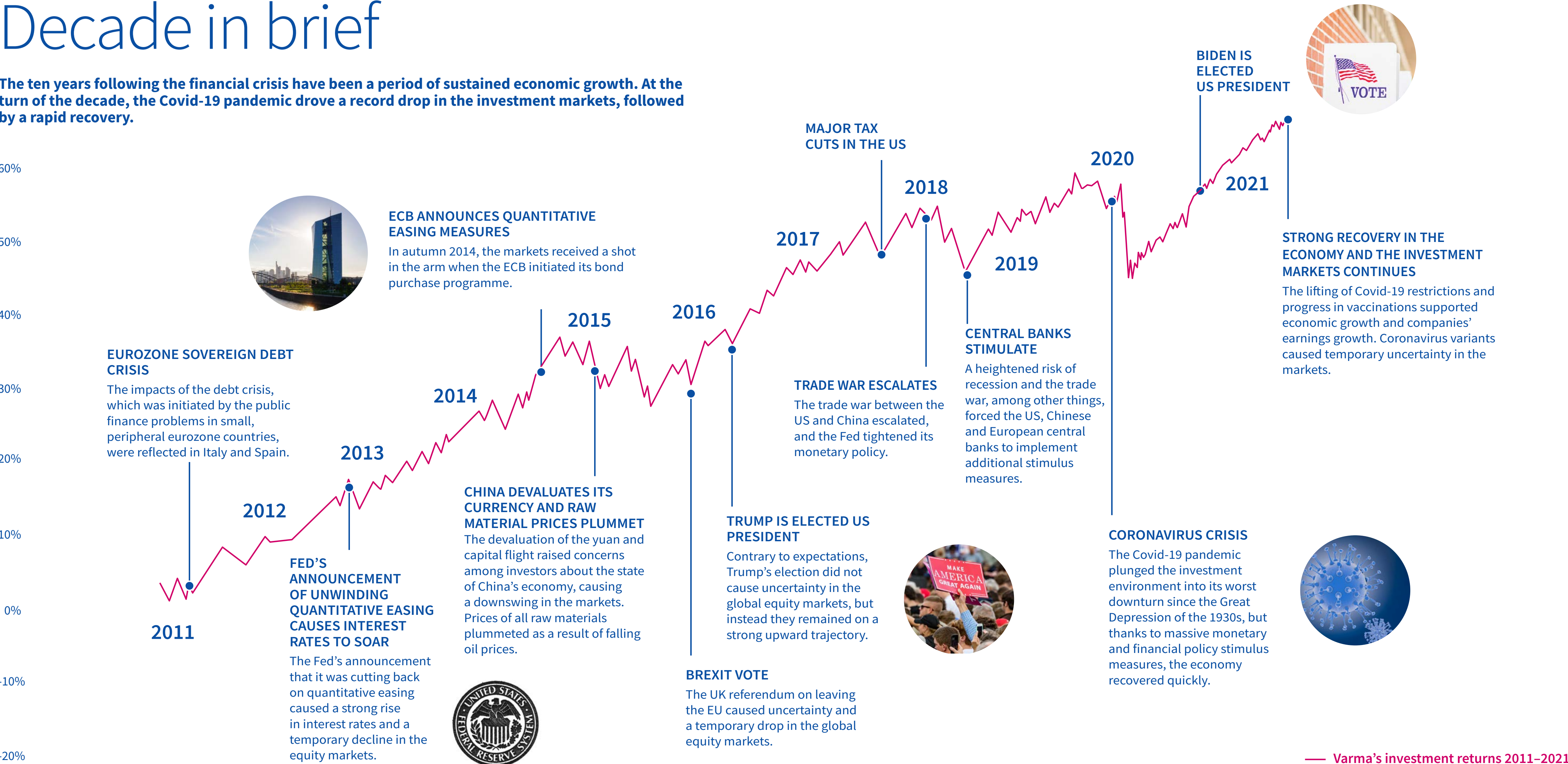
The pandemic has affected our client companies in very different ways. We have had a lot of discussions with companies engaged in on-site work about how to support employees when they experience uncertainty about the continuity of work and possibly falling ill. Discussions with organisations that have switched to remote work have focussed on learning new ways of working and remote leadership. When developing work ability management services, we have taken into account the need for new types of support and shared up-to-date information with our customers through multiple channels.





# Decade in brief

The ten years following the financial crisis have been a period of sustained economic growth. At the turn of the decade, the Covid-19 pandemic drove a record drop in the investment markets, followed by a rapid recovery.



— Varma's investment returns 2011–2021





## Strategy and goals

We invest companies' and employees' funded pension contributions so that their returns guarantee our shared future. Our objective is to secure high-quality pension provision for our customers, foster strong solvency, operate efficiently and guarantee the positive development of premium income.



# Strategy builds on our core task

**Varma's core task is to secure pensions. We are responsible for making sure that the pension funds our customers entrust us with are secure.**

Our current strategy will guide our operations until 2025. The strategy is based on our enduring values and, in keeping with our core task, we are responsible for making sure that the pension funds our customers entrust to us are secure. Our vision is: We support you in a world that's going through incredible change.

Our goal is to prove that we are worth our customers' trust by being the most solvent, efficient and influential earnings-related pension insurance company. We provide the best client bonuses, smooth digital services and high-quality pension insurance services. We are a sustainability pioneer in what we do.

In 2021, we executed our strategy especially by focussing on stronger solvency, development of customer work, utilisation of data and automation, and efficiency.

## Our objectives

In 2021, Varma's targets related to the quality of pension services, the development of premium income, solvency and efficiency.

In terms of our pension-service quality targets, we measure the uninterruptedness of our private customers' income. This means that our customers receive their pension during their first month of retirement. Our target was for 85–90 per cent of new pension recipients to have their pension paid during the first month of their pension entitlement. The figure for 2021 was 86.6 (87.9) per cent.

Premiums written totalled EUR 5.6 (4.9) billion. Premiums written increased compared to the previous year when the temporary reduction in employers' pension contributions due to the Covid-19 situation lowered the premiums written. Premiums written is based on the total payroll, which in 2021 increased 6.6 per cent from the previous year,



thanks to the good performance of our client companies.

Varma’s solvency strengthened significantly in the course of the year. Solvency capital reached a new record high of EUR 16.9 (11.5) billion at the end of the year. Varma is the most solvent earnings-related pension company in Finland.

Varma manages pension cover very cost-effectively. We used 62 (61) per cent of the amount of contributions reserved for operating expenses, making us the most efficient earnings-related pension insurance company in Finland. The smaller the percentage is, the more efficient the earnings-related pension company is.

Thanks to the best efficiency and strongest solvency in the earnings-related pension sector, the client bonuses Varma will pay for 2021 will be the highest in the company’s history and in the sector.

Our values

We are guided in our work by our values: courage, reliability and sustainability – with joy and passion.

**Courage:** We boldly find new ways of working, together with our customers. Our courage stems from trust, co-operation and strong competence.

**Reliability:** We work openly and with integrity. We keep our promises to clients, partners and each other.

**Sustainability:** We continuously develop our responsible ways of operating. For us, sustainability means making long-term choices to secure pensions and improve operational efficiency.

We work and live our values every day with

joy and passion.



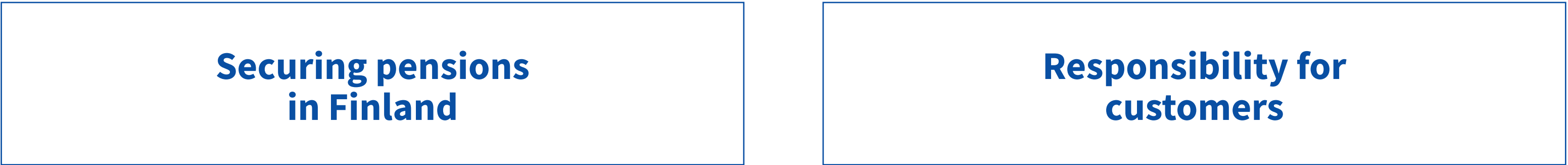
Varma is the most solvent and efficient pension insurance company.

62%

We used 62 (61) per cent of the amount reserved for operating expenses.



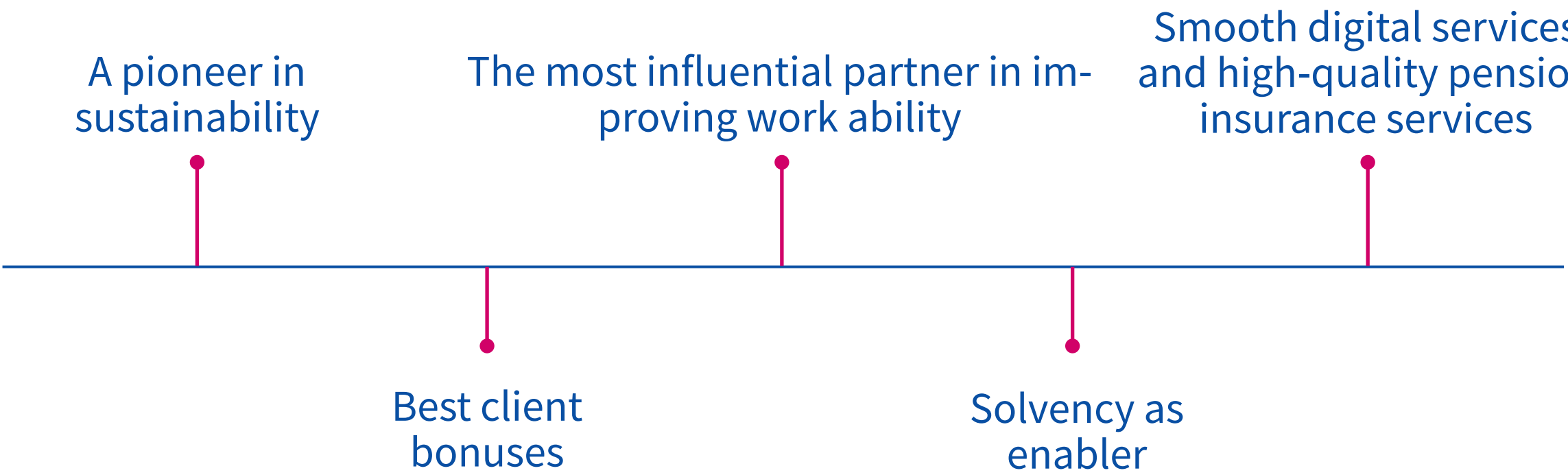
# Varma's core task



## Vision

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

## Strengths



## Values

- With joy and passion
- Reliability
- Sustainability
- Courage



## Changes and opportunities in the operating environment

### Varma's targets

### Quality of pension services

### Solvency

### Premiums written

### Efficiency

#### CHANGES



- Private customers' expectations for broader digital services that are closer to real time.
- Need for high-quality personal customer service. Some elderly private customers and those in a challenging life situation have no access to digital services.
- Impacts of the exceptional circumstances due to Covid-19, the transformation of working life and the rising retirement age on work ability.

- Accelerating inflation led to interest rates rising from the extremely low levels.
- Rally in the equity markets continued.
- The Fed started to dial back its quantitative easing measures and signaled interest rate hikes in 2022.

- Impacts of the Covid-19 pandemic on companies' operations: hampered or stronger business, development of new business.
- Structural transformation of working life and companies: entrepreneurial work is increasing, and most new jobs are being created in SMEs.
- Labour shortage in different industries
- The development of Finland's age structure: the number of people in working life will decline.

- Competition in the earnings-related pension sector and the criteria for client bonuses highlight efficient implementation of pension provision.

#### OPPORTUNITIES

- Speeding up and improving customer service through automation and software robotics.
- Using digitalisation to develop services that match customer needs.
- Developing service models to be able to offer high-quality personal services in cases where digital services do not meet customer's needs.

- Seeking return opportunities outside the traditional equity and fixed income investments.
- Exploring hedging strategies in case of major market corrections.

- The Incomes Register makes it possible to develop real-time insurance services.
- Use of digitalisation and data to develop disability risk management services.

- Changes brought about by Covid-19 in how work is performed: increased remote work, hybrid work, self-management skills, new digital tools.
- Automation and software robotics
- Collective self-direction
- Efficient and agile IT system development



Successes

Varma’s targets

Quality of pension services

Solvency

Premiums written

Efficiency

SUCSESSES



- Pension applications processed 1 day faster than the sector average and as fast as in the previous year.
- Extending the use of software robotics to different stages of the pension application process.
- Phone service for private customers received a grade of 9.4 (on a scale of 0–10).
- Private customers’ use of digital services up 14%.
- Of those who sought rehabilitation on their own and started a rehabilitation programme, 80% returned to working life.

- Varma’s investments performed strongly owing to a successful allocation.
- Solvency strengthened during the year, and investment operation’s functional capability remained strong.
- Emissions from investments declined in line with the targets of the climate policy. At the end of 2021, the carbon intensity of equity investments was down 30 per cent compared to the 2016 level and that of listed corporate bond investments 23 per cent.
- EcoVadis, an international corporate sustainability assessment specialist, awarded Varma the Platinum EcoVadis Medal. Varma ranked in the top 1% of the 75,000 companies analysed.

- Total payroll, which forms the foundation for contribution income, increased 6.6%, stimulated by the good development of Finland’s economy and businesses.
- New Varma Online Service for employers and entrepreneurs for taking care of pension insurance matters with ease. The service also includes tools and knowledge-based support for developing work ability.
- The renewed application analytics service provides employers with a comprehensive picture of employees’ work ability and the related risks.

- We used 62% of the assets reserved for operating expenses.
- Development of our work culture: second highest AA+ rating for Varma in the PeoplePower index (Eezy Spirit’s employee survey).

CONTINUING IN 2022

- Ensuring uninterrupted income for private customers: swift processing of pension applications and smooth payment of pension after the pension decision is made.
- Development of digital services for private customers.
- Development of operational models, services and partnerships within rehabilitation.
- Development of service processes within rehabilitation and disability pension services for private customers.

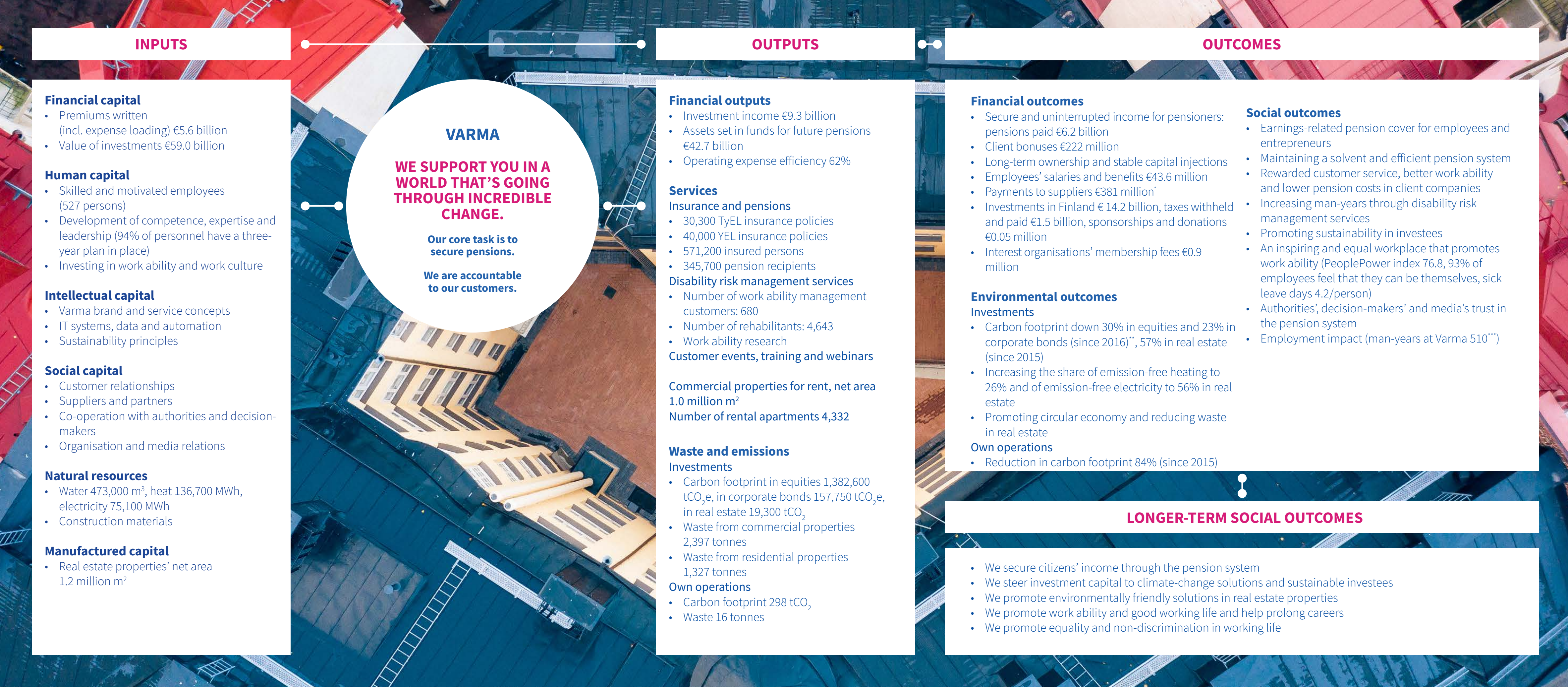
- Investment risk diversification, market forecasting, and active risk level management.
- Strengthening of the allocation strategy.
- Broader analysis of climate risks.
- Development of sustainability data.

- Development of insurance service models and processes, and digital services.
- Leading with data and knowledge in the management of disability risk.
- Development of service models and services for work ability management.

- Continuous development of management, ways of operating, processes and the work culture.



# How Varma creates value



\*Includes Investment Operation's purchases, which were not included in the previous year's figure.  
\*\*The calculation formula has changed.  
\*\*\*Absences and vacations and work input of part-time and hourly workers taken into account.





# Earnings-related pension system

## **Pension accrues from all work and self-employment**

In Finland, pension cover consists of statutory pension for employees and entrepreneurs, and national pension and guarantee pension, which supplement the statutory pensions. The amount of national pension is adapted according to the amount of earnings-related pension. Earnings-related pension accrues from all work and self-employment.

Earnings-related pension is based on a defined benefit scheme, which means that pensioners receive their earned pension amount from the moment of their retirement for the rest of their lives. The level of pensions being paid is not affected by, for example, changes in the pension assets' investment returns. Pensions are paid in the promised amount regardless of economic cycles.

## **A strong pension system works smoothly also in exceptional circumstances**

A reliable earnings-related pension system creates stability for the economy and for society under exceptional circumstances as well. Defined-benefit earnings-related pensions provide security for the insured and economic stability by upholding pensioners' purchasing power also in times of otherwise muted demand in the economy.

Trust in earnings-related pensions has remained strong also when the Covid-19 pandemic put society to the test.

## **Earnings-related pensions are partly funded in advance**

The majority of earnings-related pensions that are currently being paid are financed directly through pension contributions paid annually by employees and employers. However, pensions are in part paid out using assets and the return on those assets that are set aside in funds. In other words, a proportion of the annual TyEL pension contributions is placed in funds for pensions to be paid out later on. Entrepreneurs' earnings-related pensions are not funded in advance.

Pensions are well secured under the Finnish statutory earnings-related pension system. The financing of earnings-related pensions is influenced by economic growth and the employment rate, but also by the returns on the invested pension assets.

Pension assets are invested profitably and securely. Successful investment activities mitigate the need to raise pension contributions in the future. The strong solvency of earnings-related pension insurance providers is important, since it affects risk-taking and return opportunities. Strong solvency also facilitates the timing of investment decisions in fluctuating



market conditions. Thanks to good investment returns, Varma's solvency capital reached a new record high in 2021.

The financial and social sustainability of the pension system requires longer careers than currently. Varma contributes to achieving this target by offering its insured vocational rehabilitation when their work ability is threatened. Varma aims to manage the disability risk it insures by offering guidance and support to its customers.

### **Earnings-related pension insurance companies compete with one another**

The earnings-related pension insurance system is decentralised. This means that earnings-related pensions and pension assets set aside in funds for their payment are managed by several pension companies, industry-wide pension funds and company pension funds.

Employees covered by earnings-related pension insurance have the same insurance cover regardless of which insurance company the employer has chosen for the arrangement of its employees' insurance cover. From the perspective of an individual insured person, the earnings-related pension system is simple and the accrual of pension benefits is transparent. Pension accrual is maintained even if the employer changes, and pension is applied for from just one company, according to the so-called principle of the last institution.

Earnings-related pension insurance companies compete with one another in terms of investment results, operational efficiency and the quality and effectiveness of their customer services. Private sector earnings-related pension insurance companies are jointly liable in a situation where, for example,

an insurance provider goes bankrupt. This is one of the reasons why their solvency levels and risk-taking in investments are regulated.

### **Main principles of the earnings-related pension system are sustainable**

Finland's earnings-related pension system has been reformed regularly. As of the beginning of 2022, there will be changes to survivors' pension benefits. The goal is for survivors' pension to better meet the current needs of families and society. The reform limits the duration of surviving spouse's pension and improves the status of common-law spouses. The changes do not affect surviving spouse's pensions that have already been granted. The survivors' pension cover of children is improved.

In 2021, the Finnish Centre for Pensions published the report it had commissioned from professor Torben M. Andersen on pension adequacy and pension system sustainability. Finland's statutory earnings-related pension insurance is stable and robust, and fulfils well its objective of securing people's income after retirement. In the longer term, the pension system faces financing challenges. According to Andersen, Finland must continue reforming its pension system in order to strengthen pension financing.

In 2021, the Finnish pension system ranked seventh in an annual international comparison, the Mercer Global Pension Index. The index compares pension systems based on the adequacy of pensions, integrity of governance and sustainability of the pension system. Finland was ranked number one in terms of the reliability and transparency of its pension system governance for the eighth time in a row. Finland's ranking declined two places, in spite of a higher overall score.

**Trust in earnings-related pensions has remained strong also when the Covid-19 pandemic put society to the test.**







# Sustainable Varma

Owing to our societal role, our responsibility for managing pension assets, and for our customers, Varma employees and our shared environment spans far into the future. Sustainability is part of our strategy. Our goal is to be a pioneer in sustainability.



# Sustainable Varma

Sustainability is an integral part of Varma's core task – securing pensions. 'Sustainable Varma' is also a key theme of our strategy, and sustainability is part of our everyday work and business.

For Varma, sustainable operations mean first and foremost securing solvency, smooth implementation of pension provision and promoting work ability. Sustainability is an integral part of our investment operations and ownership practices.

We bear our responsibility especially for mitigating climate change and other adverse environmental impacts, by ensuring the well-being at work of Varma employees, and by cost-effective operations and business ethics. We actively and openly disclose information on our operations to our stakeholders, and take a stand on societal issues, especially related to our sector.

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

## Our sustainability programme is based on a materiality assessment

Varma's sustainability programme builds on a materiality assessment that was carried out in 2018. We looked into our stakeholders' expectations concerning sustainability at Varma and communication

on the matter, and analysed the business impacts of sustainability issues and the impact our business has on society and the environment.

The stakeholder survey consisted of a questionnaire and interviews. The survey was sent out to a broad group of people, representing different stakeholder groups: entrepreneurs, representatives of client companies, private customers, commercial property customers, Varma employees, partners and service providers, representatives of Varma's administration, representatives of organisations and associations in the pension sector, labour market representatives, legislators, nongovernmental organisations and representatives of the media. Nearly 2,000 people responded to the survey. We also performed 17 interviews with members of Varma's Board of Directors, management and experts, among others.

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





Above all, our stakeholders expected us to secure solvency and provide smooth pension services – in other words, to take first-class care of our responsible core task of securing pensions. Solvency serves as the foundation for our sustainable operations.

In our stakeholders' view, climate change mitigation and responsible investment were other issues that rate high in importance for a company like Varma. We were also expected to provide insight into and a means for developing good working life and especially work ability management. Responsibility for Varma employees has always been at the very core of the sustainability programme.

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

We performed a new materiality assessment in 2021. Again, we made use of a stakeholder survey and the Executive Group's sustainability workshop in order to identify sustainability priorities and how our stakeholders' expectations and our operating environment have changed over the last few years. We identified themes in our stakeholders' expectations and our operating environment that have further grown in importance. Examples of these are biodiversity, circular economy, human rights and promoting work ability. Taking care of our

responsible core task, such as securing solvency and ensuring smooth implementation of pension cover, were still among the most important themes raised by our stakeholders.

The priorities identified in the materiality assessment are part of our new sustainability programme, which we will publish in 2022, including the targets and indicators. The contents of our Annual and Sustainability Report 2021 are based on the materiality assessment and the related sustainability programme from 2018.

### **Sustainability is visible in the organisation**

Varma's Executive Group oversees sustainability issues. Until the end of 2021, they were the responsibility of the Senior Vice President of HR, Communications and CSR. The Executive Group discusses all major projects and decisions relating to the development of sustainability. Varma's Board of Directors discusses, in addition to the sustainability programme, the company's main sustainability policies. In 2021, the Board of Directors addressed current sustainability and responsible investment themes, as well as integrating sustainability in the Investment Operation's performance-based remuneration system. The Board of Directors' Audit Committee reviewed climate scenarios and the related climate risks.

Until the end of 2021, sustainability measures and communication were co-ordinated by the Sustainability Manager, supported by a Sustainability Specialist. Furthermore, the Director

**We will publish our new sustainability programme in 2022.**

of Responsible Investment and a Responsible Investment Analyst have been working in Investment Operations. The Director of Responsible Investment co-ordinates and develops responsible investment in different asset classes. The management of responsible investment is discussed in more detail in the section [Responsible investment](#).

Since the beginning of 2022, changes have been made to Varma's sustainability organisation. Sustainability management was transferred entirely to the Director of Responsible Investment, who from now on serves as the Sustainability Director. The new sustainability department operates within Investment Operations. The Sustainability Director reports to the Deputy CEO, who will oversee sustainability issues in the Executive Group.

Furthermore, a number of specialists in all parts of the organisation develop sustainable operations in their functions. In 2021, we worked on Varma's sustainability programme, calculated emissions from our value chain and continued the human rights assessment, among other things. A large number of Varma employees from different parts of the organisation participated in this work.

Varma has two working groups that focus on developing sustainable ways of operating: the Green Office team and the equality and non-discrimination group. The Green Office team co-ordinates Varma's environmental programme, while the equality and non-discrimination group focusses on promoting equality and equity among Varma employees.

**Read more about our sustainability work on our website.**





Our key sustainability targets and their follow-up

Sustainability area	Areas we monitor	Indicator / guiding principle	2021	2020
<b>Mitigating climate change*</b> Main target: carbon-neutrality by 2035	Climate allocation 20% of the portfolio by 2025	% share of the portfolio	18.2%	12.4%
	Emissions from listed corporate bonds and equities down 50% by 2027 (compared to 2016)	% share of emissions reduction	Equities -30% Corporate bonds -23%	Equities -16% Corporate bonds -25%
	Exclusion of thermal coal from direct equity investments and exchange-traded funds (ETF) by 2025 and exclusion of oil exploration by 2030	% share of investments in companies that rely on coal for more than 5% of their operations, % share of investments in equities in the oil exploration sector	Coal 2.7% Oil exploration 0.4%	Coal 1.6% Oil exploration 0.5%
	Emission-free electricity in real estate investments by 2025	% share of emission-free electricity	56%	23%
	Emission-free heat in real estate investments by 2030	% share of emission-free heating	26%	19%
	Emissions from commuting down by 10% in 2021	Reduction, %	-6%	-
<b>Promoting work ability and good working life</b>	We support our customers in managing disability risk, and we develop work ability management tools and practices	Customer experience of the impacts of work ability management co-operation (on a scale of 1–10, average)	7.0	7.5
	We ensure that people who are retiring receive uninterrupted income	% share of pensioners that receive uninterrupted income during the first month of their retirement	87%	88%
	We exert our influence to ensure that the self-employed have a sufficient level of social security	We actively communicate to entrepreneurs the importance of YEL income	-	-
	Largest possible share of rehabilitants returning to working life	% share of rehabilitants returning to work*	80%	83%

\*Calculation method changed since the previous year. Now the indicators for both years only include the persons who have started a rehabilitation programme instead of all the persons applied for rehabilitation.



Sustainability area	Areas we monitor	Indicator / guiding principle	2021	2020
Ethical business and open communication	Every Varma employee complies with the Code of Conduct and other common guidelines	Completion rate of the Code of Conduct online course	Completed by every Varma employee every two years	100%
	High level of data protection and data security	Number of minor data security violations under the GDPR, number of violations reported to the data protection ombudsman	24 1	39 1
	We take responsibility for the sustainability of our supply chain	Supplier Code of Conduct attached to contracts	-	-
	Our business is transparent and we boldly engage in dialogue	The openness dimension of the Media Barometer (reporters’ assessment of the openness of communication on a scale of 1–5)	3.0	2.8
Responsibility for Varma employees	We take care of Varma employees’ work ability	Work ability assessment (estimate of own work ability on a scale of 0–10)	8.6	8.6
	We support Varma employees’ growth as experts	% share of Varma employees who have a completed three-year personal development plan	94%	99%
	At Varma, everyone is free to be themselves	% share in the equality and non-discrimination survey: Are you free to be yourself?	the equality and non-discrimination survey takes place every two years	93%
	Varma is an equal-opportunity employer	Equality target: either gender accounts for at least 40% of the Executive Group and middle management by 2022.	Executive Group: women 37.5%, men 62.5% middle management: women 44%, men 56%	Executive Group: women 37.5%, men 62.5% middle management: women 46.5%, men 53.5%



# Varma’s Sustainability Programme







## Responsibility for pension assets

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





# Strong solvency secures pensions

**Responsibility for pensions extends well into the future. Our task is to strive for the best possible return on our investments through controlled risk-taking in order to increase Finns' pensions assets and secure the payment of pensions. Strong solvency upholds confidence in pension cover and mitigates the most severe pressure to increase pension contributions.**

Strong solvency capital acts as a risk buffer for investment activities and enables Varma to aim for higher returns on pension assets by making higher-risk investments with a higher return potential, for instance through equities.

Thanks to Varma's strong solvency and active risk management, the company is well-prepared to secure pensions also when investment market volatility increases.

**Varma is an important investor in Finnish companies and, through its investments, promotes and enables their long-term development.**

## **Economic growth and employment as pillars of the pension system**

In addition to pension companies' investment returns, economic growth and the development of employment in Finland are critical issues for the pension system. In order to secure pension payments well into the future, the employment rate must remain high. Only companies that employ and are viable and people who are in working life pay pension contributions that are used to pay current and future pensions.

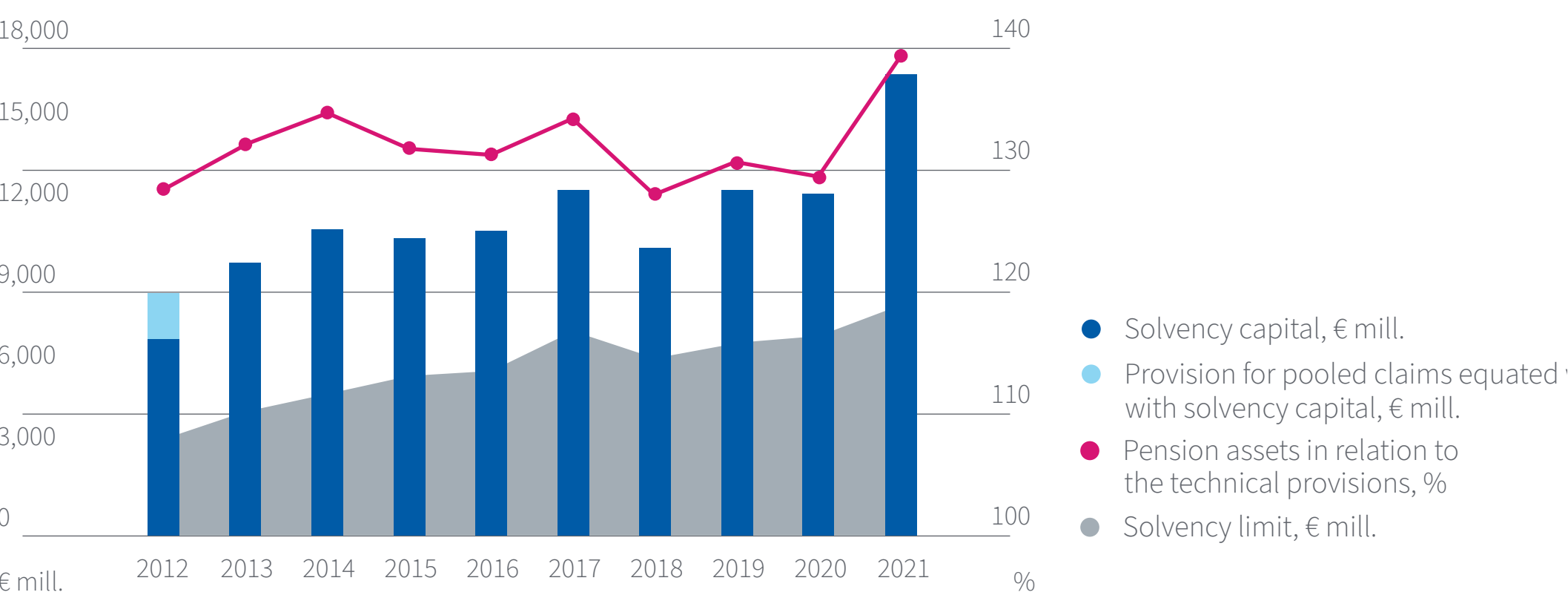
The majority of pension contributions is used to pay the pensions for that year, but part of them is set aside in funds for future pensions. This is why



15 largest direct equity investments

	€ million	Varma's holding of shares, %
Sampo Plc	982.3	4.01
Nordea Bank Abp	702.1	1.64
Nokia Corporation	546.3	1.73
Neste Corporation	456.6	1.37
Kojamo Plc	410.5	7.83
KONE Corporation	406.3	1.22
Fortum Corporation	403.5	1.68
Wärtsilä Corporation	393.3	5.37
Outotec Oyj	283.4	3.66
UPM-Kymmene Corporation	273.6	1.53
Terveystalo Plc	262.3	17.30
Elisa Corporation	199.0	2.19
Tornator Oyj	192.9	15.32
Apple Inc	188.2	0.01
Microsoft Corp	181.9	0.01

Solvency 2012–2021



the development of premium income plays an important role in securing pensions.

Varma’s premium income stood at EUR 5.6 (4.9) billion in 2021. As the Covid-19 situation eased, the TyEL payroll of employer-customers insured by Varma grew strongly, by 6.6 per cent from the previous year.

EUR 55 (49) million in new TyEL policies were sold, and during the 2021 account transfers, EUR 26 (21) million in net TyEL income was transferred from Varma to other earnings-related pension companies. In 2021, Varma received insurance portfolios worth approximately EUR 61 million from the pension fund Liikennepalvelualojen Eläkekassa Viabek.

Earnings-related pension is an essential part of Finnish social security. In 2021, Varma paid EUR 6.2 (6.0) billion in pensions to approximately 346,000 (347,000) recipients.

We invested EUR 14 billion in Finland

Varma is an important investor in Finnish companies and, through its investments, promotes and enables their long-term development. Varma invests in companies’ shares and provides financing through different loan instruments. Varma also owns real property.

At the end of 2021, 24 (26) per cent, or EUR 14.2 (12.4) billion, of Varma’s investments were invested in Finnish society in one form or another.

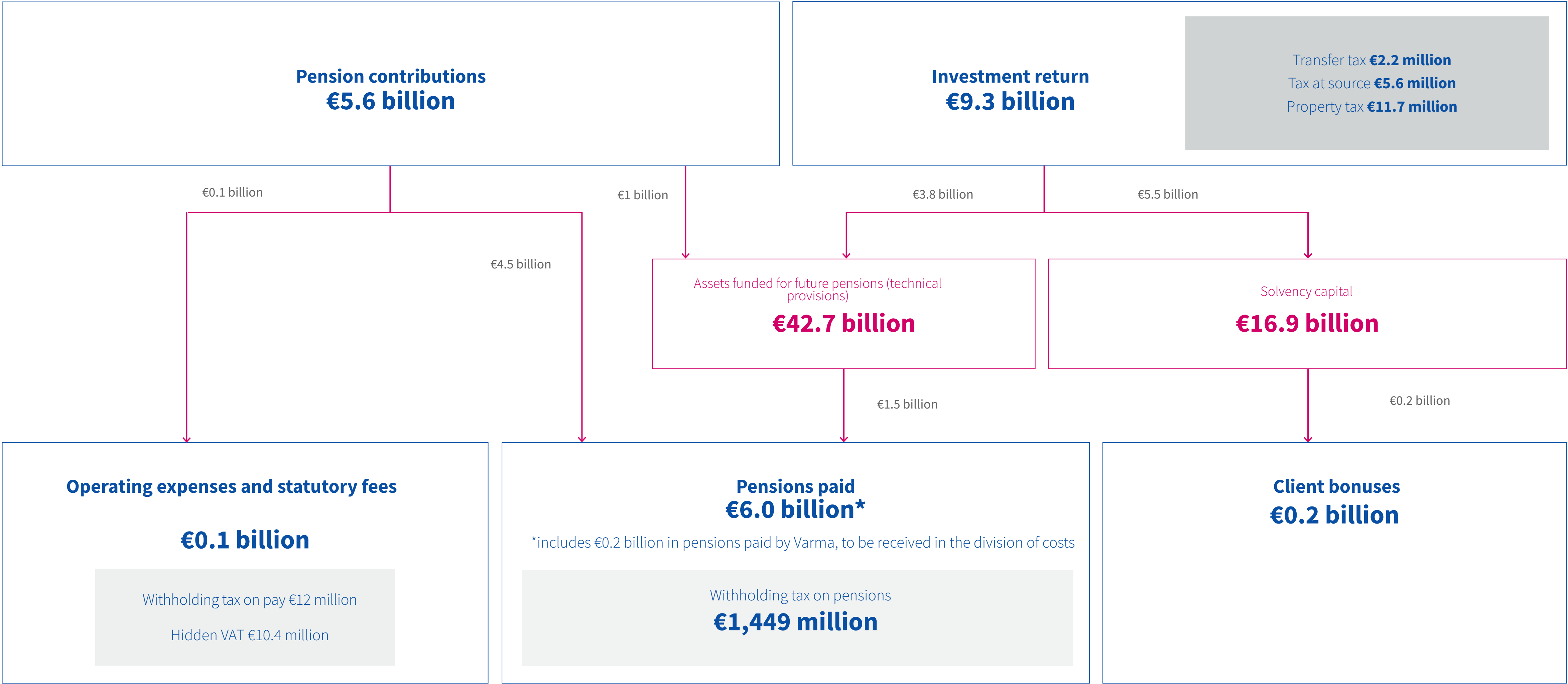
We report on our financial performance quarterly, and the most recent [financial information](#) is available on our website.

Our task is to strive for the best possible return on our investments through controlled risk-taking in order to increase Finns’ pensions assets and secure the payment of pensions.

Read the latest financial information on our website.



# Varma’s cash flows from pension contributions and investment returns







# Tax responsibility

**For Varma, tax responsibility means abiding by tax laws and regulations and the company's own taxation-related principles and promoting tax transparency.**

In 2021, we started to apply the [tax policy](#), drawn up at the end of 2020, to our operations. The tax policy defines Varma's tax strategy and principles according to which tax matters are managed within the company.

The tax policy increases the transparency of Varma's operations and supports Varma's governance by compiling tax-related operating principles into a single document. Varma's tax policy is available on the company's website.

Varma is committed to acting in compliance with tax laws and regulations and rejects actions that, instead of business targets, aim to secure tax advantages contrary to the intention of the legislature. Varma does not engage in aggressive tax planning or partake in investment structures whose purpose is to avoid reporting obligations or make the beneficial owner of the income unidentifiable.

Varma is liable to pay income tax only to Finland, as we provide earnings-related pension insurance only in Finland. In our investments, we comply with the tax laws and international tax rules of the investment country in question. In the absence of clear guidance by tax laws or rules, our leading principles are prudence and tax transparency.

Our principle is to avoid double taxation on investment returns, as it would lead to lower investment returns and create pressure to raise pension contributions. Avoiding double taxation is also a basic principle of international tax regulation. In terms of our earnings-related pension system, it is important that capital gains and dividend and interest income obtained from abroad can be used to the fullest extent possible to cover statutory earnings-related pension security in Finland.

Varma closely monitors, e.g. the EU list of non-cooperative jurisdictions (i.e. the EU's blacklist),



and Varma does not invest in countries that are on the list or in investees situated in low tax rate countries. Investments are made through larger and known funds which may also be situated in low tax rate countries. We do not make this choice for tax reasons, but instead for the options that are offered internationally to institutional investors.

Varma’s approach is also that the tax domicile of the funds commits to an exchange of tax information between authorities. We also require that the fund management companies used by Varma take care of reporting and the payment of taxes in the countries in which business activities are pursued. International tax regulation and automatic exchange of information provide governments with better conditions for collecting taxes.

Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations. International tax development projects, such as the OECD’s Base Erosion and Profit Shifting (BEPS) project, combat tax avoidance and increase transparency and the automatic exchange of information in taxation. Various standards and recommendations related to tax sustainability reporting, such as the Global Reporting Initiative (GRI) and Principles for Responsible Investment (PRI), support the development of sustainable tax reporting practices.

EU directive increases tax transparency

Varma also adheres to the reporting obligation in accordance with the 6th Amendment of the Directive on Administrative Cooperation (DAC6), which concerns tax planning structures that cross EU borders. The act on the reporting obligation concerning cross-border tax planning structures took effect at the beginning of 2020.

The purpose of the directive is to increase tax transparency and prevent aggressive tax planning. The act is retroactive and applies to arrangements that have been made or were ready to be made as of 25 June 2018.

Varma’s investment activities are also regulated by the act on certain cross-border hybrid arrangements (1567/2019) and the related paragraphs 5 and 6, article 4, of the act on relief of double taxation (1552/1995). The purpose of the regulation is to prevent hybrid arrangements leading to tax avoidance and to abate tax impacts caused by differences in tax treatment.

Varma's tax footprint

Our tax footprint is made up of, in addition to our operations, the taxes paid by the real estate subsidiaries we invest in.

In 2021, Varma paid out pensions in the amount of EUR 6.2 (6.0) billion, and of this amount, Varma paid EUR 1.4 (1.4) billion to tax authorities as withholding tax.

We paid EUR 12 (13) million in withholding tax on our employees’ salaries.

We avoid the double taxation of investment returns, because it would lead to lower investment returns and create pressure to raise pension contributions.

Varma’s taxes relating to investments totalled EUR 19.5 (15.2) million in 2021, including EUR 2.2 (0.3) million in transfer tax, EUR 11.7 (11.8) million in real estate tax for plots and buildings, and EUR 5.6 (3.1) million in tax at source for foreign dividend income.

Hidden VAT included in operating expenses totalled EUR 10.4 (9.6) million. These are taxes that

Varma has paid on its purchases without being able to fully deduct VAT on them, because an earnings-related pension company’s business is mainly exempt from VAT.







# Responsible investment

**Sustainability is an essential part of Varma's strategy and an integral part of our investment operations. As an important focal point of responsible investment, Varma paid attention to human rights as part of the investment process in 2021. We also developed the sustainability of our hedge fund investments.**

As a long-term investor and earnings-related pension company, sustainability is an important target for Varma, as the investment decisions we make influence the operating conditions of companies and other investees. Our goal is to identify investees that benefit from sustainable operations as well as the return potential of such investments.

Responsible investment means taking into account, in addition to return expectations, environmental, social and governance (ESG) criteria in investment operations.

From an investor's perspective, making allowances for sustainability does not conflict with return expectations. For us, sustainability is a means of securing long-term investment returns while ensuring that risks and opportunities are taken

into account as broadly as possible in investment decisions.

## **Principles guiding our responsible investment**

In addition to Varma's [principles for responsible investment](#), [climate policy for investments](#), and [ownership policy](#), the company's responsible investment is guided by the UN-supported Principles for Responsible Investment (PRI), which Varma signed in 2011. We have been reporting on responsible investment annually in accordance with the PRI. Furthermore, our operations are steered by the [active ownership and engagement principles](#), which were updated in autumn 2020. The principles



cover direct equity and bond investments, and they complement the ownership policy.

In early 2021, Varma published a [tax policy](#), which outlines Varma's tax strategy and principles, also in relation to investment activities. Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations. Read more about our tax policy in the section [Responsibility for pension assets](#).

### Climate targets steer our investments

Mitigating climate change is one of the main goals of Varma's responsible investment. The climate targets together with the Principles for Responsible Investment guide our operations and cover Varma's investment assets in their entirety. The principles are applied differently depending on the asset class and type of investment. The principles have been approved by Varma's Board of Directors.

During the reporting year, we continued to strive for the climate targets set in 2019 in different asset classes and made new investments in climate-friendly investees. We organised a webinar where we reviewed Varma's measures to combat climate change. The webinar was open to all our stakeholders. At UN Climate Change Conference (COP26) in Glasgow, we also participated in an event organised by the Climate Investment Coalition, where we shared information about our investment portfolio's climate allocation, through which we invest in green initiatives.

In 2021, we also developed the sustainability and transparency of our hedge fund investments. At the end of 2021, 96 per cent of the funds had a responsible investment policy in place. During the review year, Varma also assessed the climate impacts of its hedge fund investments for the first time.

Read more about our climate targets and actions to mitigate climate change in the section [Responsibility for the environment](#).

### Negative screening on ethical grounds and in the name of climate change

In our Principles for Responsible Investment, we have defined the areas that Varma will not invest in as well as the kind of companies that are subject to enhanced ESG monitoring on environmental and other sustainability issues. For ethical reasons, we have excluded from our direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons.

Due to our efforts to mitigate the effects of climate change, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production or production capacity.

We are committed to exiting from thermal coal investments by 2025 and from oil exploration by 2030. At the end of 2021, only 0.4 per cent of Varma's listed equity investments were in oil exploration. Of listed equities, 2.7 per cent was invested in

**At the UN Climate Change Conference (COP26) in Glasgow, we shared information about our investment portfolio's climate allocation, through which we invest in green initiatives.**





companies that rely on coal for more than 5 per cent of their operations.

We have identified industries with a need for enhanced sustainability screening. Investments in these industries are subject to special scrutiny by our portfolio managers. Enhanced sustainability monitoring and analysis concerns, for example, industries that have high exposure to climate risks, such as the oil and gas industry. Portfolio managers must also apply enhanced ESG monitoring when the investment concerns alcohol, gambling, adult entertainment, cannabis and the arms industries, as outlined in our Principles for Responsible Investment.

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

Investees are expected to comply with international norms and standards

In addition to local legislation, we expect our investees to comply with international norms and standards. This means compliance with the principles of the UN Global Compact initiative on sustainability and social responsibility, to which we are also committed. The principles of the Global Compact initiative cover the UN Declaration of Human Rights and Convention against Corruption, ILO labour conventions and the Rio Declaration on Environment and Development.

In 2021, we surveyed how well our hedge fund and real estate fund investments take the Global

Compact Principles in to account in their operations. We also investigated whether our equity and direct corporate bond investees follow the same principles. These surveys encompassed a total of 45.5 per cent of our investments.

We observe compliance with the standards with the help of an external service provider, which upholds a database of companies and their confirmed and suspected violations. The service provider engages in discussions with the companies which are suspected or have been found to have violated the standards and updates the database accordingly. In this way, the portfolio managers always have access to up-to-date company data. Norm violation screening covers listed equities and corporate bonds.

If a company breaches any of the sustainability standards, our first priority is to engage with the company to rectify the detected breaches and change their operating methods. We are able to directly engage with the companies, together with other investors and through the service provider.

In fund investments, Varma also requires the companies in the funds to comply with laws and international agreements. In the event of a possible violation, the fund’s management company contacts Varma and begins an investigation process into the violation. In fund investments, the fund management company is responsible for monitoring the sustainability of the portfolio’s investments.

In index investments, Varma primarily aims to select investments where companies that have committed serious violations are already excluded.

At the end of 2021, only 0.4 per cent of Varma’s listed equity investments were in oil exploration. Of equities and ETFs, 2.7 per cent was invested in companies that rely on coal for more than 5 per cent of their operations.

In index investments, the engagement process is carried out by the investment company. Since Varma does not have direct holdings in index companies, direct engagement is not possible, but Varma does engage with the companies through collaborative initiatives.

Varma classifies violations in direct equity and bond investments into one of three categories: investees that are on an observation list, investees that are involved in an engagement process, and blacklisted investees, i.e. those that are not invested in.

Violations in the third category are placed on an observation list. We mainly engage with these investees through the service provider. The progress made to rectify violations and the situation is monitored regularly.

Violations in the second most severe category are included in Varma’s engagement process. Further investments cannot be made in an investee that is in an engagement process without a decision by the investment committee. At year-end, direct investments included one company where Varma’s own engagement process was ongoing.

In the most severe category, violations in investee companies are automatically blacklisted. In these cases, the violation has been confirmed by more than one sustainability data producer that monitors compliance with international norms. Varma did not have direct investments in blacklisted companies in 2021.



Investee that were involved in Varma’s engagement process in 2021

	Violation assessment*	Violation category	Company’s sector	Number of companies	Violations by continent	Engagement process stage at the end of 2021	Targets 2021
Environmental engagement initiatives	No investees subject to engagement process	-	-	-	-	-	-
Social engagement initiatives	Human rights, labour rights	Varma’s own engagement process	A company in the automotive industry	1	North-America	Discussed by the Investment Committee in 2021	Engagement process and situation update according to plan
Governance engagement initiatives	No investees subject to engagement process	-	-	-	-	-	-

\*Violation definition: ISS Norm-Based Research Company Report (UN Global Compact Pillars)



Varma's own norms-based screening covered 49 per cent of Varma's listed investments.

The norms-based screening of funds is outsourced to a fund management company.

Towards the end of 2020, we adopted a new norms-based screening process based on our engagement principles. In 2021, we were involved in an engagement process with four companies. All the contacts with these four companies related to social matters and, especially, the realisation of human rights or labour rights. As regards the realisation of human rights, we engaged with two energy and utility companies, and as regards the realisation of labour rights, we engaged with two companies in the logistics and automotive industries. These places of business were located in North and South America. At the end of 2021, Varma had an ongoing engagement process in one company within direct equity and corporate bond investments.

In 2021, Varma had a total of 130 engagement processes in which violations of international agreements were addressed together with other investors. Of these, 52 concerned human rights violations.

### Realisation of human rights the focal point of responsible investment

As an important focal point of responsible investment in 2021, Varma paid attention to social issues and especially human rights as part of the investment process. As regards hedge fund and real estate fund investments, we determined whether the funds had signed the UN Global Compact initiative,

whether their responsible investment policies were aligned with the Global Compact, whether human rights violations had emerged in the funds and how they had responded to possible human rights violations.

Governments' human rights violations may be significant, and since 2018, we have used the UN's SDG index to monitor them. In the SDG index, the realisation of human rights at the national level, for example, is assessed using sustainable development goals related to the UN's Universal Declaration of Human Rights that governments have set for themselves. In 2021, we improved the means for assessing governments' sustainability. This included improving the monitoring of the realisation of sustainable development goals, and of corruption and political stability.

### Collaborative initiatives give investors power in numbers

Active ownership and engagement are cornerstones of responsible investment. The purpose of engagement is to promote sustainability themes or address companies' unsustainable operations. The objectives of the engagement process, the size of holding and whether the issue involves taking action on a violation or promoting sustainability themes determine the most sensible means of engagement for the investor. We engage in regular dialogue with the management and the boards of directors. A typical channel for engagement is meetings between decision-making portfolio managers and investee companies. In our company meetings we discuss,

among other things, how they integrate sustainability in their strategy and business.

Investor co-operation through different committees and joint initiatives is a major means of engagement. Varma promotes sustainability in its hedge fund investments as a member of PRI Hedge Fund Advisory Committee. Furthermore, Varma is actively involved in the work of the co-operation organisation SBAI Standards Board for Alternative Investments, which aims to develop good governance and best practices, increase transparency and reduce conflicts of interest in alternative investments. As a member of Institutional Limited Partners Association (ILPA), Varma fosters private equity funds' sustainability and best practices.

Through the world's largest corporate sustainability initiative, the Global Compact, Varma promotes and develops the environmental, social and economic sustainability of companies and organisations. Varma joined the [Global Compact initiative](#) in October 2021.

Because of the importance of mitigating climate change, we want to promote this theme also through investor co-operation. In November 2021, we joined the [Partnership for Carbon Accounting Financials](#) (PCAF). The initiative's goal is to develop a harmonised approach to assess and disclose the greenhouse gas emissions associated with loans and investments. Furthermore, we signed the 2021 Global Investor Statement to Governments on the Climate Crisis in June 2021. The statement calls on political leaders to support action against climate change and to promote investments, for example,

Varma's own norms-based screening covered 49 per cent of Varma's listed investments.

Read more about responsible investment on our website.



in clean technologies and environmentally friendly infrastructure. We have also joined the Science Based Targets initiative. The investors who signed the initiative ask companies with the highest greenhouse gas emissions to set science-based targets to reduce their carbon dioxide emissions. We are also a signatory to the global real estate and construction industry initiative [Net Zero Carbon Buildings Commitment](#), which advocates for carbon-neutral buildings.

Sustainability also visible in the ownership policy

Varma is a major shareholder in Finnish companies. Our ownership policy describes the expectations Varma has of companies in which it is a major shareholder. The policy covers Varma’s equity holdings both in Finland and abroad. Our activities are focussed on companies and themes in which we estimate our expertise can be put to the best use and in which we have significant opportunities to exercise influence. The ownership policy also includes sustainability requirements.

The ownership policy is approved by Varma’s board of directors. At Varma, the share ownership management group is responsible for more detailed guidelines. The group is made up of Varma’s CEO, CIO and the persons participating in shareholder nomination boards as Varma’s representatives. The group decides on the practical application of the share ownership policy, and discusses current topics and future themes.

We have outlined in our ownership policy that we expect clear assessments and reporting transparency from the companies we own on the current and future impacts climate change will have on the company’s operations and growth potential. The reporting should cover how climate change is included in the company’s governance, strategy and risk management, especially in emissions-intensive industries. By reporting on the targets and indicators set by the company, it is possible to monitor the company’s progress.

Our ownership policy further states that we analyse and report on climate-related risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we encourage our investees to do the same. Read Varma’s TCFD report in the section [Responsibility for the environment](#).

Participating in the work of nomination boards is a major means of influencing, since Varma influences its investee companies mainly through the appointment of boards of directors. From the owner’s viewpoint, the board of directors’ role in the company’s strategy, risk management and choice of CEO is becoming increasingly important.

Varma was represented in 27 nomination boards in the year under review. [Memberships in nomination boards](#) are given on our website.

Varma’s representative normally also participates in the annual general meetings of Finnish companies in which we have a holding. We publish our [voting decisions in annual general meetings](#) on

our website. In 2021, Varma was represented in 87 annual general meetings of Finnish companies.

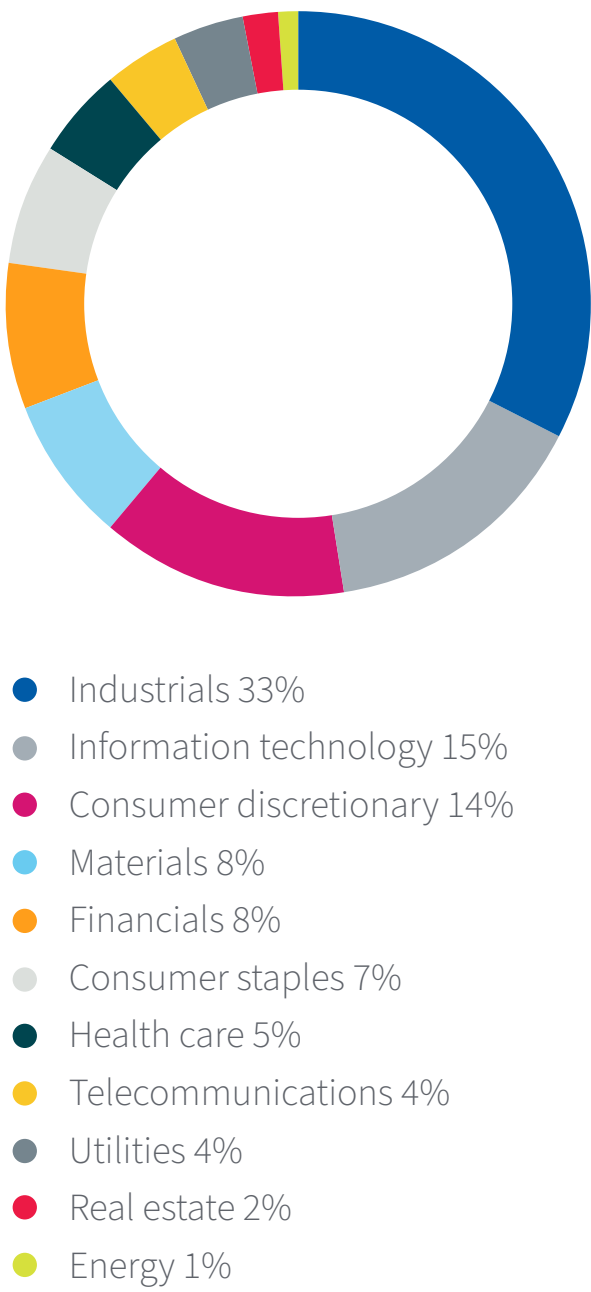
In 2021, we voted at 162 annual general meetings of foreign companies. We extended our voting practices in accordance with the ownership policy to annual general meetings of foreign companies. We voted primarily at the annual general meetings of companies where our holding exceeded 0.5 per cent or was otherwise significant. Additionally, we voted at the annual general meetings of those global companies that are included in our sustainable equity portfolio. At the annual general meetings, we voted in favour of shareholder proposals that advocated reporting in accordance with climate change risks. At the annual general meetings of foreign companies, we voted in favour of four shareholder proposals on, for example, disclosing climate change risks.

Sustainability management and organisation in Investment Operations

The Principles for Responsible Investment, which are approved by Varma’s Board of Directors, form the foundation for our responsible investment activities.

On a company-wide level, the Chief Investment Officer has oversight and accountability for responsible investment. The head of each asset class is in charge of the day-to-day application of the Principles of Responsible Investment. Additionally, Varma’s director of responsible investment develops and co-ordinates, together with their team, responsible investment in different asset classes. The Investment Operations management team

Annual general meetings in which Varma voted in 2021, by industry



regularly addresses matters related to responsible investments.

As of the beginning of 2022, responsible investment is headed by Varma’s sustainability director, who served as the director of responsible investment until the end of 2021.





# Responsibility for customers

We support work performed in Finland by promoting work ability and preventing disability in our client companies. Our job is to make sure that our private customers receive their pensions without delay and that our pension decisions are correct. Our client companies benefit from smooth pension insurance services and competitive bonuses.



# Correct pensions on time

Smooth implementation of pension cover is our core task and a key part of our sustainable operations.

We aim to provide our pension and rehabilitation customers with expert advice and sufficient information in support of their decisions, as well as swift and correct pension decisions.

Applying for pension is a major moment in life, and it should go smoothly. It is important for our customers that we process their pension applications swiftly and with no interruptions to their income. Accordingly, a key target for Varma is to continuously improve the quality of our pension services.

We paid out pensions in the amount of EUR 6.2 (6.0) billion to 345,700 (347,000) people in 2021. The number of pension recipients took a slight downturn in 2021. There are several reasons for this: the long-lasting increase in the number of old-age pension recipients came to a halt due to a decrease in the age cohort, the popularity of partial old-age pension levelled out and the decline in disability pension recipients continued.

### We process pension applications swiftly

We constantly improve the processing of pension applications so that our customers receive a decision on their pension as quickly as possible. In 2021, applicants received an old-age pension decision from Varma in 5 (4) days on average. A decision can be received in two or three days if all the required information is submitted with the application. In 2021, the average processing time for all pension benefits was 19 (19) days.

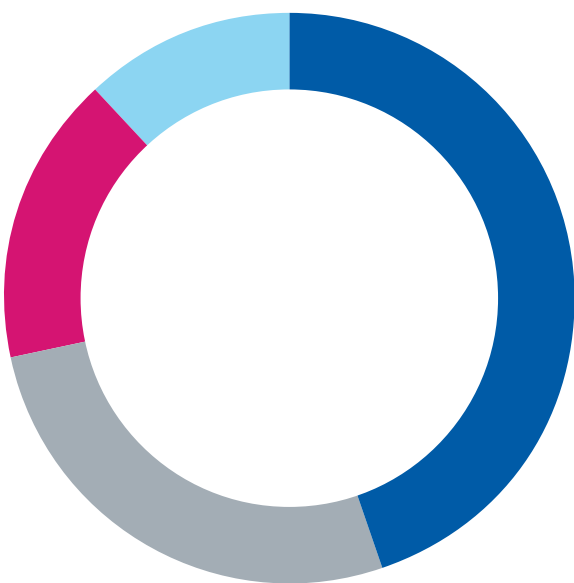
The smooth processing of pensions is based on our specialists' competence, a fine-tuned process, efficient IT systems and the use of automation and software robotics.

Pension applications are processed on average in 19 days.

5 days

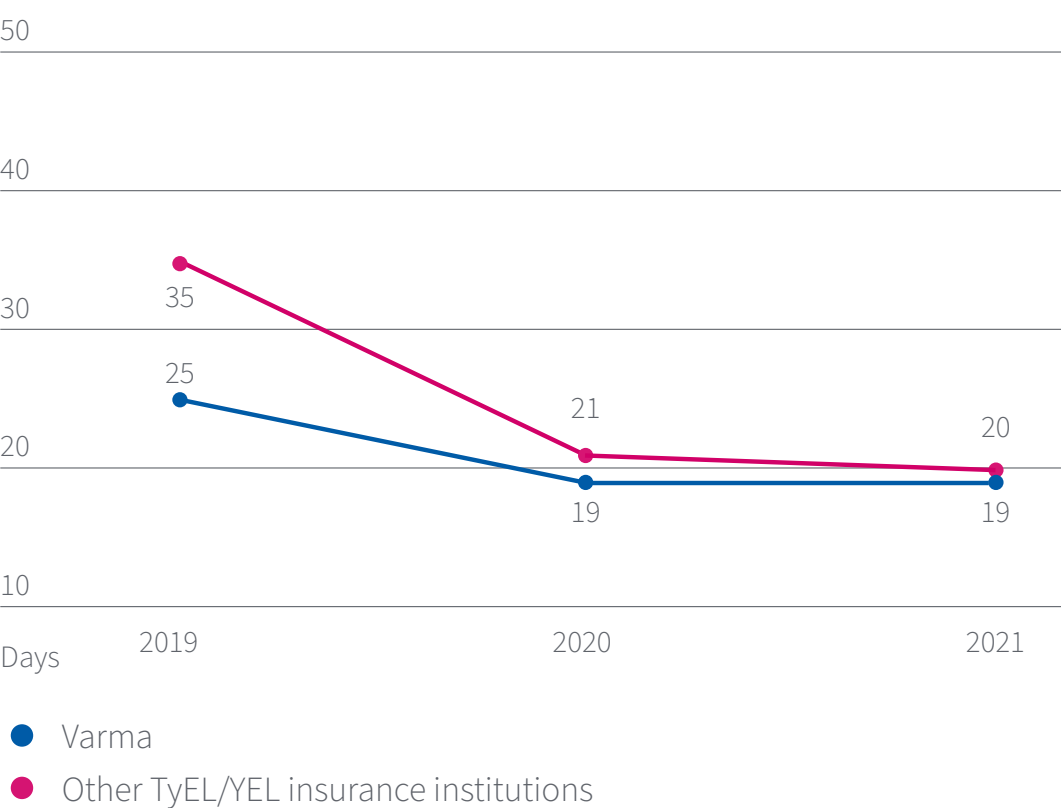
We issue old-age pension decisions in an average of 5 days.

Pension decisions (%)



- Old-age pension, 45%
- Disability benefits, 27%
- Survivors' pension, 16%
- Partial old-age pension, 12%

Pension application processing time in days





# Customer service

## All matters can be handled digitally

Varma's private and corporate customers have a wide range of online services for different needs at their disposal.

In 2021, we revamped our [varma.fi](https://varma.fi) website and our online service for registered users, which is now called the Varma Online Service. The varma.fi website, which takes different customer groups into account individually, is built to provide users with smooth and people-centred service, from information searches to solving problems and buying pension insurance. Via the Varma Online Service, our private customers can take care of their pension matters, and employers and entrepreneurs can manage their insurance and contribution matters in a secure way. With the help of the Varma Online Service's work ability section, employers can build a smooth process for disability risk management, from identifying risks to choosing and implementing improvement measures and following their impacts.

We offer all pension applications in digital format. A growing number of our customers apply for pension online every year: 79 (77) per cent of all old-age pension applications in 2021 were submitted digitally to Varma.

Our pension and rehabilitation customers can choose the e-customer option, which allows them to check their pension or rehabilitation decision in the Varma Online Service. The customer receives a free SMS notification when documents have arrived in the service.

Through the Varma Online Service, our customers can access their pension record and see up-to-date information on the accrual of their earnings-related pension. Customers who have not opted to use this service receive the record by post every three years.

Our pensioners can download their electronic employee pension card to their smart phone or tablet via the Varma Online Service. The employee pension card serves as proof of retirement and entitles the holder to pensioner discounts.

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

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





Our rehabilitation and disability pension services for SMEs and entrepreneurs are based on a regional model: designated specialists in rehabilitation and disability pensions support our customers in seven geographical regions.

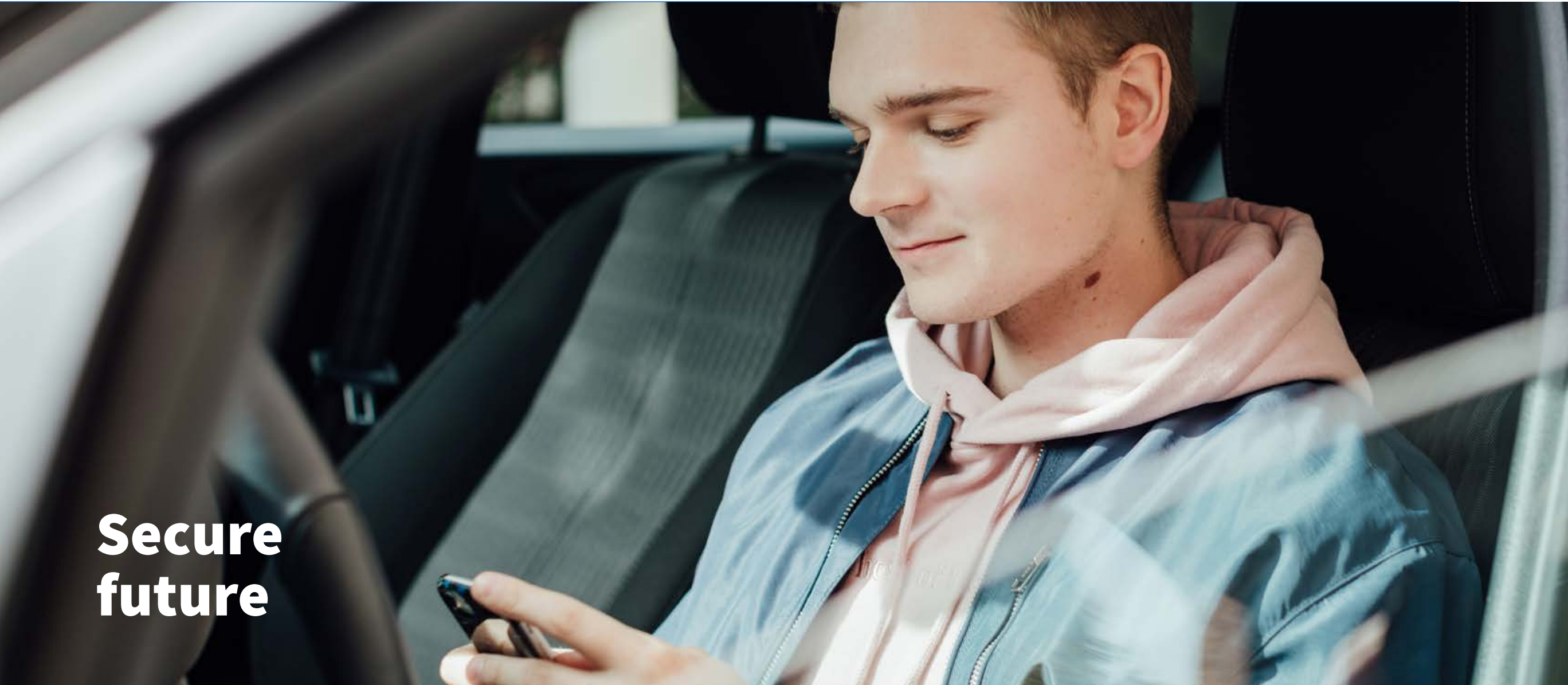
Our employer and entrepreneur customers can also take care of all their insurance matters online. The clear and straightforward service guides the user and provides a secure and quick channel for taking out insurance. Entrepreneurs taking out YEL insurance receive a visual of the impact of their YEL income on social security by means of the calculator embedded in the online insurance application.

In 2021, the Financial Supervisory Authority looked into pension providers’ practices in confirming YEL income. In the background is under-insurance, i.e. some entrepreneur’s confirmed YEL income is lower than their actual work input. YEL income is an estimate of the value of the self-employed person’s work input confirmed by the earnings-related pension company. In 2021,

Varma implemented measures required by the Financial Supervisory Authority by improving the consideration process for confirming the YEL income. Confirming the income is based on the YEL Act, and in the process, we use the Finnish Centre for Pensions’ application guidelines concerning the act as well as information received from the entrepreneur.

On basis of earnings data obtained from the Incomes Register, Varma determines the TyEL insurance contributions of its client companies and the accrued earnings-related pensions of the insured individuals. The Incomes Register is maintained by the Finnish Tax Administration.

The Varma Online Service includes a broad range of tools that provide detailed and almost real-time information on TyEL contributions. You can view the total amount of monthly salaries subject to the TyEL contribution that have been reported via the Incomes Register. Our contribution forecast service can be used to track the current year’s budget and



Secure future

Varma supports youth employment

The ‘Getting young people employed’ programme launched in 2021 by Varma and the Deaconess Institute’s Vamos youth service brings together young people who are looking for work and companies that are recruiting.

Varma wants to prevent the marginalisation of young people and help young people find employment through concrete actions. Vamos supports especially those young people who have not found employment or a place to study on their own.

“All young people have the right to be a meaningful part of society, and each one of them is needed from the perspective of both future working life and the sustainability of the pension system. There is a growing number of young people in Finland who are not able to integrate into working life. The number of people who are under

30 and collecting disability pension has risen by about a third in ten years,” says **Suvi Hintsanen**, Senior Vice President, Client Services.

When the needs of the young person and the company are aligned, they are initially offered six months of paid employment. A Vamos coach helps engage the young person in the job. For businesses, the programme offers an opportunity to find new employees, reduce recruitment risks and engage the new generation in working life. It is also a concrete act of sustainability.

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

	2021	2020	2019
Pension Services’ phone service	82	80	75.6
Pension Services’ application and payment process	65	65	64.7
Phone service for client companies	71	73	72.5
Email service for client companies	40	57	45.2
Account and development managers’ contact with clients	not measured*	92	75.6
Commercial property customers	63	64	60
Residential tenants	44	44	51

\*Customer satisfaction measurement will be renewed in 2022.



to estimate the TyEL contributions for the rest of the year and the next year. The Varma Online Service supports accounting by allowing you to easily retrieve information on TyEL contributions and invoicing for reconciliations or financial statements.

We also offer an online service specifically for accounting firms to make it easier for them to handle their customers’ pension insurance matters.

The requirements of the European web accessibility directive apply to online earnings-related pension insurance services. Our services largely fulfil the accessibility requirements and do not contain critical accessibility deficiencies.

In addition to comprehensive digital services, we also offer more specific advice by phone and chat.

High customer satisfaction

We track the customer satisfaction of both our client companies and private customers. We collect customer feedback from our phone and email services, customer meetings and processing of pension and rehabilitation applications. Our customers are very pleased with the phone service we provide. Client companies’ satisfaction with our email service declined from the previous year, which is explained by the longer response times in the spring and early autumn of 2021.

Private customers can influence our service development as part of a customer panel. Customers can sign up for the panel in the Varma Online Service.

We pay the best client bonuses

Thanks to our strong solvency and efficiency, we pay the best client bonuses, which lower our client companies’ insurance contributions.

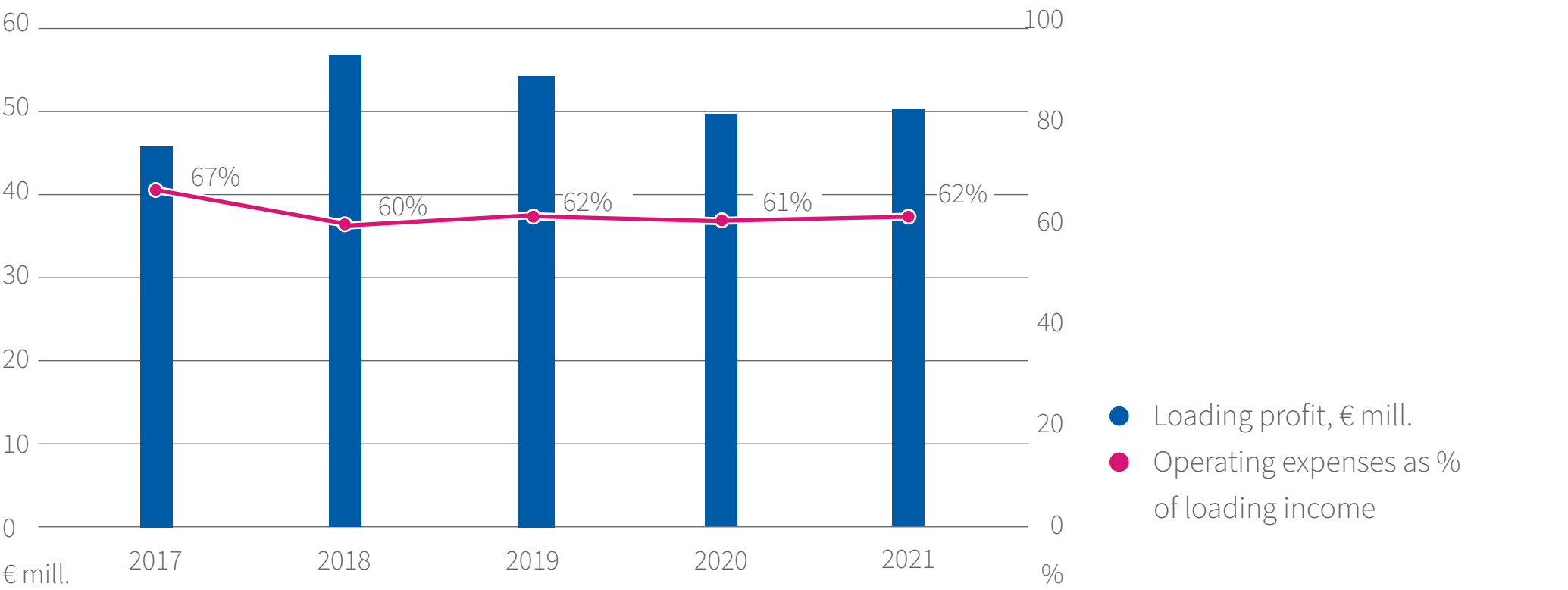
For 2021, we will pay the best client bonuses in Varma’s history, EUR 222 (54) million, or 1.0 (0.3) per cent of the payroll of the insured. The change compared to the previous year is primarily due to the temporary reduction in insurance contributions that was implemented in 2020, due to which the amount of client bonuses was limited through legislation to one third in the comparison year. Varma’s solvency capital increased in 2021, which raised the amount of client bonuses by EUR 55 million.

The client-specific bonus is affected by the TyEL payroll insured with Varma and the client’s insurance history at Varma.

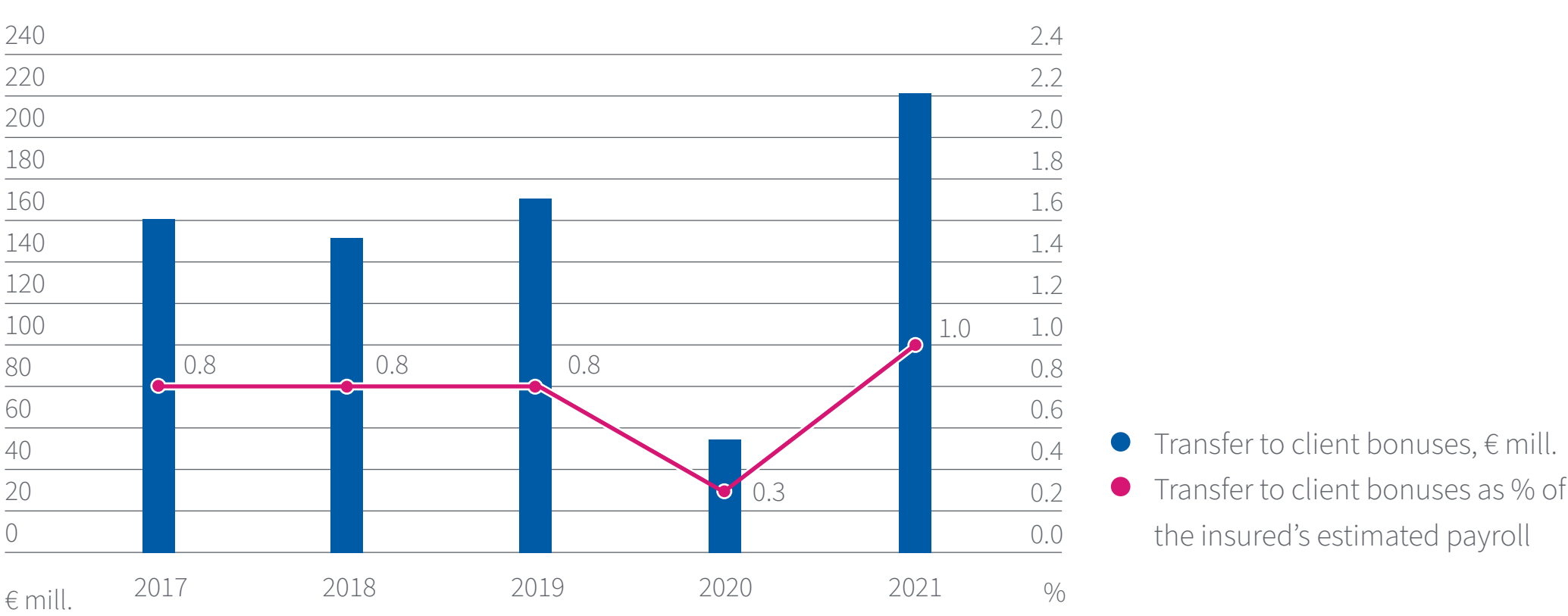
We encourage companies to grow

We support SMEs’ growth platform and their leap to international growth. In this way, we want to contribute to the positive development of employment, which promotes the sustainability of the pension system. We collaborate with the Finnish Enterprise Agencies, Kasvu Open and Kasvuryhmä (Growth Collective Finland). The Finnish Enterprise Agencies promote the creation of sustainable business by offering free business counselling. Kasvu Open helps SMEs prepare for nationwide growth. Growth Collective Finland supports the peer work of mid-sized companies and their preparation for a strong period of growth and internationalisation.

Administrative cost efficiency



Transfer to client bonuses 2017–2021 (€ million)





# Managing disability risks

## Managing disability risks on time

Varma is an effective expert in disability risk management. Disability risk management reduces sick leave rates and longer-term disability, lowers disability pension costs and improves well-being at work and productivity.

Varma influences the disability risk by providing its client companies with guidance in identifying risks and choosing the correct measures. The forecast model developed by us helps us assess the extent of the disability risk in our client companies using a data-driven approach. For our customers, this means more accurate identification of disability risks and allocation of Varma's support activities, data-driven services and better results.

Our comprehensive disability risk management services consist of expert services in work ability management and vocational rehabilitation, and digital services and tools. The service offering is based on Varma's work ability cycle concept, by which we mean variations in work ability on the individual level and in the work community in relation to the development of work. The services have been implemented and are developed in strict compliance with data protection regulations. Our services are aligned with the Finnish Financial Supervisory Authority's guidelines.

We carry out research and studies on disability risk management as part of our own activities and in collaboration with research institutes and service providers. We use the research data to develop our services and operations.

The digital services of the work ability section of the Varma Online Service, which was revamped in 2021, help our customer in disability risk management. They can assess their organisation's disability risks, build an overall picture of the current situation of work ability and plan development measures. Guidance for planning the measures is available in the Varma Academy online learning environment, which includes work ability management material developed by our specialists.

We added new functionalities in the application analytics service in the Varma Online Service in 2021. The service provides a view of recurring risk factors in disability and rehabilitation applications, the number of days of sickness allowance and background information on the applicants. The service now also has a new "Paths to Disability" section, in which various factors behind disability pension, partial disability pension and vocational rehabilitation can be explored. Application analytics help gain insight into factors related to disability and support the planning of development measures.

**Varma influences the disability risk by providing its client companies with guidance in identifying risks and choosing the correct measures.**





The service's data is based on around 18,000 pension and rehabilitation applications by Varma's customers over the last three years. The detailed information is available to those customers whose personnel have submitted at least 30 applications over a three-year period.

Varma can also support its client companies' disability risk management through financial support, which, in 2021, amounted to EUR 1.35 (3.6) million. We had ongoing work ability management co-operation projects in 680 (505) client companies, and they covered around 346,000 (246,000) employees and supervisors. We publish information on our well-being-at-work contracts that include financial support on our website quarterly.

Varma co-operates closely with occupational health-care providers, for example, to provide a common data platform for mutual customers and other collaboration aimed at supporting our customers. The ultimate goal is to enable more effective and impactful management of disability risks.

## Rehabilitation helps people continue in working life

Vocational rehabilitation gives people the opportunity to continue in working life if an illness makes it difficult to continue working as an employee or entrepreneur. It may take the form of work trials, job coaching, vocational training or a business subsidy.

Varma's rehabilitation work produces results. In 2021, 80 (83) per cent of those who sought rehabilitation on their own and started a rehabilitation programme, returned to working life. We made 3,261 (3,418) rehabilitation decisions. Varma's support

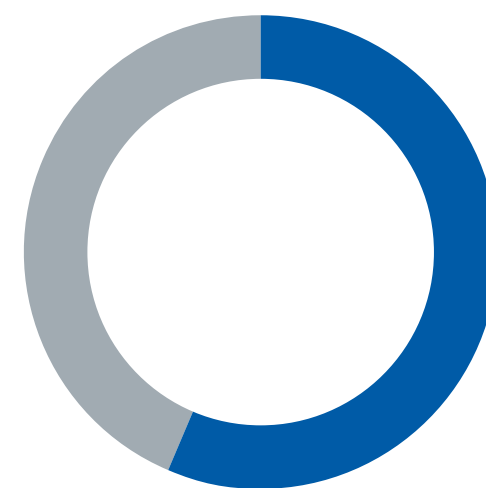
helped 1,559 (1,412) rehabilitants return to working life.

The decline in disability pension applications accelerated compared to the previous year. The number of new applications decreased 8 (0.9) per cent. The main illness group behind disability is mental health disorders, the second-biggest reason is musculoskeletal diseases.

In 2021, Varma rejected 39.4 (36.9) per cent of new disability pension applications. The rejection rate for all earnings-related pension companies was 37.7 (36.4) per cent in 2021. The Pension Appeal Board changed Varma's pension decisions in 13.1 (12.3) per cent of the cases. The corresponding rate for the entire private sector was 10.6 (11.3) per cent.

In 2021, the average disability pension contribution category of Varma's client companies was 3.4 (3.5).

## New disability pensions and rehabilitants (persons) 2021



- Cash rehabilitation benefit\* recipients and those retired on a disability pension, 3,077
- Recipients of a positive rehabilitation decision, 2,358

\*Fixed-term disability pension

## Secure future

### New operating model supports mental health rehabilitants' employment

**In the Individual Placement and Support pilot programme for mental health rehabilitation, meaningful work is considered part of rehabilitation.**

Varma is the first earnings-related pension company in Finland to pilot the Individual Placement and Support (IPS) model for the rehabilitation of people with mental health disorders. The project is being carried out in collaboration with the training company Spring House, and it will continue until 2023.

The aim is to help rehabilitants find employment, with their job forming an integral part of their rehabilitation. We are implementing a comparative study related to the pilot to determine the model's impacts on the work engagement of mental health rehabilitants, as well as the work ability and functional capacity of the rehabilitants.

"In the IPS model, the service is tailored to each customer's goals and competence.

Employment is sought in the open job market, and the job search begins quickly. The customer has their own placement and support coach, who helps out in all stages of the employment process, including supporting the supervisor and work community in the workplace, working closely with the treatment provider," says Service Manager **Anne Korhonen**.

The pilot will encompass a maximum of 40 Varma customers. At the end of 2021, 34 customers were engaged in the pilot. At the end of 2021, 29 per cent of the customers taking part in the programme had found employment, while the corresponding figure for the reference group was 18 per cent. The method therefore appears to improve the chances of employment.





# Responsibility for Varma employees

**Our success is based on our competent employees, who take care of our customers' pension cover. For us, responsibility for our employees means a flexible and modern work culture, continuous competence development, equal treatment and taking care of work ability.**



# Work culture that keeps up with change

In 2021, the varying Covid-19 situation challenged us to develop our ways of working as well as common practices. As we shifted to hybrid work, we considered it important to create conditions for meeting each other face-to-face and remotely. We invested in maintaining Varma employees’ work ability and renewed our meeting practices. We also continuously ensure that supervisory work is kept at a good, consistent level.

We believe that a good employee experience is key to customer satisfaction and Varma’s success. A modern and attractive work culture gives us a competitive edge, and we continuously develop our work culture.

The slogan for our work culture is “Agile responsibility bearers”, which builds on a foundation of mutual trust and bearing responsibility for the productivity of our work. We work with joy and passion. We are available to our customers regardless of location.

Flexible working-hour arrangements improve efficiency and allow employees to influence their day-to-day lives. At Varma, a flexible work culture also

means being able to effortlessly balance work and personal life. In 2021, six per cent of Varma employees were working part-time while they were on, for example, partial child-care leave. We adopted a hybrid model according to which we work wherever we achieve the best results – either remotely or in our modern office premises, taking into account different work situations, easy interaction and the possibility to work from anywhere. Working remotely from abroad has generated interest, and we have worked to find effective solutions in terms of both employer obligations and effective remote management. We are carefully building procedures

Surveys show that Varma is one of the most inspiring workplaces in Finland.

## Personnel

	2021	2020	2019
Personnel	543	558	558
permanent	524	535	536
women/men (%)	69% / 31%	71% / 29%	71% / 29%
fixed-term	19	23	22
women/men (%)	63% / 37%	70% / 30%	68% / 32%
full time	510	523	519
women/men (%)	68% / 32%	69% / 31%	70% / 30%
part-time	33	35	39
women/men (%)	79% / 21%	89% / 11%	85% / 15%
Personnel covered by collective bargaining agreements (%)	89%	88%	85%
Average age	47 y 1 m	47 y 2 m	47 y 3 m
Average age of retirement on old-age pension	63 y 10 m	64 y 5 m	63 y 10 m
Average service period	13 y 4 m	13 y 11 m	14 y 1 m
Sick days/employee	4.2	6.6	8.9
Training days/employee	1.1	4.6	2.9
Employees covered by performance and development reviews (%)	100%	100%	100%

	2021		2020		2019	
	no.	%	no.	%	no.	%
Personnel turnover rate*	44	8.4%	44	8.2%	66	8.8%
women	25	57%	27	61%	46	70%
men	19	43%	17	27%	20	30%
under 30 years	12	27%	8	18%	18	27%
30-50 years	22	50%	32	73%	44	67%
over 50 years	10	23%	4	9%	4	6%
Exit turnover rate**	54	10.3%	47	8.8%	49	9.1%
women	39	72%	32	68%	39	80%
men	15	28%	15	32%	10	20%
under 30 years	6	11%	4	9%	3	6%
30-50 years	18	33%	19	40%	25	51%
over 50 years	30	56%	24	51%	21	43%

\*The calculation includes new permanent employees and employees who were made permanent  
\*\*The calculation includes permanent employees



for this by gathering experiences through individual cases.

In 2021, we developed our work culture and ways of working through four themes: development and leadership, sense of community and work ability, meeting practices and digital tools. We adopted a tool for flexible work to encourage Varma’s departments and teams to discuss how work is carried out in the hybrid period – what kind of work should be done at the office versus remotely and when people should come together at the workplace. In order to support a sense of community, we organised meetings where Varma employees could meet people besides their closest colleagues. We also organised diverse information campaigns and events encouraging Varma employees to maintain their work ability. We developed our meeting practices by sharing tips for smart meetings. We eased the constant stream of videoconferences by ensuring that all Varma employees have one meeting-free morning a week and a half-an-hour lunch break every day with no work-related disturbances. We also highlighted good practices in the digital environment by reminding employees of the importance of breaks and keeping cameras on during videoconferencing, and by giving tips on how to cope with a flood of messages and how to take colleagues into consideration when working online.

**Employee experience and supervisory work continuously monitored**

We carry out a comprehensive employee survey every year, and the development measures that are

laid down on basis of it are monitored through two Pulse surveys during the year. In recent years, our results have been very high in comparison to the benchmark of Finnish companies providing expert services. The results of the survey carried out in December 2021 had not changed significantly from the previous survey. The PeoplePower Index, measuring Varma employees’ satisfaction and engagement, was 76.8 (78.1). The result propelled Varma to the list of Finland’s Most Inspiring Workplaces for the fourth time in a row. Companies with the best results in Eezy Spirit’s employee survey make it on the annual list.

According to the employee survey, the meaningfulness of work, motivation and smoothness of work during the remote-work period have been at a solid level compared to the benchmark. The employee survey shows that Varma employees are especially satisfied with the work premises, the lack of gossip in the company, and the executive management’s ability to make the right decisions for the company. Areas of improvement include collaboration between units and personnel’s opportunities to influence the development of their unit’s operations. Compared to the benchmark, Varma employees are especially happy with the leadership culture. In the open-ended questions, Varma employees provided plenty of positive feedback on remote working practices and Varma’s flexible work approach. Satisfaction with the smoothness and advantages of remote work and with Varma employees’ working conditions was also reflected in the feedback from the survey which was carried out

Persons working for Varma who are not employees

Besides its own employees, Varma’s business is supported by other people working in different roles. We have determined the number of these persons and the nature of their tasks by applying the following definition:

- the person works under Varma’s (partial) supervision for a long period of time and/or repeatedly and/or
- the person’s work input could be replaced, from the perspective of competence, with Varma’s own employees’ work input.

In 2021, approximately 100 people worked for Varma in various tasks related to information management. They worked, for example, in IT development roles, technical roles, and as complementary resources, for example in the tasks of project managers or roles related to testing. Of these persons, approximately half worked full-time for Varma, while the other half worked part-time with varying work input.

In 2021, three full-time and two part-time cleaners, three security guards with full-time and four with hourly contracts, two full-time mailroom workers and two full-time and four part-time persons in maintenance and electrical repairs were working in Varma’s Salmisaari office premises. Varma had a direct contractual relationship only with the cleaners; the rest were working under an agreement with the real estate company.

In terms of investments, Varma works in close co-operation with real estate managers. As regards housing investments, we work with a real estate manager partner who is in charge of tasks related to building management and maintenance, letting and customer service. Nine people worked for Varma full time and just over a hundred people part time. In commercial property investments, we work with six real estate management companies. In these companies, 11 people work full time and five people work part time for Varma. A real estate manager’s primary task is to maintain the properties’ technical condition and safety, and take care of the operative management of the maintenance network. The persons working in real estate investments were in a contractual relationship with the real estate company.

In addition to Varma’s employees, other people are engaged in the company’s insurance sales. In 2021, these persons amounted to approximately 160. They were in a contractual relationship with our partner companies and sold insurance along with their other duties. Half of the full-time work of a person employed by a service provider was required to manage our payroll accounting. Varma used temporary workers as substitutes to an extent equalling one person’s work input over a period of seven months.

Furthermore, experts and consultants of different fields were working for Varma in different parts of the organisation. They were mostly working part time on single projects in tasks that could, in terms of competence, be carried out by Varma employees. In 2021, these persons numbered approximately 20. Their tasks included, for example, marketing and communication and tasks related to sustainability.



together with the Finnish Institute of Occupational Health.

A key goal for us is to guarantee a high and consistent level of supervisory work for our employees. An encouraging and coaching approach to leadership, goal-oriented performance management and ensuring employees’ competence and well-being at work are characteristics of management at Varma. At Varma, specialists are behind the wheel, and they are responsible for the work’s progress, making choices and getting the job done, while supervisors are the co-drivers, anticipating, monitoring progress and giving feedback. The HR unit is in charge of managing the development work of Varma’s work culture, strengthening leadership and supervisory work and ensuring a consistent management culture and operating methods. HR is also responsible for supervisors’ tools and competence development according to the targets agreed in the Executive Group. The HR unit consists of the Senior Vice President of HR and Communications, the HR manager and five specialists.

The supervisor index measuring supervisory work in the employee survey is at a good level and exceeds the benchmark level. Varma’s supervisors receive regular, systematic training, and feedback on supervisory work is also systematically collected. In addition to the annual employee survey, we monitor the development of the employee experience during the year through two Pulse surveys.

**Responsible employer for senior employees and summer employees alike**

Varma employees are satisfied and have long careers, 13 years on average. We appreciate both the long experience and expertise of senior employees and the fresh ideas of those who have just started working with Varma. In the latest equality and non-discrimination survey in 2020, the treatment of employees of different ages was found to be significantly more non-discriminatory than two years earlier.

We want to support young people’s access to working life through concrete measures. We work with the Haaga-Helia University of Applied Sciences and offer trainee positions to students. Varma has also participated for several years in the Responsible Summer Job campaign, in which employers commit to the principles of responsible summer jobs. By providing summer jobs, we want to give students an opportunity to secure their first job in their field and welcome them to the financial sector. We also pay special attention to applicants who have special challenges in finding work in their field, for instance, due to a handicap or illness. In 2021, Varma was once again in the top ten in the Responsible Summer Job campaign’s large employer category.

**As we shifted to hybrid work, we considered it important to create conditions for meeting each other both face-to-face and remotely.**



**Secure future**

**Flexible work approach provides a framework for hybrid working**

**The flexible work model helps us combine the best aspects of working at home and at the office.**

“We have good experiences of remote work at Varma. On the other hand, we have pleasant and practical offices where it is nice to meet colleagues. We built the hybrid work model on this foundation,” says **Katri Viipola**, Varma’s SVP, Communications and HR. Our flexible work approach combines working at home and at the office in the best possible way in terms of performance, work flow and work ability. The model also helps ensure that we get together – virtually and face-to-face.

In Varma’s approach, teams, departments and functions have agreed in what situations and how often people will meet up at the workplace, provided that the Covid-19 situation allows it. Internal meetings are planned so that people can partake at the office or remotely. The supervisor’s task is to make sure everyday work goes smoothly. We regularly assess the effectiveness of flexible work. In the 2021 employee survey, Varma received positive feedback on its flexible work arrangements.



# Competence development

**Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. Responding to expectations raised by the transformation of work and providing an excellent customer experience are the focus of our development work. Each Varma employee has drawn up a personal three-year development plan together with their supervisor.**

The transformation of work challenges all of us. We want to support Varma's specialists in meeting any future competence requirements and being in the frontline of the incredible change that is taking place in the world. The ability to learn new things is one of the most important tools of a specialist during their career. To that end, nearly all Varma employees have drawn up personal three-year development plans together with their supervisor.

Strategic capabilities and competence are systematically managed at Varma. We used the Talent Management process to determine and identify the capabilities, skills, key positions and key

persons essential for Varma's strategy and to draw up talent development programmes. Development projects linked to our strategic competence ensure that Varma employees' competence is renewed in the right direction in terms of Varma's future success.

In 2021, we established Data-Akatemia (Data Academy), the purpose of which is to bring the development of data-related competence and practices under one umbrella. Data Academy provides coaching, good practices and learning opportunities through everyday work to Varma employees who work with data in different roles. It also

**Data Academy brings the development of data-related competence and practices under one umbrella.**





includes an advanced training programme on data utilisation for specialists working with data, training for employees with in-depth technical expertise and independent study opportunities suitable for everyone.

In autumn 2021, Varma participated in the Finnish Innovation Fund Sitra’s Reveal Your Skills campaign. We offered our teams the opportunity to have discussions facilitated by our HR specialists and pilots where participants could highlight their own skills and their team’s skills in dialogue with others. The goal was to shine a spotlight on skills gained in different situations and to show appreciation for such skills.

The Covid-19 situation influenced Varma employees’ daily lives in many ways. Supervisors and the entire personnel were provided with special information and support related to practices and health-security procedures during the exceptional times. In support of the changed daily work, we organised training on the themes of change, presence and a sense of community while working remotely. We also provided coaching in service design, support for challenging customer service situations and training on engagement in expert work. The focus in the development of supervisors’ skills was on middle management’s 360-degree assessments and group coaching for management and middle management. We also organised events on topical issues for supervisors throughout the year.

We make broad use of various learning methods and tools, such as sparring, networks and online learning environments. On-the-job learning and job

rotation are efficient ways of learning new skills at both the individual and organisational level. Varma uses Viima software, a community development tool intended to promote shared and open ideas and innovations. Any Varma employee can enter ideas in Viima concerning the development of our operations for others to comment on. The best ideas are rewarded.

Varma uses a coaching model called piloting, which was developed in-house. The model features independent sparring partners, called pilots, who work alongside supervisors. The pilots are Varma coaches who have been trained to spar with their colleague alongside their own work. The pilot listens to, inspires and supports the colleague in his or her thought processes.

**In support of the changed daily work, we offered training on the themes of change, presence and a sense of community while working remotely.**





# Equality and non-discrimination

## Promoting diversity and equality

Fostering equality and non-discrimination is a vital part of Varma's sustainability. Varma's equality and non-discrimination work is steered by three pledges: all Varma employees are equal irrespective of their age and gender, Varma promotes diversity and inclusion, and Varma is a workplace of equal opportunities and non-discrimination.

Every two years we conduct a survey to assess the state of equality and non-discrimination at Varma. The results of the latest survey conducted in summer 2020 were excellent, and the experience of equality and non-discrimination had improved tremendously. Varma employees' assessments of how employees of different genders, ages and minorities are treated had improved significantly. In the open comments, credit was given to Varma for the active efforts to promote these themes. The most significant improvement was seen in satisfaction with pay equality and non-discrimination. In our view, well-executed pay discussions and the transparency of the pay system, among other things, have had a positive impact on the experience of pay equality.

Based on the survey, we identified the following areas of equality and non-discrimination as areas in need of improvement: treatment of employees of different ages and in different family situations, the equal treatment of women and older generations when offering training and career development opportunities, extension of equality and diversity themes to different minority groups and ensuring the development of equal pay. The next equality and non-discrimination survey will take place in 2022.

Goals and measures have been drawn up for the identified areas of development, and these are followed up on regularly by the equality and non-discrimination working group and the co-determination and occupational health and safety (OHS) committees. The priority areas identified together with the employees are used to draw up an equality and non-discrimination plan, which is completed by the co-determination committee and approved by Varma's Executive Group.

Varma is a member of FIBS' Diversity Charter Finland, in which we pledge to guarantee equal opportunities, rights and treatment to everyone. We also promise to continuously develop

**We actively build a corporate culture and a workplace where diversity is valued and where everyone is free to be themselves.**

leadership that supports diversity and the service practices in our organisation.

## Job grading system brings transparency to remuneration

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

An important goal has also been to increase both personnel's understanding of how their pay is formed and the transparency of compensation. This long-term work to increase pay transparency has paid off, since satisfaction with the competitiveness

of the pay and fairness of remuneration as well the experience of equal and non-discriminatory practices in terms of remuneration have shown significant improvement in recent years (employee surveys up until 2020, equality and non-discrimination survey 2020). The results of the 2021 employee survey also clearly exceed the benchmark of Finnish companies providing expert services. The annual market pay level reviews also show that the salaries of Varma's female and male employees are more equal.

## Instructions and steadfast intervention promote a harassment-free work community

Varma employees' observations and experiences of inappropriate conduct are regularly explored through surveys. Varma has a zero tolerance policy towards inappropriate conduct, harassment and discrimination. This means inappropriate treatment or conduct is not permitted under any circumstances and that HR and supervisors intervene steadfastly in all cases that are brought to their attention.



Guidelines on how to proceed if one experiences or observes inappropriate conduct are available to all employees on the intranet, and the guidelines have been reviewed together by each function or department. Varma’s online course on ethical behaviour also includes information and instructions on what to do in harassment situations. The course is compulsory for all Varma employees.

Pay and career development at Varma is non-discriminatory

A few years ago, we recognised that equal representation of genders has not been realised in the best possible way in earlier years, especially in Varma’s management and governing bodies. The target was set to a minimum of 40 per cent representation of either gender in Varma’s Executive Group and middle management by 2022. We aim to achieve this, for example, by ensuring that when new persons are recruited to the Executive Group or middle management, different genders are represented in the final three candidates according to the ‘comply or explain’ principle. By the end of 2021, the target was nearly reached, with women accounting for 37.5 per cent of the Executive Group and 44 per cent of middle management. Furthermore, our target as of 2021 is to have at least 30 per cent representation of men and women among team supervisors and specialists by 2023. At the end of 2021, men accounted for 23 per cent of team supervisors and 29 per cent of specialists, and women accounted for 77 per cent and 71 per cent respectively.

Monitoring of and support for non-discriminatory career development are also taken into account in the leadership coaching and Talent Management process for specialists.

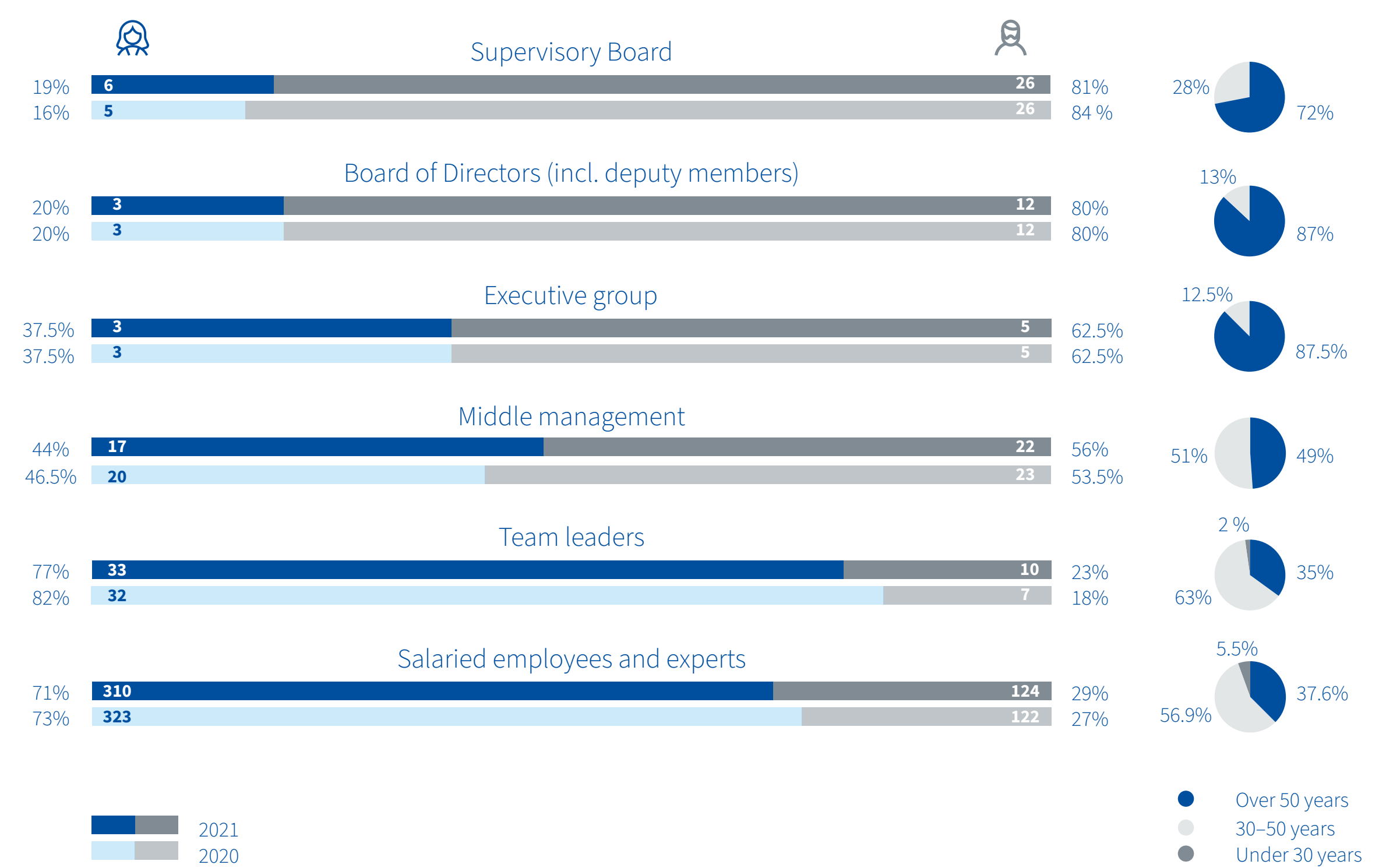
In conjunction with our annual market pay assessment, we also look into gender and age aspects to see whether equality in terms of gender and age is being fulfilled in our pay and reward system. The company-level difference between the average salaries of male and female employees at Varma is largely attributed to the fact that the number of women is proportionally higher in jobs with lower requirement levels. The age assessment shows the more advanced pay development of older workers in comparison to younger employees.

In a 2021 analysis, there was still a slight gap between the average salaries of men and women. However, the difference was significantly narrower when job requirements and performance were taken into account in the analysis of the pay level. Over the past two years, we have paid special attention to women’s pay development, and for instance, the pay raises of middle management in 2020 were weighted so as to promote pay equality. Women have also been receiving more performance-based remuneration than men.

Women’s salaries in relation to men’s at Varma in 2021

	Women’s average salary as % of men’s salary
Executive Group (excl. the CEO)	88%
Rest of personnel	75%

Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2020 and 2021





We will continue to pay greater attention to and follow up on equal pay development and the non-discriminatory treatment of our employees. We will especially focus on the consistency of performance assessments as a factor steering pay development.

### Striving for a workplace that appreciates diversity

Diversity is important to Varma, and it means that we take into account different backgrounds, skills and abilities. We believe that when you can be your true self at work, you have a better chance of reaching your full potential. We strive to take minorities even better into account in our work community and to increase diversity, for example, by offering job opportunities especially to minorities. We actively build a corporate culture and a workplace where diversity is valued. We also continuously strengthen Varma's discussion culture and encourage our employees to express their views more strongly in, for example, discussions with their supervisor.

In the course of 2021, we promoted diversity and inclusion by focussing on, among other things, accessible encounters and taking people with disabilities into account in the work community. In the autumn, we organised, together with accessibility experts, training for all Varma employees on accessible encounters as well as workshops on accessibility and taking people with disabilities into account in recruiting and communication.

At the end of the year, we also performed an accessibility assessment at our Salmisaari office, which resulted in recommendations for improving the physical accessibility of our premises. According to the assessment, our premises are fully or almost fully accessible, with only a few exceptions. The assessment's key recommendations for improvement related to improving signage and moving about in the premises, and installing induction loops to improve accessibility for those with hearing impairment.

In 2021, we focussed on increasing diversity in recruitment by coaching supervisors in encountering disabled people during the recruitment process and improving the recruitment process and recruitment system to support anonymous application procedures.

Varma has an equality and non-discrimination working group, which promotes non-discrimination and diversity at Varma from different perspectives. Examples of the working group's non-discrimination work in 2021 are an assessment of the non-discriminatory treatment of people working at different Varma locations, communication to celebrate Pride week and a Pride picnic for Varma employees, guidelines on taking people with partial work ability into account in the work community and an intranet article on how to balance work and family life.

**In the course of 2021, we promoted diversity and inclusion by focussing especially on accessible encounters and taking people with disabilities into account.**





# Work ability and safety

## Systematic monitoring of Varma employees' work ability

We focus on maintaining the work ability of our employees in many ways. Smooth daily work forms the foundation for our work ability. We set clear targets, organise our work in the best possible way, take care of our competence and ensure good, consistent leadership.

Most Varma employees work on PCs either at the office or remotely, serving external and internal customers, and the number of occupational accidents is very low. Varma's OHS work focusses on preventive actions, and its targets are primarily related to the general work atmosphere, leadership, managing tight work schedules and adapting to change. OHS work involves, in addition to everyday leadership, comprehensive occupational health services, attending to equal and non-discriminatory treatment of personnel, continuous maintenance of a safe and fit-for-purpose work environment and guidelines for problem situations, among other things. During the exceptional times, our special focus is on supporting Varma employees' self-management skills, active supervisory work and remote work ergonomics.

The process of identifying work ability risks is managed at Varma through legally compliant OHS activities and organisation, and occupational healthcare services. The employee survey, including

the Pulse survey questions and development measures chosen on the basis of it, the equality and non-discrimination survey and the health surveys are part of our continuous, systematic efforts to monitor and develop work ability. We assess working conditions by monitoring personnel's work ability data and risks and the related measures through different online tools used by HR, supervisors and occupational healthcare. The Executive Group has access to continuously updated reports on HR numbers, and work ability as a theme is discussed by the Executive Group several times a year. Operative management regularly monitors absences and other work ability indicators at their meetings. HR provides supervisors with guidance on the work ability management model and monitors the work ability management and OHS responsibility processes implemented by the operative management. HR also provides related reports and analyses and is responsible for the continuous development of the processes.

## Efficient occupational health and safety management systems

Occupational health and safety management is governed in Finland by the Occupational Safety and Health Act. At Varma, the management system comprises the OHS organisation and active work ability management activities. In both of

**Smooth daily work forms the foundation for our work ability. It is created by clear targets, competence development, consistent supervisory work and efficient processes for active support, occupational health care partnerships and returning to work.**

these, co-operation with occupational healthcare and a high level of activity by the organisation's management, supervisors and HR play a key role. The executive management is responsible for the tangible and operational conditions of OHS work. Supervisors are in charge of working conditions and tools. Their task is also to ensure that the work community functions well and that the conditions for OHS work on mental health are in place. The immediate supervisor makes sure that OHS regulations on, for example, maximum overtime hours are complied with. Additionally, each employee is responsible for abiding by the rules related to their work and OHS matters and for reporting problems and threatening situations to their supervisor, the OHS organisation or occupational healthcare. All observations are handled confidentially, and there is also an opportunity to report issues anonymously through the shop steward or employee survey. Every employee is responsible for managing their own working hours.

The OHS committee, which convenes four times a year, is in charge of organising and developing OHS matters. The employer has three and the employees have six representatives in the OHS committee. The OHS representatives who are elected by personnel monitor the implementation of OHS measures, develop OHS measures and well-being and support employees in any work ability-related situations. All

Varma employees can influence OHS management through the OHS representatives and read the committee meeting materials, which are published and communicated on the intranet.

An OHS plan of action is drawn up for two years at a time, and the measures are updated annually. In 2021, our OHS efforts focussed on taking into account the special characteristics of the Covid-19 times and the health security of our premises, and on providing comprehensive up-to-date guidance. We had in place restrictions on the use of our premises and on face-to-face meetings and travel, intensified cleaning, mask recommendations when moving around the premises, vaccination and testing procedures and an exposure register. We supported remote work ergonomics by arranging coaching on the theme and lending appliances and furniture that support ergonomics when working at home. In terms of developing the work culture, we focussed on measures to improve employees' work ability, such as taking breaks, meeting practices and maintaining the sense of community. We also carried out an accessibility assessment at our Salmisaari premises and organised coaching on threatening situations in customer work.





### **Comprehensive occupational healthcare services and employee benefits that promote well-being**

All Varma employees are covered by more extensive occupational health services than the law requires, including diverse online coaching, medical care and extensive specialist services. The support of healthcare professionals is also available through digital channels and digital applications. The direct contact information of occupational healthcare is also available on the intranet. We regularly monitor the quality of occupational healthcare in the occupational healthcare steering group and through customer satisfaction surveys. We annually update occupational healthcare's plan of action. In 2021, we established work ability management priority areas for 2021–2023. The goal is for Varma employees to be able to develop during changes and take charge of their work ability, and to have efficient work ability support processes. Our work ability management development projects in 2021 included updating the substance abuse programme and guidelines for active support, adopting a procedure for replacement/lighter work and increasing the transparency of the model for returning to work for those with partial work ability. We also offered comprehensive support for those affected by the co-determination negotiations and developed data-based work ability management.

Varma employees are offered many employee benefits that promote work ability. Monetary benefits can be used according to one's choice on sports or culture and, for example, for massage or

dental care. Also on offer are diverse remote sports services; coaching related to managing one's own work, ergonomics and coping at work; coaching support; instructor-led exercise breaks and classes; and mindfulness moments. Our Salmisaari premises have practical facilities for active commuters and a gym.

In the 2021 employee survey, the index that is used to ensure Varma employees' work ability was 79.7 (80.4). The index is made up of five work ability-related questions in which Varma employees rate the help and support they receive from colleagues and supervisors and their experience of the level of control over and value of their own work.





# Responsibility for the environment

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



# Mitigating climate change in investments

**Mitigating climate change is one of Varma's key sustainability targets. Our efforts have paid off: the carbon footprint of our investments in different asset classes has clearly declined in five years, and we have received recognition in global comparisons. In 2021, we continued our efforts to achieve a carbon-neutral portfolio and assessed, for the first time, the scope 3 emissions from our value chain.**

Climate change is one of the most critical phenomena that investors must prepare for. It will have substantial financial, social and environmental implications for current and future generations. Climate change is also shaping the business opportunities of different sectors and influencing future investment valuations.

In our sustainability programme for 2019–2021, our goal has been to align our investment portfolio with the Paris Agreement's target of reducing emissions to limit global warming to 1.5 degrees Celsius compared to the pre-industrial level.

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

## Varma's climate targets in a nutshell

We published an updated climate policy for investments in 2019.

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

We invest in companies that create solutions for reducing emissions and take the progression of climate change into account in their operations.

We invest in companies that benefit from climate change mitigation by creating products and services to replace fossil fuels.

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

The goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

- 30 per cent by 2023
- 40 per cent by 2025
- 50 per cent by 2027

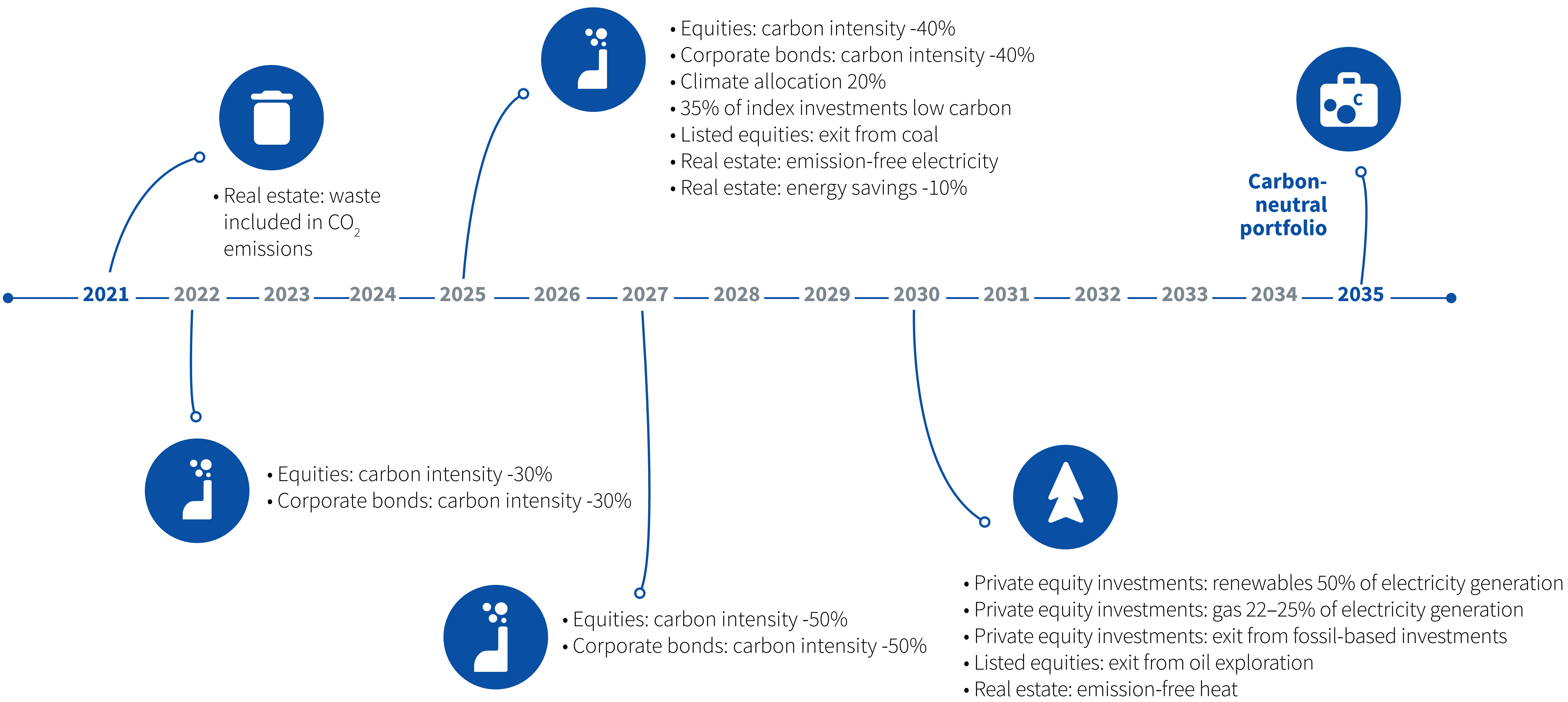
We are committed to exiting from investments in thermal coal by 2025, and to exclude oil exploration from our investments by 2030.

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

In private equity funds, we will increase the share of renewable energy in our electricity generation investments to 50 per cent by 2030. Real properties use fossil-free heating and electricity by 2030 and 2025 respectively.

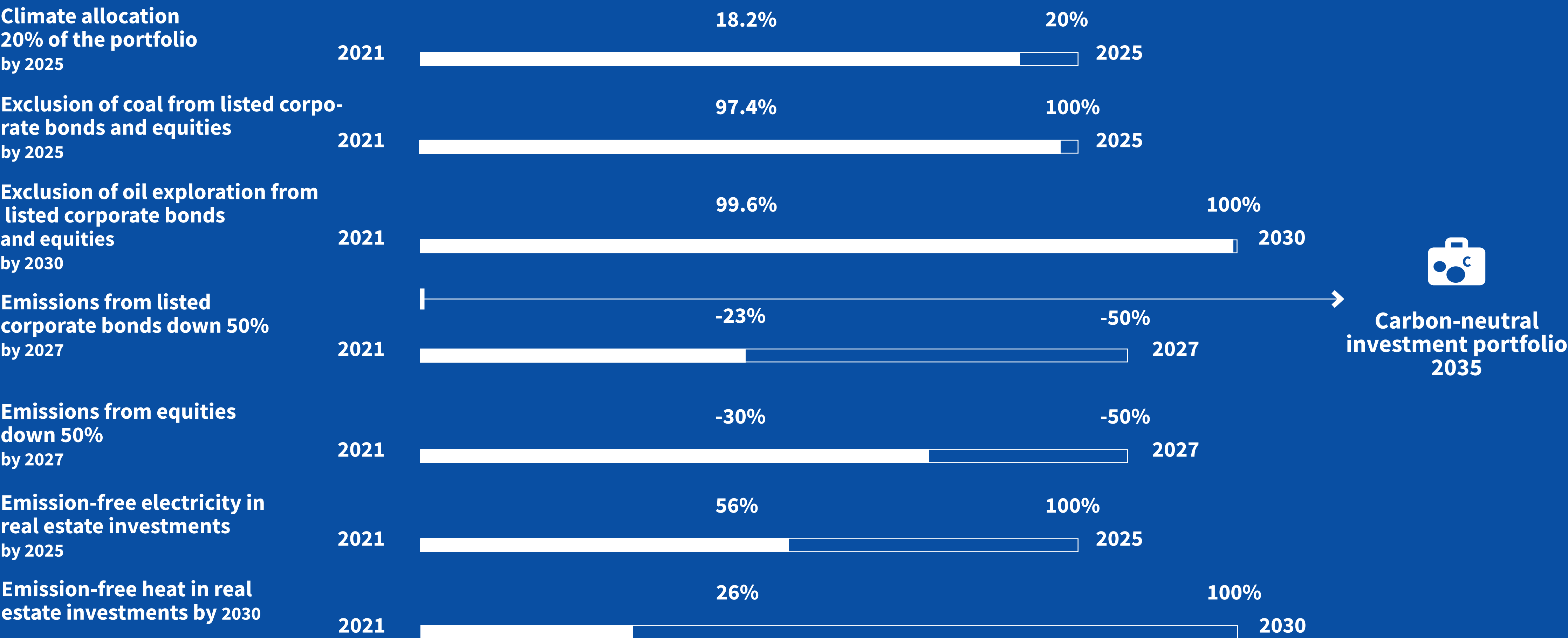


# Roadmap for Varma’s climate targets





# Progress towards climate targets in 2021





Overall picture of Varma’s climate impacts

In 2021, we performed for the first time a scope 3 emissions calculation, i.e. assessed the emissions of the value chain and formed an overall picture of the company’s emissions. The scope 3 calculation was done in accordance with the Greenhouse Gas (GHG) protocol, and it covers the years 2019 and 2020.

Varma’s own direct scope 1 emissions include company cars’ fuel. Scope 2 emissions comprise the energy consumption of Varma-controlled real estate, i.e. indirect emissions from purchased energy, which account for approximately 1.8 per cent of Varma’s total emissions.

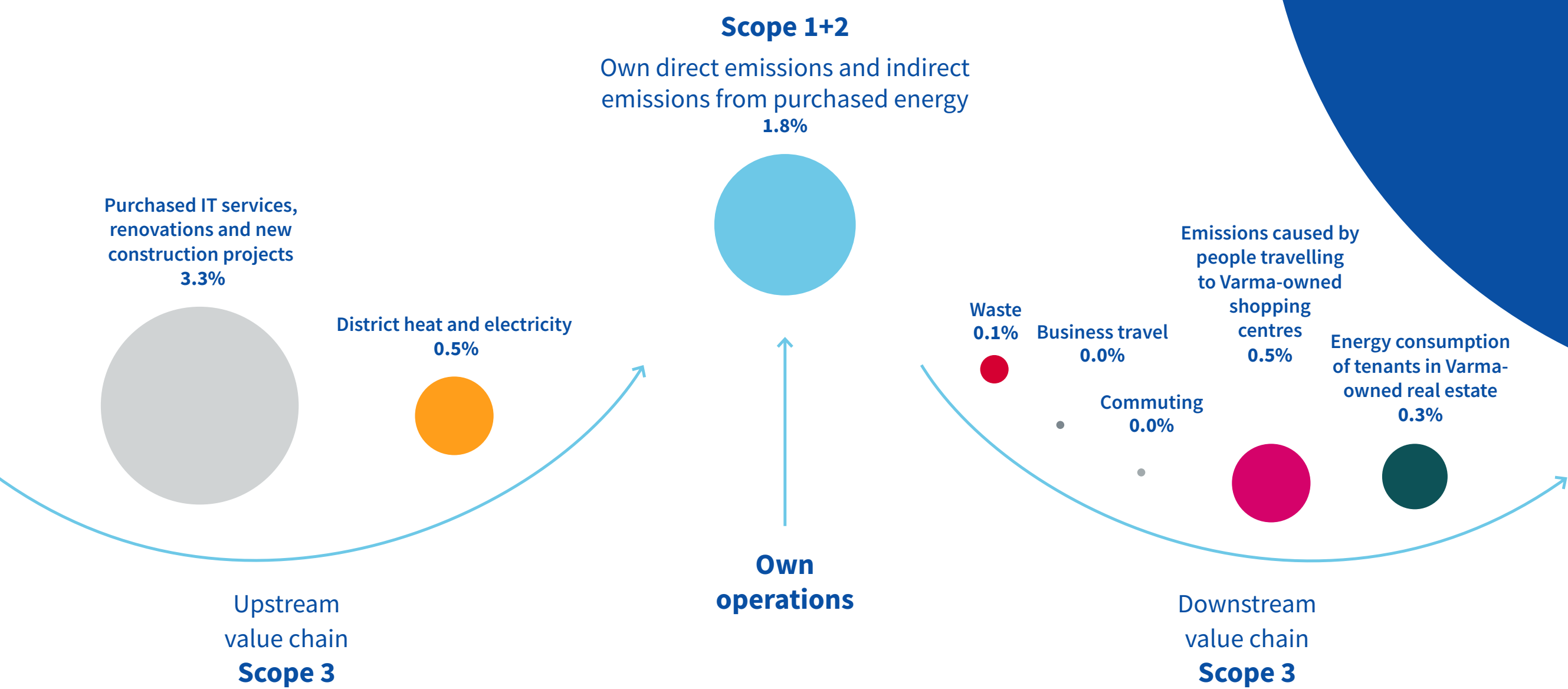
The calculation showed that approximately 98 per cent of Varma’s greenhouse gas emissions are caused by the value chain, or scope 3 emissions. Varma’s fossil scope 3 emissions in 2020 totalled approximately 1,726 kilotons of carbon dioxide equivalent (ktCO<sub>2</sub>e).

Varma’s scope 3 emissions included in the calculation were dominated by the emissions of the equity and fixed income investment portfolios, and the weight of the other emission categories was as a whole low, below 5 per cent. Of the scope 3 emissions, 95 per cent were caused by the investees’ emissions. The calculation includes Varma’s direct equity and fixed income investments. Of these, listed equities accounted for 83 per cent of the emissions.

Other major scope 3 emissions are caused by purchased goods and services (1.1 per cent), capital goods (2.3 per cent) and transportation

and distribution (0.5 per cent). The category of purchased goods and services included, for example, emissions from maintenance work, for instance repairs, and from IT services. Emissions from capital goods were fairly evenly distributed between renovations and new construction projects.

On the basis of the calculation, the biggest opportunities for scope 3 emission reductions relate to purchased goods and services and capital goods. We can reduce emissions by setting stricter targets for new buildings’ life cycle emissions and promoting decarbonisation through purchase criteria.



**Scope 1:** Emissions that are caused by the company’s own operations and under its direct control.  
**Scope 2:** Indirect emissions from the generation of purchased energy, for example, the production of electricity and heat.  
**Scope 3:** Emissions caused by the end-use of goods and services sold and by purchased goods and services, i.e. all indirect emissions. With Varma, scope 1 and 2 emissions of our investee companies are also included.



Taxonomy classifies the sustainability of investments

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

Economic activities with the greatest potential to achieve the CO<sub>2</sub>-emission reduction targets set for climate change mitigation are included in the taxonomy system. The economic activities covered by the taxonomy are largely the transition industries that we have defined and identified in our investments since 2019. We have defined the oil & gas industry, electricity & heat production, and the automotive, metals & mining, construction materials, chemical, transport and forest industries as transition industries. Transition industries offer the greatest opportunities for emission reductions through their business and are also significantly exposed to risks caused by climate change mitigation, such as regulation and market risks.

As an earnings-related pension insurance company, Varma belongs to the category of non-financial companies in the Taxonomy Regulation. We have identified real estate investment, including the purchase and ownership of real estate, as taxonomy-eligible economic activity, and taxonomy-aligned climate and environmental objectives

are related to this. In 2021, taxonomy-eligible turnover accounted for 1 per cent of the total turnover. Taxonomy-eligible capitalisations, i.e. the share of real estate investments’ net investments of all capitalisations, which include additions to and decreases from property and intangible assets, was 100 per cent. Taxonomy-eligible operating expenses accounted for 2 per cent of total operating expenses.

The reporting framework pursuant to the non-financial company category is not as such applicable to earnings-related pension companies, and the aforementioned key performance indicators do not give an accurate picture of the taxonomy-eligible investments of earnings-related pension insurance companies. Therefore, Varma voluntarily reports on the taxonomy-eligibility of its direct listed equities.

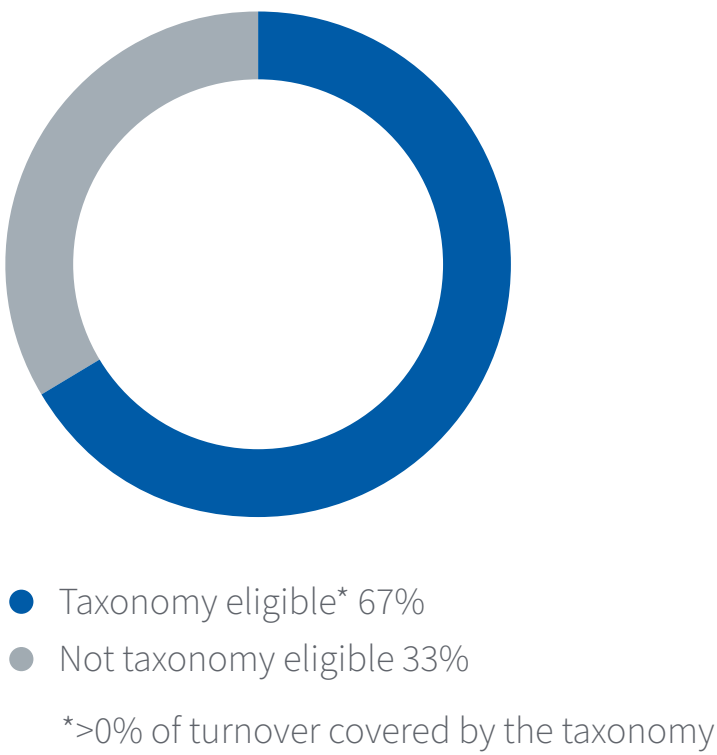
In the first phase, we have examined the taxonomy-eligibility of our direct listed equity investments. At the end of 2021, 67 per cent of the companies was estimated to have taxonomy-eligible turnover. Their average taxonomy-eligible turnover was estimated at 44 per cent of the total turnover. The calculations are not based on taxonomy-eligibility reported by the companies. They are estimates of a third party. The figures will be updated next year.

New data on climate change and international agreements

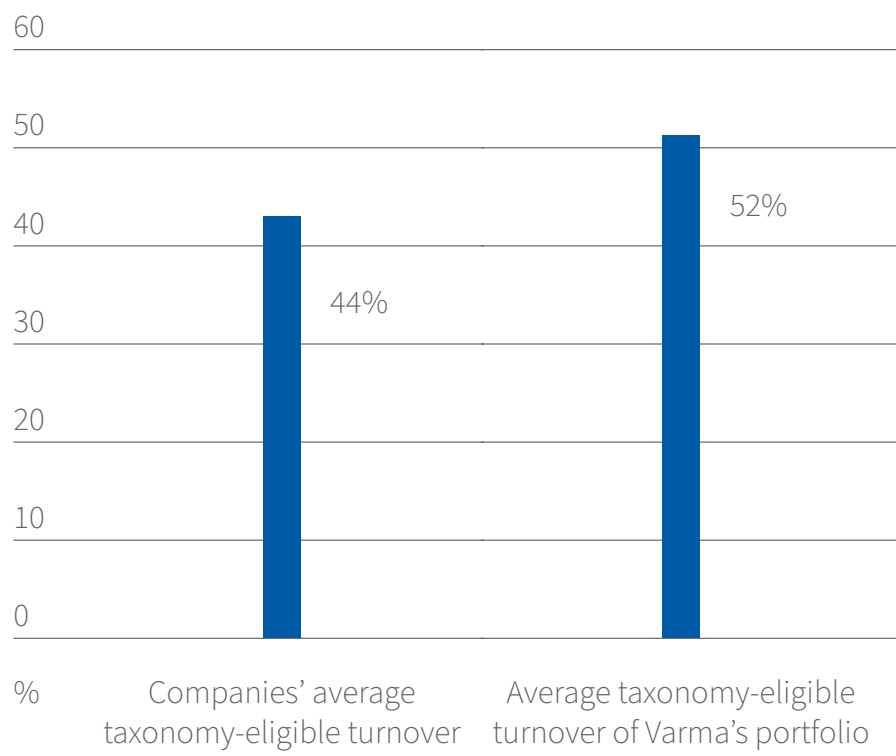
According to the report published by the Intergovernmental Panel on Climate Change (IPCC) in 2021, the global average temperature has risen 1.1 degrees Celsius from the pre-industrial level. The IPCC expects global warming to hit 1.5 degrees in the first half of 2030s.

The latest UN Climate Change Conference (COP26) took place in Glasgow at the end of 2021. Before the conference, the UN published a report in which it warned that governments’ current emission pledges put the planet on track for a temperature rise of 2.7 degrees by the end of the century. In the conference, it was decided that governments should revise their emission reduction targets in 2022, instead of in 2025, as they would have under the Paris Agreement. Furthermore, fossil fuels were mentioned in the COP conference’s conclusion for the first time; more financial support for developing and vulnerable countries to help them adapt to climate change was promised; India, the third biggest polluter in the world, pledged to become carbon neutral by 2070; and China and the US agreed to ramp up co-operation in the fight against climate change. There were also declarations on deforestation and methane emission reductions.

Companies’ average taxonomy-eligible turnover



Equity portfolio’s taxonomy-eligible turnover





# Climate risks and opportunities according to the TCFD recommendations

Varma is committed to supporting the TCFD (Task Force on Climate-related Financial Disclosures), which outlines and develops methods for companies to report on the financial impacts of climate change. This section includes information on Varma’s climate risks and opportunities according to TCFD.

From an investor’s perspective, climate change entails both physical and transition risks, which have an impact on the value of investments. Physical risks are divided into acute and chronic risks, which refer to the challenges that climate change poses to companies and society, such as unexpected damage caused by extreme weather events or the depletion of natural resources in the longer term. Transition risks refer to changes, for example, in regulation, technology and consumer behaviour that the transition to a lower-carbon economy entails.

On the other hand, climate change also presents investors with opportunities. For instance, companies developing technologies to mitigate climate change or solutions to facilitate the transition to

a low-carbon economy may offer investors good return opportunities.

**Climate risk and opportunity management and strategy**

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

On a company-wide level, the Deputy CEO, Investments, is in charge of monitoring the climate impacts of investments. The head of each asset class is in charge of the practical application of the climate targets. In addition, Varma’s sustainability director, who is in charge of responsible investment and sustainability, develops and co-ordinates, together with their team, responsible investment and climate change mitigation in different asset classes.

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

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



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

Climate risks are addressed in the risk and solvency assessment. Investment activities are also steered by the [climate policy for investments](#), in which we commit to develop our investment portfolio towards carbon neutrality in 2020–2035. We have also previously committed to developing our investment operations so that our investments are aligned with the target of the Paris Agreement.

Information on climate-related policies – e.g. exclusions and enhanced ESG monitoring – is also given in [Varma’s Principles for Responsible Investment](#) and in the [active ownership and engagement principles](#). Both of these have been approved by Varma’s Board of Directors.

### Engaging with investee companies

For an investor, one means of managing climate-related risks is to engage with investee companies. In our [ownership policy](#), we guide companies to report transparently on the current and future impacts of climate change on the company’s operations and growth potential. In essence, we are guiding the companies to report according to the TCFD recommendations. They should report on how the impacts of climate change are included in the

company’s governance, strategy and risk management, especially in emission-intensive industries. Reporting on the targets and indicators set by the investee company makes it easier to monitor the company’s progress.

Our means of engaging with investees are described in more detail in our active ownership and engagement principles. Varma’s engagement goals are twofold. Firstly, Varma engages with companies in an effort to rectify the situation if the investee company has violated local laws or international agreements. Secondly, through engagement, Varma as an investor can promote sustainability and sustainability reporting.

In climate and environmental matters, Varma’s engagement is guided by both the climate policy for investments and compliance with international agreements and conventions. The Paris Agreement and local environmental laws are key elements in screening the investment portfolio for violations. In addition to the Paris Agreement’s emission reductions, biodiversity is one of the engagement themes in environmental matters. We use the data provided by a third party to monitor violations of environment-related norms by our investees. The screening covers, for instance, failures in reducing air pollution and assessing environmental impacts.

Varma categorises its investee companies that violate international norms into three categories, the most severe of which may lead to a company getting blacklisted if it does not sufficiently rectify its operations. Violations in the second most severe category are included in Varma’s engagement

process. Read more about the monitoring of norms in the section Responsible investment, [p. 33](#).

A typical channel for Varma’s engagement is meetings with companies in which we have a holding. We have regular company meetings, and in the meetings, we explore how they take climate change mitigation into account in their operations. In 2021, Varma was represented in the shareholders’ nomination boards of 27 companies and participated in the annual general meetings of 87 Finnish companies and 162 foreign companies.

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

### Collaborative initiatives and pledges

In addition to direct company contacts, we engage globally, together with other investors, through various collaborative initiatives and pledges.

In 2019, we joined the international [Powering Past Coal Alliance](#) (PPCA), which is working to advance the transition away from coal-based electricity and heat generation in the EU and OECD countries by 2030.

We have also joined the [Climate Action 100+ initiative](#), in which investors collectively engage on a global scale with the largest corporate greenhouse gas emitters to ensure that the targets of the Paris Agreement are met.

In accordance with our climate policy, we promote collaboration within the financial markets in order to mitigate and adapt to the effects of climate change, while also taking part in the public debate

on the impacts of climate change at events and through collaborative initiatives. In order to advance the financial market’s joint efforts to mitigate climate change, Varma has engaged in co-operation with the [Nordic Climate Investment Coalition \(CIC\)](#). The CIC is a public and private sector coalition. As part of this collaboration, Varma spoke at the [UN Climate Change Conference \(COP26\) in the event organised by CIC](#). We shared information about our investment portfolio’s climate allocation, through which we invest in green initiatives.

Furthermore, we are a signatory to the [CDP](#) which compiles data on companies’ greenhouse gas emissions and other climate-change-related data. In 2021, Varma participated in the CDP’s campaign that encourages companies to set science-based targets for emission reduction, i.e. to operate in accordance with the [Science Based Targets \(SBT\) framework](#).

Varma has joined the [Partnership for Carbon Accounting Financials \(PCAF\)](#) initiative. Its goal is to develop a harmonised approach to assess and disclose the greenhouse gas emissions associated with loans and investments.

In June 2021, we signed the [2021 Global Investor Statement to Governments on the Climate Crisis](#). The statement calls on political leaders to support action against climate change and promote investments, for example, in clean technologies and environmentally friendly infrastructure.

Varma is a participator in the global real estate and construction industry initiative Net Zero Carbon Buildings Commitment, which advocates for



carbon-neutral buildings. In 2021, Varma also joined the sustainable demolition Green Deal, an agreement between the Ministry of the Environment and the business sector to process and recycle demolition waste from construction projects.

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

We have received international recognition for our climate work and reporting. In its latest assessment in 2020, the UN-supported Principles for Responsible Investment (PRI) included Varma in the [PRI Leaders' Group](#) for the second time for its responsible investment work. In its assessment, which was conducted for the second time, the PRI compared investors' climate reporting performance. According to the assessment, Varma has excellent climate reporting practices. Of the more than 2,000 member organisations, 36 investors from around the world made it into the Leaders' Group.

### **TCFD is a framework for reporting climate issues**

The TCFD framework promotes the harmonised disclosure of climate-related risks and opportunities by businesses. According to the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

The reporting framework was updated in 2021 with guidance on, for example, climate-related metrics and targets, and assessment of transition and adaptation plans.

Varma constantly analyses the financial risks and opportunities brought by climate change, and develops its reporting on climate risks in accordance with the TCFD's recommendations. We encourage the companies in which we have a holding to do the same.







## Climate actions and results

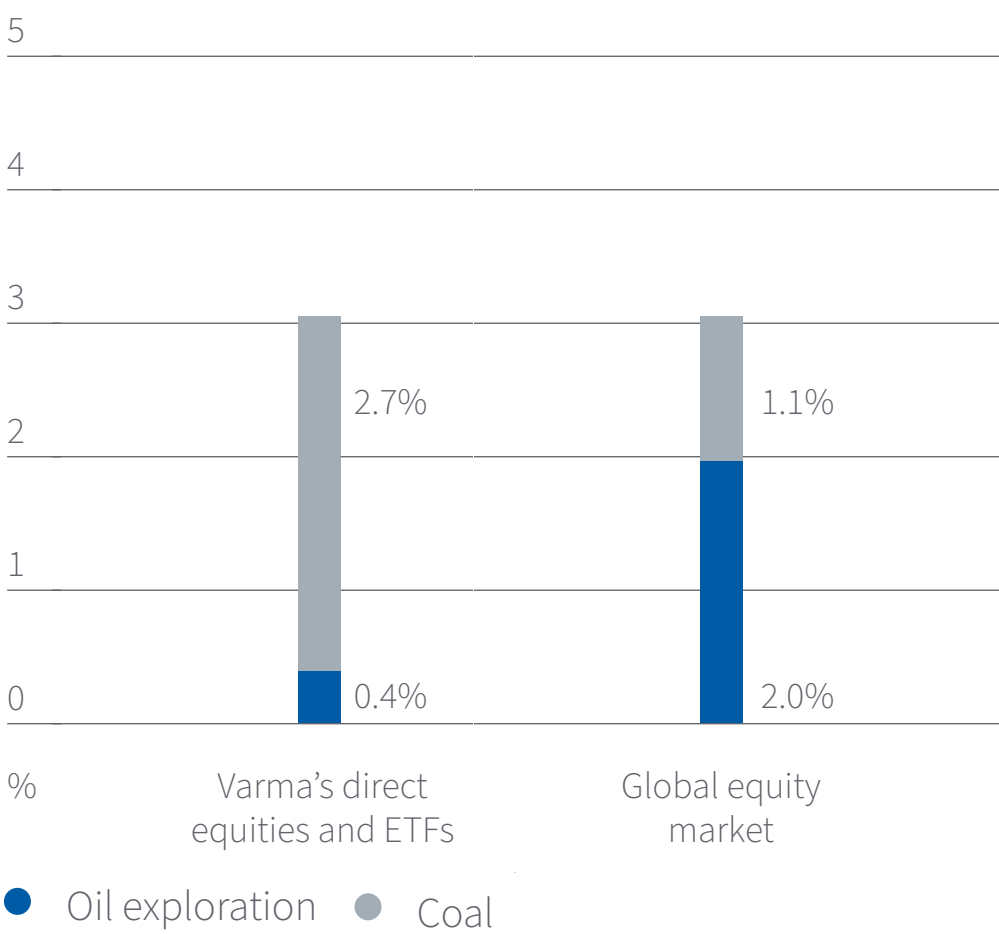
### Negative screening and enhanced ESG monitoring

In our climate targets published in 2019, we commit to exiting from investments in thermal coal by 2025. We are also committed to excluding oil exploration from our investments by 2030. As part of our efforts to mitigate climate change, since 2015 we have excluded from our direct investments companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production capacity or production. At the end of 2021, 2.7 per cent of Varma’s assets in equity investments were invested in companies that rely on coal for more than 5 per cent of their operations. Equities in the oil exploration industry accounted for a minor share, 0.4 per cent, of our equity investments, fund investments included.

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

We do not invest in coal-mining activities. We also apply enhanced ESG monitoring to industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat production, and the automotive, mining, construction materials, chemical, transport and forest industries. The enhanced ESG analysis also applies to companies with coal- or lignite-based operations generating 15–30 per cent of their net sales.

### Proportion of oil and coal in equity investments





Tracking the carbon footprint of investments

In accordance with our climate policy, we monitor and report on the carbon footprint of our investments using the indicator recommended by the TCFD. In 2021, the carbon footprint calculation of investments covered 62 (41) per cent of our investment portfolio.

Our goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows: 30 per cent by 2023, 40 per cent by 2025 and 50 per cent by 2027.

At the end of 2021, the carbon intensity of Varma’s equity investments was down 30 per cent compared to the 2016 level and that of listed corporate bonds 23 per cent, i.e. we are on track to achieve the emission reduction targets set in our climate policy. At year-end 2021, the weighted carbon intensity of Varma’s equity portfolio was also lower than that of the global equity market.

The emission calculation coverage for fixed income investments improved from 75 per cent in 2020 to 100 per cent, since fixed income funds were now included. The improved coverage caused a slight increase in carbon intensity, and the comparable figure would have been -25 per cent compared to 2016.

The positive development is the result of reducing our ownership in the most carbon-intensive companies while increasing the weight of technology companies in the portfolio. We have also picked ‘cleaner’ companies in specific sectors for our

portfolio. Especially in terms of corporate bonds, Varma has, within sectors, divested companies with high emissions and invested in cleaner companies.

The carbon intensity of Varma’s equity portfolio significantly declined as a result of an M&A, carried out in 2020, by a single emission-intensive investee company that reduced the company’s emissions in relation to its turnover. On the other hand, the M&A resulted in an increase in the absolute carbon footprint of Varma’s equity investments since the indicator takes into account only the amount of emissions, with no proportioning to turnover.

The size of Varma’s carbon footprint is also influenced by a change in the calculation formula. In the formula recommended by the TCFD, the company’s enterprise value is used as the denominator instead of the market value, which reduces the calculative carbon footprint but at the same time prevents the risk of double calculation between equities and fixed income investments.

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

In 2021, Varma also assessed the climate impacts of its hedge fund investments for the first time by calculating the portfolio’s weighted carbon intensity, which was 43 per cent lower than the listed equity markets. This is due to, among other things,

We are on track to achieve the emission reduction targets set in our climate policy.

the high weighting of the housing loan market and minor proportion of fossil fuels.

The carbon footprint of real estate investments was down 57 per cent compared to 2015. The carbon footprint has been reduced, for example,

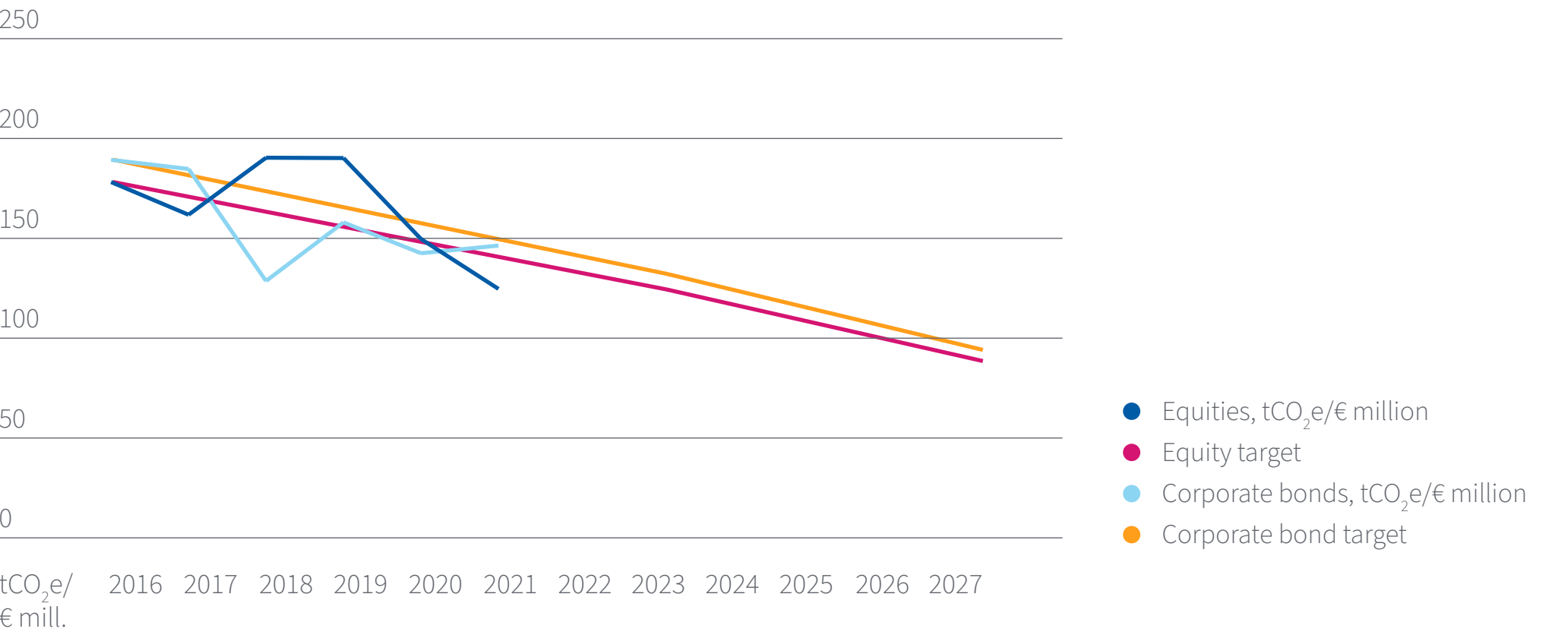
through changes in the real estate portfolio, energy renovations and energy efficiency measures executed at the sites, and by purchasing fossil-free district heating and real estate electricity. You can

The carbon footprint of Varma’s investments

	Market value, € bn	Share of the portfolio	Scope 1 + 2	Scope 3	Weighted Average Carbon intensity	Quality of data (1 best - 5 worst)*
Listed equities	20	34%	1,382,572	5,606,747	124	1.67
Fixed income investments	2.8	5%	157,750	368,661	146	2.68
Hedge fund investments	10.7	18%	941,724	553,501	106	5
Total	33.5	57%	2,374,475	6,528,909	119	2.81

\*Partnership for Carbon Accounting Financials’ standard

Development of the weighted carbon intensity of listed equity and corporate bond investments compared to Varma’s climate targets





The carbon footprint of Varma’s investments

Listed equity investments	31 Dec 2021	31 Dec 2016	Change	Varma vs. index
Market value (€ bn)	20	11.8	69%	-
Scope 1 + 2 carbon footprint (tCO <sub>2</sub> e)*	1,382,572*	1,444,537*	-4%	12%
Weighted carbon intensity (TCFD)	124	177	-30%	-33%

Listed corporate bonds	31 Dec 2021	31 Dec 2016	Change	Varma vs. index
Market value (€ bn)	2.8	3.1	-10%	-
Scope 1 + 2 carbon footprint (tCO <sub>2</sub> e)*	157,750**	1,210,961**	-87%	-65%
Weighted carbon intensity (TCFD)	146	188	-23%	-46%

\*The calculation formula has changed. Not comparable vs 2016. Reported data 77%  
\*\*The calculation formula has changed. Not comparable vs 2016. Reported data 55%

Direct real estate investments	31 Dec 2021	31 Dec 2015	Change
Carbon footprint (tCO <sub>2</sub> )	19,339	58,050	
Share of residential properties	27%	18%	
Share of commercial properties	73%	82%	
Carbon footprint in relation to gross square metres (CO <sub>2</sub> kg/gross m²)	14.5	33.8	-57%
Carbon footprint of residential properties in relation to gross square metres (CO <sub>2</sub> kg/gross m²)	14.1	27.2	-48%
Carbon footprint of residential premises in relation to gross square metres (CO <sub>2</sub> kg/gross m²)	14.6	35.6	-59%
Market value of real estate portfolio included in the calculation (EUR bn)	2.1	2.2	
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	68%	66%	

read more about the environmental impacts of real estate investments on [p. 75](#).

Scenario analyses in real estate investments

We have carried out various scenario analyses based on global climate models in order to determine how well the our investments are aligned with the targets of the Paris Agreement. We use the results to assist in climate target setting, among other things.

Analyses have been performed on Varma-owned real estate from the perspective of both climate-change-related transition risks and physical risks. The development of the greenhouse gas emissions of our real estate portfolio was most recently examined in an analysis carried out in autumn 2021. The analysis covered the carbon dioxide emissions from the heating and electricity of commercial and residential properties owned by Varma. A baseline scenario was established first, depicting the likely development of emissions without any further actions by Varma, not including the current scope of emission-free electricity purchases. The analysis also included a heat-pump scenario in which 40 per cent of district heat is replaced by different types of heat pumps by 2030.

In the baseline scenario, the CO<sub>2</sub> emissions from Varma’s real estate portfolio decline by an estimated 71 per cent from the 2020 level by 2030. The emission factor for district heat is expected to decline drastically this decade, since most of the district heating companies providing heat to Varma’s

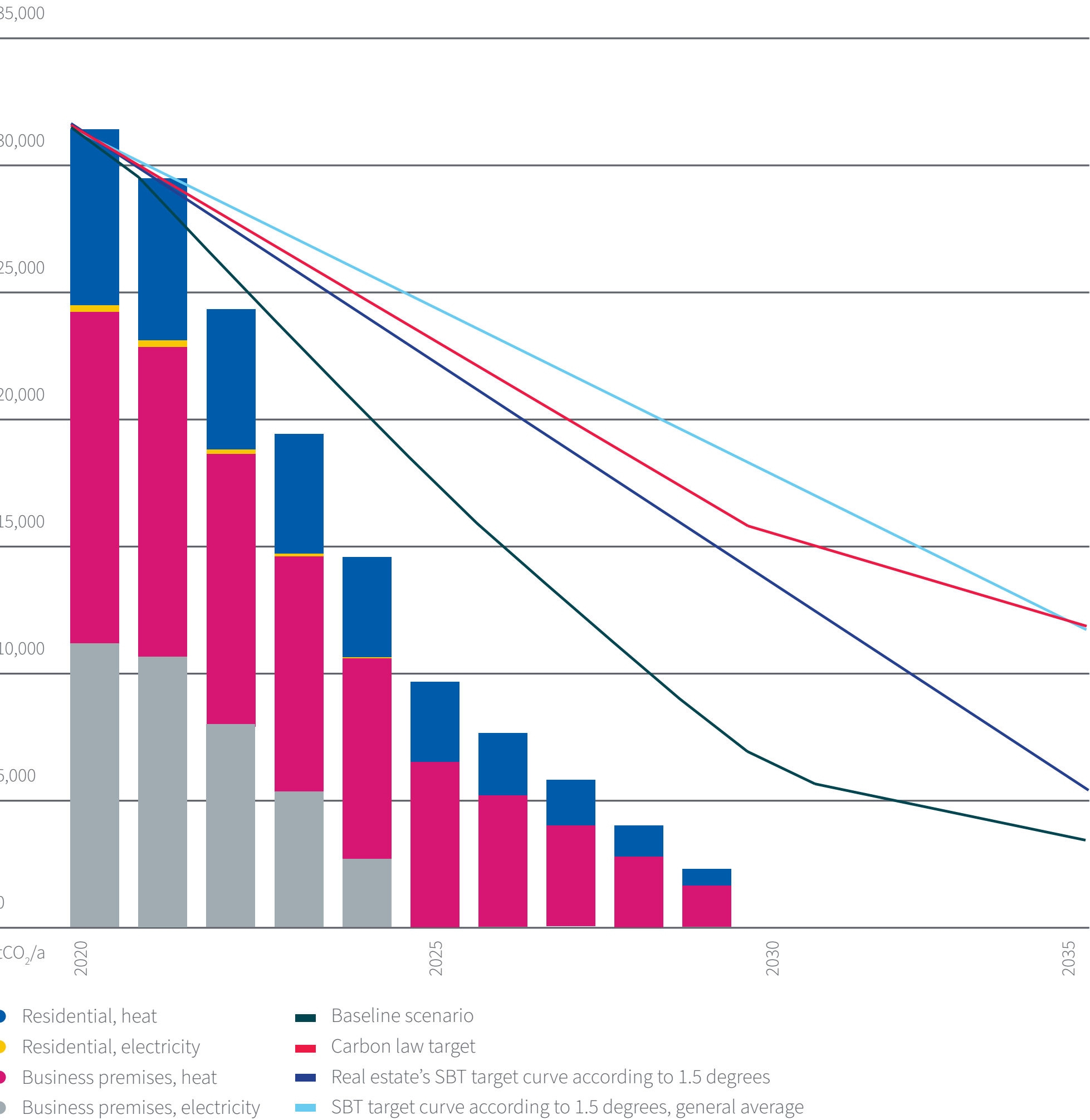
properties have announced that they will be nearly or fully carbon neutral by 2030 or 2031. The total emissions of the real estate portfolio will decline nearly 90 per cent by 2035 if emission-free electricity and heat is purchased to the same extent as in 2020.

The analysis shows that the future emissions of Varma’s real property are, even in the baseline scenario, in line with the Science Based Targets’ (SBT) target of 1.5 degrees Celsius. Varma is well equipped to achieve carbon neutrality in its real estate portfolio in terms of scope 1 and 2 emissions by 2030. In the short term, the real estate portfolio’s emissions can be significantly cut through additional measures, for example, by switching to electricity-based heating, such as geothermal heat, buying carbon-neutral district heat and using emission-free electricity.

We updated the analysis focusing on the physical climate risks of our direct real estate investments in autumn 2021. Of the real property owned by Varma, around 70 per cent is located in the Helsinki metropolitan area. Practically all of the buildings are located within a radius of approximately 10 kilometres from the seashore, and thus their climate burden is higher than average. In addition to the risk of a sea flood, slanted rain and strong winds may cause problems in controlling moisture levels in the buildings. In the climate models, the estimate is that the amount of horizontal rain on the coastline will increase. We take this into account in building condition surveys and facade solutions for new buildings. In addition to facade material choices, we pay attention to details that are key in terms of



Scenario analysis of the development of Varma’s real estate investments’ emissions in relation to climate targets



weather resistance, such as the design and execution of eaves and joints of different materials.

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

Our real estate portfolio was also analysed for sea flood risk. In the Finnish Climate Change Panel’s 2021 report, the sea flood risk in the Uusimaa region is estimated to be high and to increase going forward to 2050. Our analysis showed, however, that the sea flood risk in our real estate portfolio is low. In 2100, only five Varma-owned sites will be exposed to moderate risks, examined at a frequency of 1/1000 years. Varma takes the sea flood risk into account especially in new development projects and when purchasing new buildings.

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

In 2021, we also analysed climate change-related transition risks that our real properties are exposed to in order to identify the key political, technology, market and reputation risks, and to assess their significance. Four high transition risks were identified: impacts of the tighter energy efficiency

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

requirements pursuant to the EU Energy Efficiency Directive which applies to new buildings and renovations on investment costs and real properties’ value; increasing emission allowance prices and, consequently, higher district heat and electricity prices; and the impact of higher emission allowance prices on the price of materials, such as concrete, steel, and fuel.

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



Scenario analyses for equities and corporate bonds

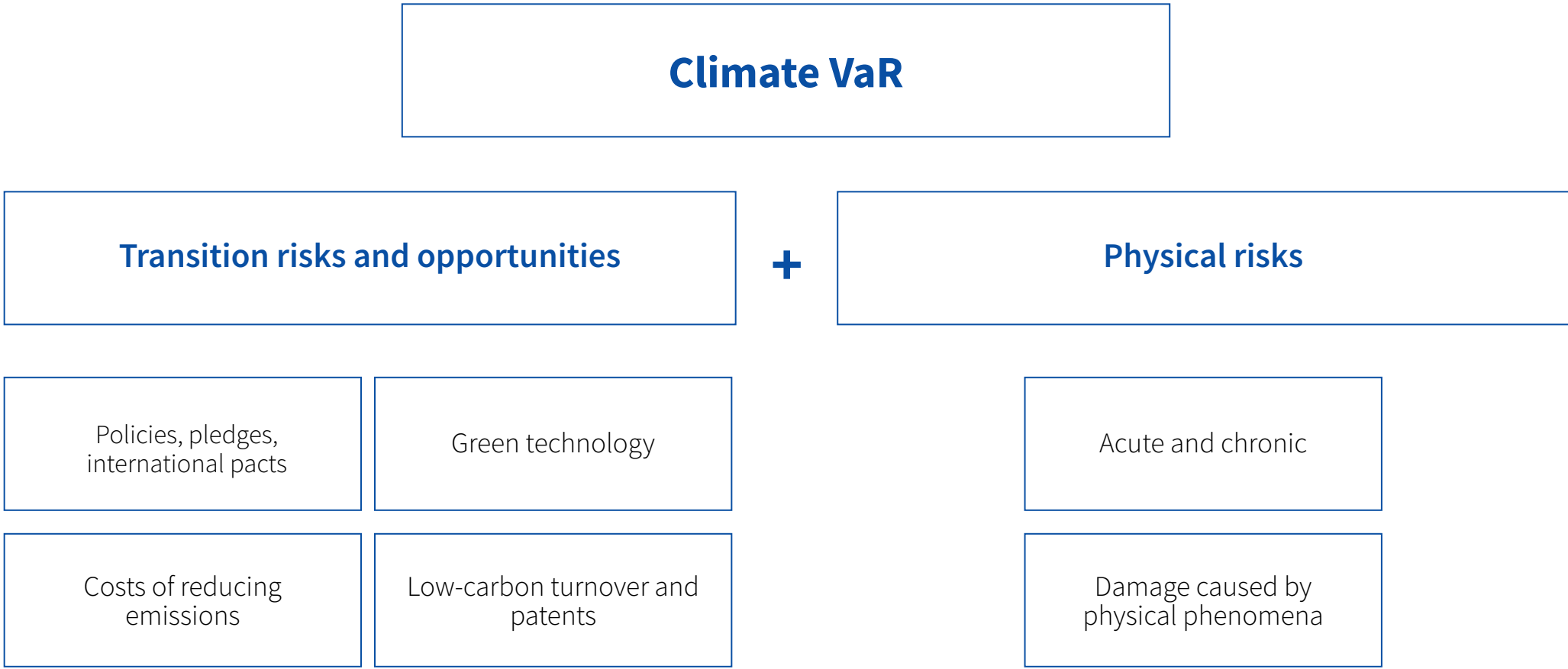
In 2021, we adopted a new tool for analysing climate risks. Climate Value-at-Risk (Climate VaR) is a tool developed by MSCI that is designed to provide an assessment of asset-class-specific transition costs and opportunities as well as physical risks brought by climate change. Climate risks have major impacts on companies’ business models and profitability, the outlook of which has been challenging to assess using traditional historical analysis. Climate VAR strives to address this problem by depicting the temperature scenario’s potential impact on the investment’s market value.

The analysis of our equity investments shows that both negative and positive potential impacts are the

greatest in scenarios in which the transition is the strongest. Compared to the global equity market, the potential negative impacts of Varma’s listed equity investments are smaller and the potential positive impacts are bigger in all scenarios.

Varma has also made use of forward-looking data by analysing the estimated future scope 1, 2 and 3 emissions of its listed equity investments and the amount of carbon dioxide emission companies can afford to release in 2020–2070 in order to limit global temperature rise to below two degrees Celsius compared to the pre-industrial era by 2100. Based on the analysis, Varma’s listed equity investments are aligned with a 2.33 degree temperature rise, whereas the corresponding figure for the global equity market is 2.86.

Climate VaR tool for climate risks



NGFS scenarios’ assumptions\*

NGFS scenarios	Net-Zero 2050	Below 2°C	Delayed transition	Nationally determined contributions (NDCs)
Transition type	Fast and orderly	Fast and orderly	Delayed and disorderly	No transition
Technology change	Fast	Moderate	Slow/fast	Slow
Geographical differences	Moderate	Low	High	Low
Energy production 2030				
Renewables	19%	14%	8%	10%
Coal	5%	14%	26%	24%
Oil	39%	36%	32%	32%
Gas	20%	22%	22%	23%
Nuclear	2%	1%	1%	1%
Biomass	15%	12%	10%	10%
Energy production 2050				
Renewables	47%	41%	49%	28%
Coal	1%	1%	0%	11%
Oil	18%	29%	19%	30%
Gas	8%	13%	7%	20%
Nuclear	1%	1%	2%	1%
Biomass	25%	16%	22%	10%
CO <sub>2</sub> emissions 2030 vs 2015	-51%	-29%	9%	4%
CO <sub>2</sub> emissions 2050 vs 2015	-98%	-75%	-92%	-29%
tCO <sub>2</sub> price in 2050, dollars	672	193	622	34
Temperature change 2100 vs 1850–1900	1.55	1.77	1.71	2.46

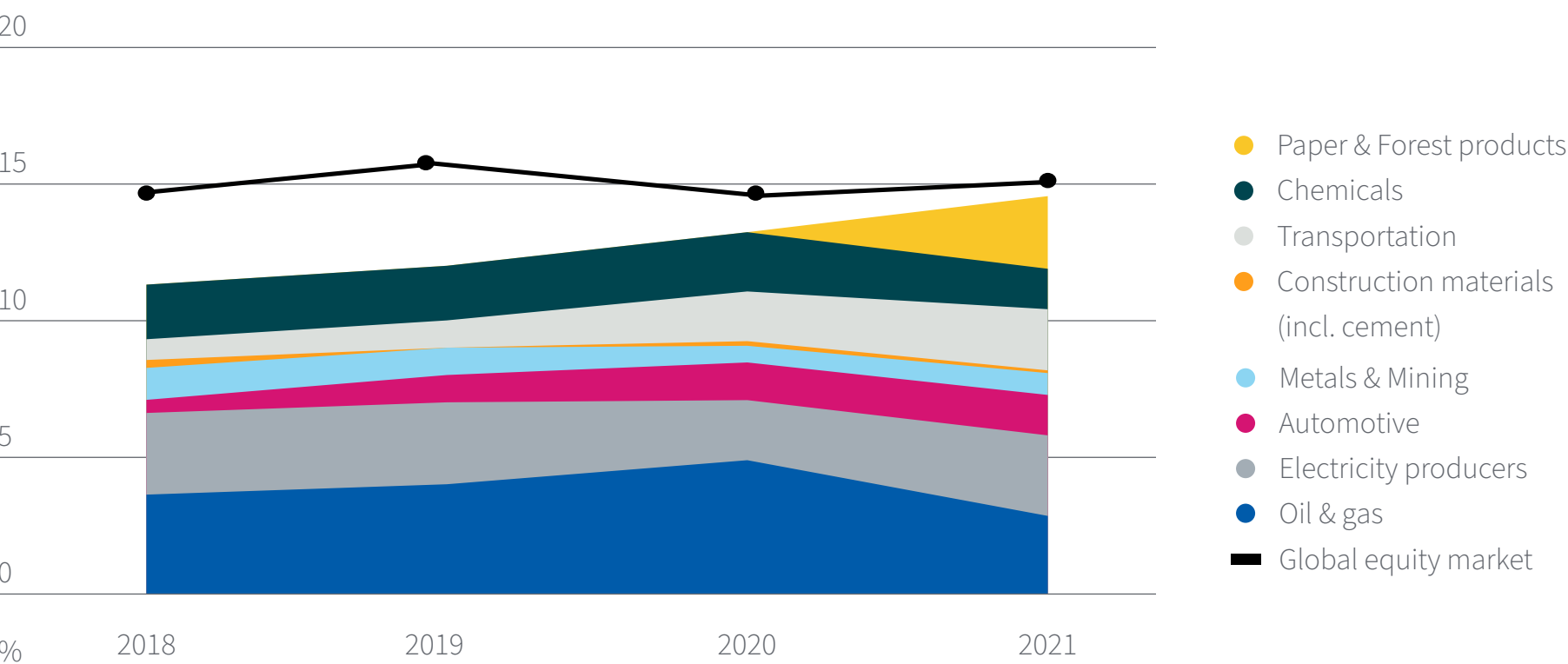
\*Scenario tool developed by the global Central Banks and Supervisors Network for Greening the Financial System (NGFS) for analysing climate risks.



Share of transition industries exposed to climate change in investments



Share of transition industries exposed to climate change in equity investments



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

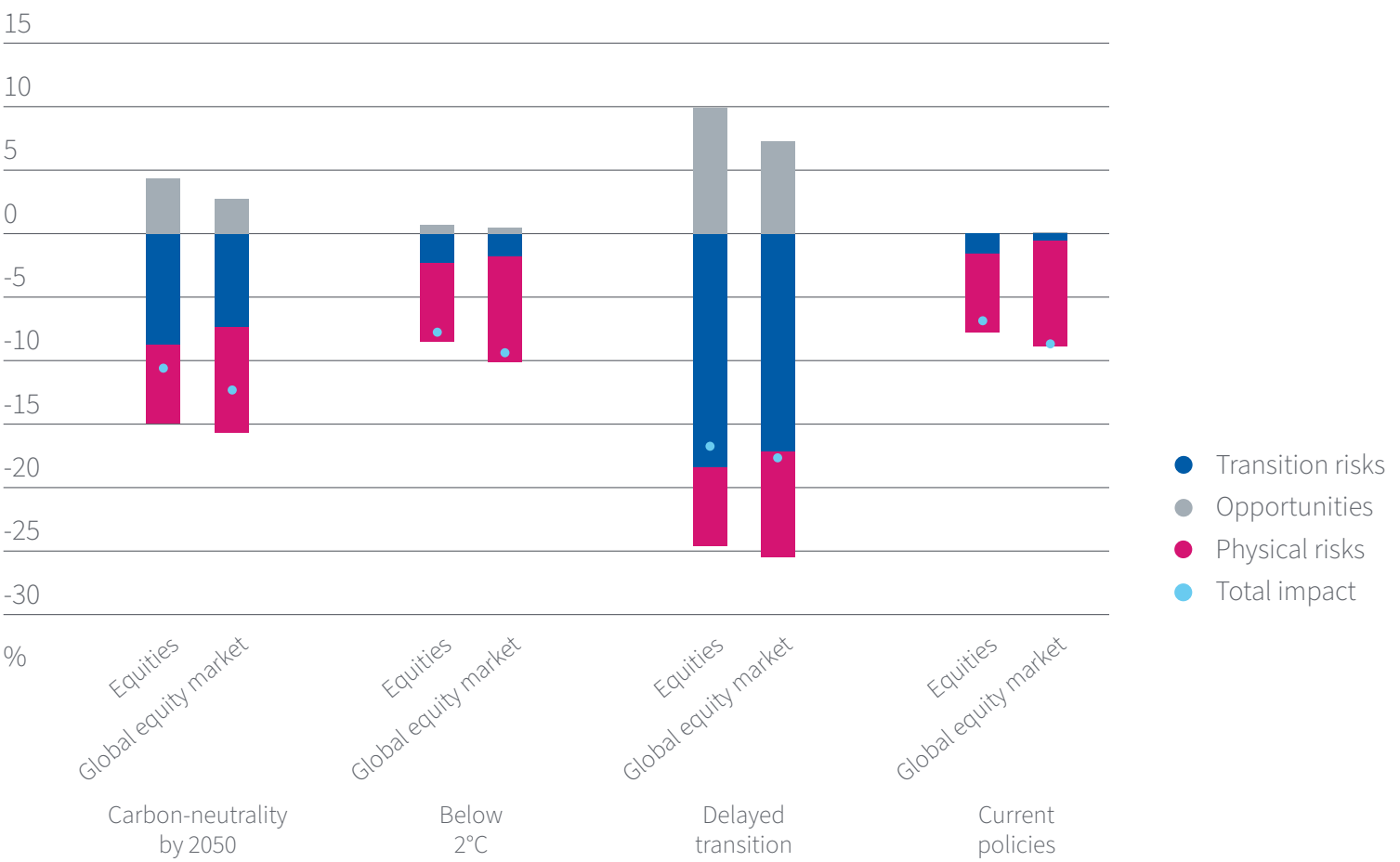
We have defined industries that, in terms of climate change, both offer the greatest opportunities for emission reductions through their business and are also significantly exposed to risks caused by climate change mitigation, such as regulation and market risks. These transition industries comprise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

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

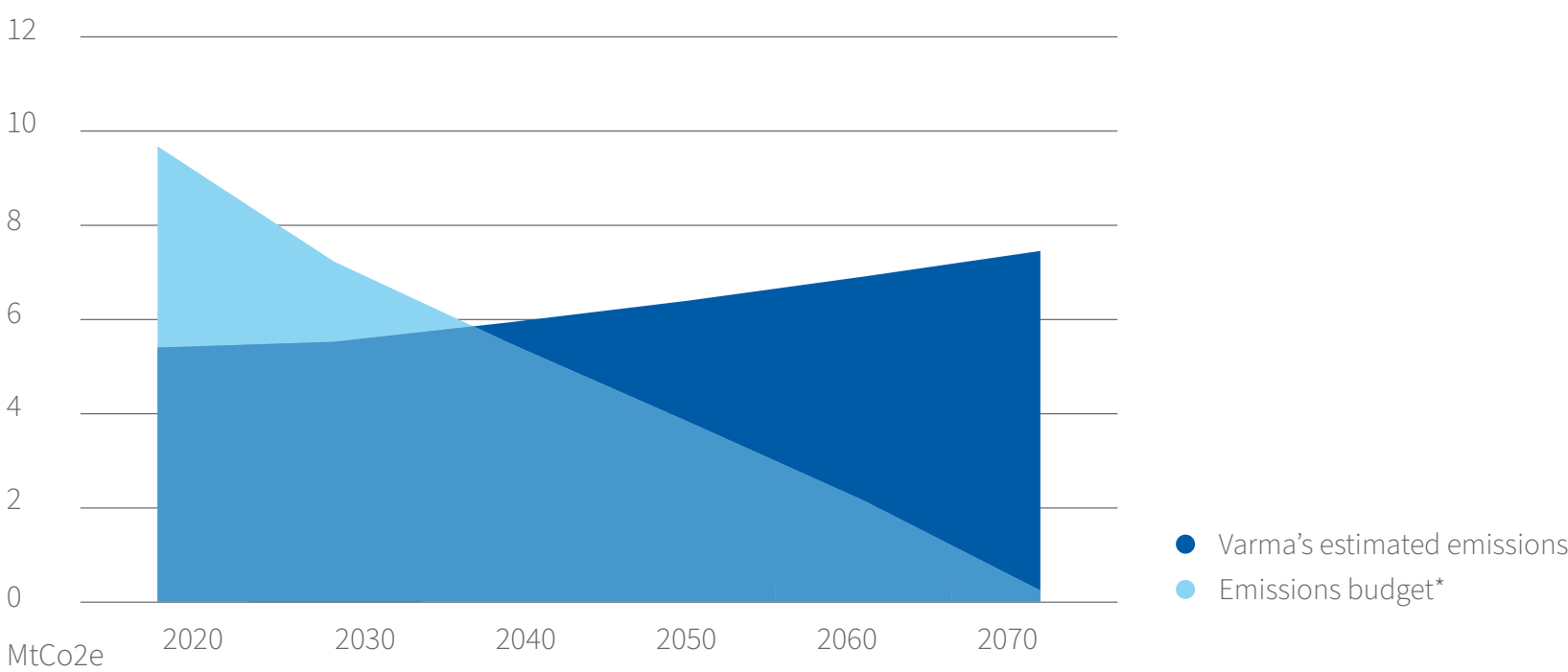
We also monitor and analyse the contribution of different transition industries to the carbon intensity of Varma's direct equity investments, because transition industries have a major impact on it. From the perspective of climate change, companies within the industries vary widely, however. In order to attain the climate goals, we must identify the best investments within the transition industries, in terms of both risks and opportunities.

The transition industries make up the majority of the scope 1 and 2 greenhouse gas emissions and weighted carbon intensity of Varma's investments. Electricity producers account for roughly half of the scope 1 and 2 emissions and only 8 per cent of the scope 3 emissions. With our oil and gas investments, the impact is the opposite, with scope 3 emissions equalling three times the emissions of scope 1 and 2.

Climate VaR of equity investments



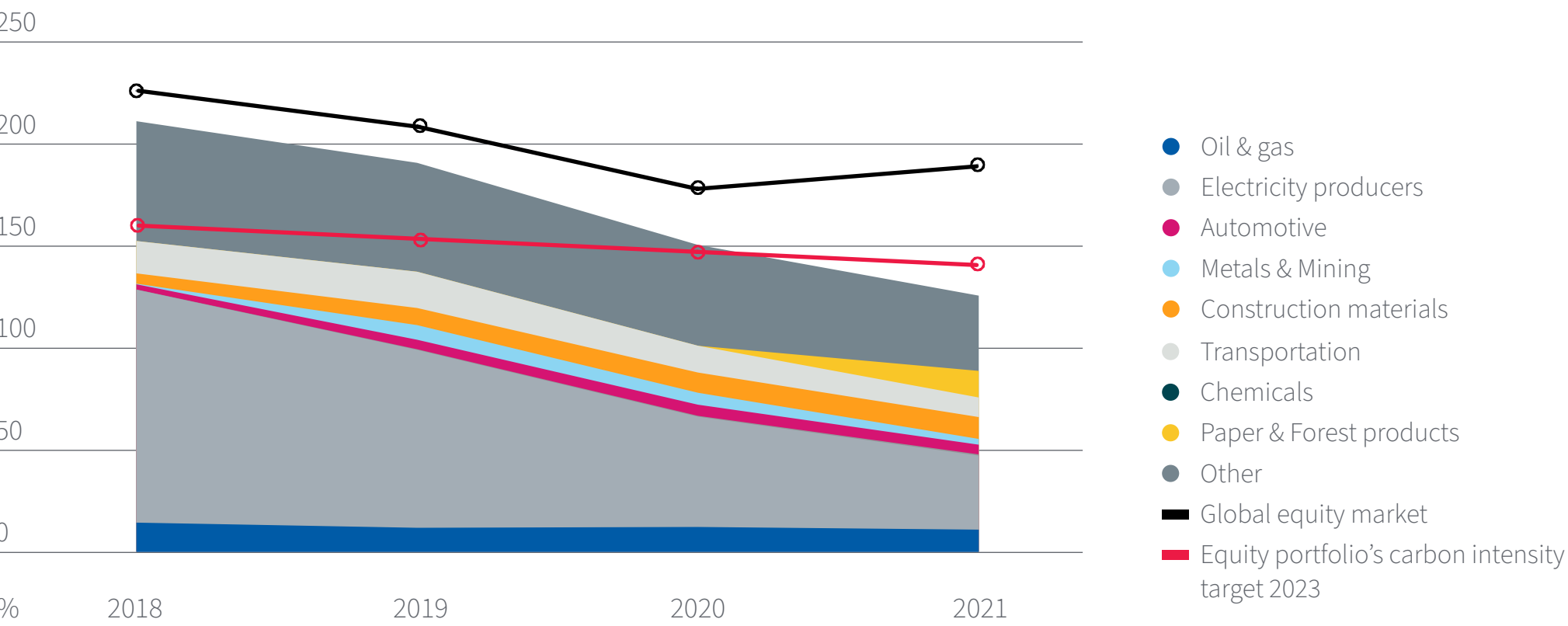
Estimated future GHG emissions of Varma's equity investments



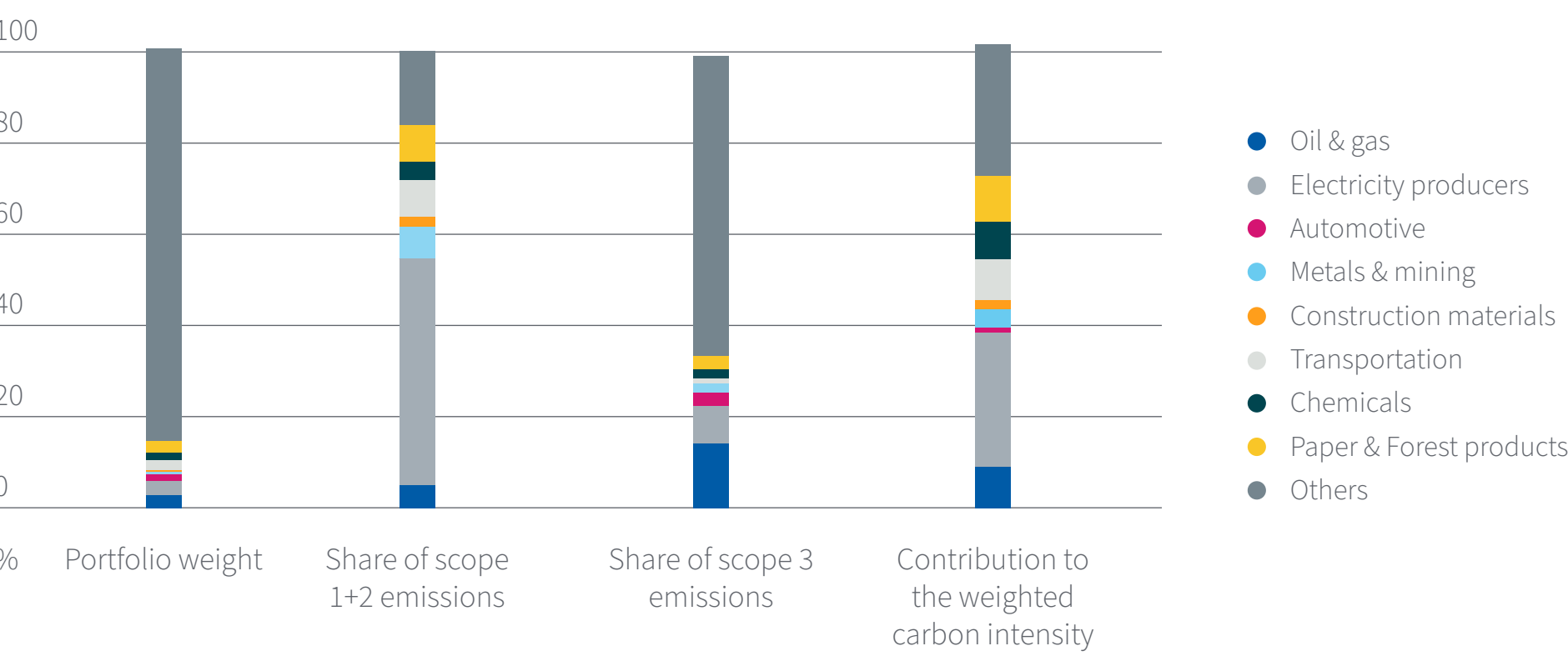
\*The scope 1, 2 and 3 emissions budget allocated for Varma's equity investments that makes the portfolio aligned with the Paris Agreement's target of reducing emissions to limit global warming to two degrees Celsius compared to the pre-industrial level by 2100.



Contribution of different transition industries to the weighted carbon intensity of Varma’s equities 2018–2021



Transition industries’ emissions



The weighted Climate VaR figure of the transition industries is negative in every temperature scenario. It indicates that the emission reductions under the temperature scenarios pose major risks to these industries. The impact is heightened in the carbon neutrality 2050 scenario and in the delayed transition scenarios, in which the transition is faster. However, the transition industries also have significantly greater opportunities to benefit from the transition to a low-carbon society. Therefore, it is important to identify the companies in these industries that are committed to ambitious emission

targets and take the progress of climate change into account in their operations. Our aim is to measure and increase the share of these companies through the environmentally friendly investment allocation. We also follow private equity and infrastructure funds' exposure to the transition industries. The goal is to raise the share of renewable energy in our electricity generation investments to 50 per cent by 2030. We strive to control the weight of industries with inherent climate risks by selecting managers and funds that are in line with our climate policy. Going forward, we are committed to

Climate VaR of transition industries





a situation where the share of oil & gas companies in our private equity investments is smaller than the share of oil & gas companies in the listed equity market.

In private equity and infrastructure investments, the share of renewable energy of electricity generation was 46 per cent in 2021. The share of oil & gas companies in our private equity investments was clearly smaller than the share of oil & gas companies in the listed equity market. In infrastructure investments, we are investing in electricity companies that use renewable sources or are transitioning towards greener operations. The share of fossil-fuel-dependent investments in Varma’s infrastructure investments was lower than the market average.

Climate-change-related opportunities

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

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

Varma has also been investing in green bonds. The debt capital raised through the issuance of a

green bond is allocated to environmentally friendly investments. At the end of the year, our green bond portfolio was valued at approximately EUR 400 million, accounting for roughly 6.8 (6.6) per cent of our liquid bond investments.

In 2021, Varma also invested EUR 230 million in climate-friendly corporate bond funds that invest in European and US corporate bonds.

When it comes to mitigating climate change, it would also be important for global index investors to shift their focus towards lower-carbon investments. We increase the share of low-carbon index funds in our index investments yearly, and our objective is to raise their share to 35 per cent of all index investments by 2025. At year-end 2021, 41 per cent of Varma’s external index investments were low-carbon.

Varma has been developing exchange-traded funds, or ETFs, together with its partners. At the end of 2021, investments in these totalled EUR 1,885 (1,063) million, which accounts for approximately 26 per cent of our index investments. These index funds do not invest in companies or sectors that are on our investment blacklist. Tobacco companies, industries that manufacture controversial weapons and companies whose operations are based to a large extent on the use of coal and which have the highest emissions and significant fossil fuel reserves are excluded from the index.



Climate-friendly allocation being built

In order to promote the carbon neutrality of its investment portfolio, Varma assembles a climate-friendly allocation, made up of investments in different asset classes. Our target is for the allocation to represent 20 per cent of the investment portfolio by 2025.

Climate change also presents investors with opportunities. By building a special climate allocation, Varma wants to identify any new investment opportunities brought by climate change. These include business opportunities presented by the electrification of transportation, energy efficiency and biodegradable raw materials, among other things.

The allocation will include companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions or who have a clear target of reducing greenhouse gas emissions.

Varma has identified investees that fit the investment allocation on the basis of their sector, produced product or service or established emission reduction targets. At the end of 2021, the climate allocation accounted for 18.2 per cent of the entire investment portfolio, while in 2020, it

accounted for 12.4 per cent. The growth is especially due to the rapid increase in companies’ commitment to ambitious emission reduction targets. The allocation’s share of the investment portfolio is monitored on a daily basis.

The allocation includes companies that have set emission-reduction targets in accordance with the Science Based Targets initiative. At the end of 2021, such targets had been set by 33 (23) per cent of Varma’s direct equity investments.

The climate allocation also includes green bond investments.

Furthermore, the climate allocation will also include Varma-owned properties that use fossil-free heating and electricity. At the end of 2021, the allocation included 13 (7) commercial premises and 8 (0) residential premises.



# Attending to biodiversity

Biodiversity refers to the biological variety of life on Earth. A biodiverse environment has a wide range of genetically diverse species of plant and animals, each with its own role in the environment and place in the food chain. In a biodiverse environment, the different forms of life interact with each other in complex ecosystems.

In its Global Assessment Report on Biodiversity and Ecosystem Services, the [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services](#) (IPBES) has estimated that around a million animal and plant species globally are threatened with extinction, many within decades. More than half of the global gross domestic product is partly or largely dependent on nature and its resources, for example, in terms of the availability of food and fuels. The depletion of biodiversity jeopardises this dependence. In its global risks landscape, the World Economic Forum (WEF) has ranked biodiversity loss among the five most impactful and most likely global risks within the next decade.

For an investor, measuring the impacts of changes in biodiversity is more complicated than measuring the impacts of climate change. Furthermore, whereas greenhouse gas emissions are global, problems and opportunities related to biodiversity

are often local in nature. Within industries that are directly linked to land use, investors may strive to identify risks as well as opportunities related to both climate change and biodiversity. The analysis of economic risks and opportunities and positive impacts related to biodiversity has been complicated by the scarcity and lack of commensurable indicators that can be applied to a variety of investees. On the other hand, biodiversity is already mentioned in many companies' strategies and sustainability policies.

For an investor assessing risks and opportunities related to biodiversity, it is critical to find such science-based background information that takes different views broadly into account. The framework of physical and transition risks used in the assessment of climate risks can also be used for assessing biodiversity risks. Furthermore, nature loss has broader systemic risks, just like climate change.

## Biodiversity assessments in Varma's investments

We launched our biodiversity work by carrying out a preliminary biodiversity analysis of the biodiversity of our investment portfolio in 2020. We focussed on forest, pulp and paper companies, since they are most directly linked to land use. Our analysis

showed that all the forest, pulp and paper companies in which Varma had shareholdings had taken biodiversity into account in their sustainability policies. The analysis also revealed that from an investor's point of view, biodiversity indicators still lack commensurability.

The work was continued in 2021 by exploring the risks, from an investor's perspective, that biodiversity loss presents for different industries, as a consequence of, for example, loss of nature, changes in land use and endangerment of species. We also looked into the measures that companies could employ to mitigate nature loss.

We identified four biodiversity-related themes that investors can pay attention to in order to reduce their impacts on biodiversity loss. The themes are: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

Attending to biodiversity is more relevant in some industries than others. In 2022, we will create a roadmap for attending to biodiversity. It will include indicators for assessing which companies are not exposed to nature loss risks or which are pioneers in their sector in efforts aimed at combatting nature loss, and how different companies produce solutions for stopping nature loss.

We follow the global development of the framework of the [Task Force on Nature-related Financial Disclosures](#) (TNFD). In addition to the TNFD framework, the protection of biodiversity comes up in the EU taxonomy, which establishes whether an

investment is environmentally sustainable. The protection and restoration of biodiversity is one of the environmental objectives of the taxonomy regulation.

**Varma explored the risks, from an investor's perspective, that biodiversity loss presents for different industries, as a consequence of, for example, loss of nature, changes in land use and endangerment of species.**



# Environmental impacts of real estate investments

Buildings account for more than 40 per cent of Finland’s greenhouse gas emissions, which means that properties’ climate friendliness plays a key role in combatting climate change. We reduced our real properties’ carbon footprint by 57 per cent in 2015–2021. Our goal now is to use fossil-free heating and electricity in our real estate by 2030 and 2025 respectively. In order to reach this goal, we have executed energy renovations in 13 residential properties and switched to emission-free purchased electricity in nearly all residential properties. Of our commercial properties, 14 have switched to emission-free district heat and 16 to emission-free electricity.

The carbon footprint of Varma’s real estate investments was down 57 per cent compared to 2015. This positive development is partly due to the change in Varma’s real estate base, but switching to fossil-free district heating and electricity, energy renovations and energy-efficiency measures in the properties also played a role. The decline of the emission factors for district heat and electricity also contributed to the lower emissions.

Emissions from Varma’s housing stock have reduced especially due to fossil-free real estate electricity. Except for a single property, all of Varma’s residential properties have switched to using fossil-free real estate electricity.

Buildings’ carbon dioxide emissions are mainly caused by the energy consumption arising from electricity and heating, which can be reduced by improving the energy efficiency of the buildings. We are committed to both commercial property and rental flat energy efficiency action plans through the Finnish Energy Efficiency Agreement Scheme for the property sector. The agreement period covers the years 2017–2025. Varma aims for a 10 per cent reduction in the properties’ energy consumption by the end of 2025. In commercial properties, the reduction was approximately 7.5 per cent by year-end 2021. In residential properties, the 10 per cent reduction target was achieved, if not exceeded, based on the preliminary data.

The Covid-19 pandemic, with varying amounts of remote and office work, was reflected in the properties’ consumption figures. In the housing stock, specific heat consumption declined and specific electricity consumption rose in 2021, while in commercial properties both specific heat consumption and specific electricity consumption rose slightly from the previous year. We have reduced consumption in some commercial properties through energy saving measures, such as recovery of the condensation heat of a data centre, sensible utilisation of waste heat and adoption of led lighting.

Consumption data for Varma’s real estate in 2019–2021

	2021	2020	2019
Residential premises			
Weather-normalised heat, MWh	36,183	39,168	42,442
Water, m <sup>3</sup> *	330,356	351,907	328,992
Electricity, MWh	6,178	5,753	5,682
Number of sites included in the calculation	57	57	58
Commercial premises**			
Weather-normalised heat, MWh	100,503	91,985	102,849
Water, m <sup>3</sup>	142,629	152,222	252,128
Electricity, MWh	68,931	65,422	81,829
Number of sites included in the calculation	42	44	49
Commercial** and residential premises, total			
Weather-normalised heat, MWh	136,686	131,153	145,291
Water, m <sup>3</sup>	472,985	504,129	581,120
Electricity, MWh	75,110	71,176	87,511
Number of sites included in the calculation, total	99	101	107

\*For residential properties, water consumption includes household water.  
\*\*Sites managed by the tenant are not included in monitoring. The sites in the portfolio being monitored have changed since 2016, when some sites’ consumption figures only covered part of the year.



Air conditioning equipment at the end of its life cycle has been replaced by switching to district cooling.

### Fossil-free district heating and geothermal heating alongside solar power

In addition to energy saving measures, Varma is reducing the carbon dioxide emissions of its real estate by choosing fossil-free alternatives in heating and real estate electricity. Our goal is to use fossil-free heating and electricity in our real estate by 2030 and 2025 respectively. At the end of 2021, 26 (19) per cent of heat and 56 (23) per cent of real estate electricity were emission free.

By the end of 2021, a total of 14 of Varma’s business properties had switched to emission-free district heat, such as recycled heat. The waste heat used in recycled heat is a by-product of data centres, substations and industrial processes. Thirteen of these also use fossil-free real estate electricity generated using wind power or hydropower, i.e. they are carbon neutral in terms of energy and electricity consumption.

In 2020, Varma started energy renovations in its residential buildings. The renovations are expected to result in 857 flats that are carbon-free in terms of heating. At the end of 2021, a solar power system was in use in 10 residential properties, and under construction in 7 properties. At sites with solar power installations, the proportion of solar power was around 4.4 per cent in the whole of 2021,

although the installations were largely completed only during 2021.

In recent years, Varma has also been building solar power systems in its business properties. At the end of 2021, a total of 10 Varma-owned business properties had solar power installations.

Solar electricity accounts for different proportions of the electricity consumption of the properties. At sites with solar power installations, the proportion was around 5.2 per cent for the whole year.

The properties to be equipped with solar systems have been chosen according to type of property, free roof surface and optimal electricity consumption such that electricity generated by solar energy can be fully used in the properties. The life-cycle costs of solar power systems have shrunk and their efficiency has improved, which makes solar power a worthwhile option for reducing the carbon footprint. We continuously look for new sites for the adoption of renewable energy.

Water consumption accounts for a large share of households’ energy consumption. In 2020, Varma launched a Fiksuvesi (“Smart water”) system in commercial and residential premises to optimise and reduce water consumption.

### Already 62 buildings or building complexes have environmental certification

Our climate policy states that our most important commercial buildings will be certified according to the [BREEAM environmental rating system](#) by

2025. Environmental ratings are a concrete way to develop the sustainability of real estate.

The quality system is particularly aimed at improving how energy efficiency is monitored and verified. The goal is to achieve a rating of at least “Good” or “Very Good”. We have been certifying commercial premises since 2016, and in 2021, we also started BREEAM certifications of apartment buildings.

In 2021, nine buildings owned by Varma were granted BREEAM In-Use environmental certification. Six of these were for residential buildings. At year-end 2021, a total of 62 buildings or building complexes had environmental certification, accounting for 50 (42) per cent of the real estate base under the company’s direct ownership, based on their fair value.

A total of six Varma properties have been granted the second highest rating of ‘Excellent’ under the BREEAM environmental certification system. Three of these were granted in 2021.

In 2021, Varma had building projects in the planning phase or under construction with the intention of applying for the LEED Building Design and Construction or the BREEAM New Construction certification. The office sites of Keilaniemen Portti in Espoo and KatajanokanLaituri in Helsinki were such projects.

BREEAM (Building Research Establishment’s Environmental Assessment Method) is an environmental rating system for buildings and building projects to assess the sustainability of buildings using harmonised methods. The rating system

covers areas such as energy efficiency systems, waste sorting and recycling opportunities and location, i.e. whether the building is situated along good public transport routes and how cycling is encouraged in the space solutions, for example. Varma’s goal is also to install more charging points for electric and hybrid cars in properties under its ownership.

### GRESB assessment results used to develop the sustainability of real estate

Varma took part in the [Global Real Estate Sustainability Benchmark](#) (GRESB) assessment of real estate sustainability performance for the third time in 2021, earning 82 points out of 100. In the previous year, Varma earned 75 points. Varma’s peers – a group of 113 investors – received 69 points on average. Varma’s score earned it a four-star rating out of five.

In the assessment, Varma scored particularly high points, for instance, in sustainability policy and management. Varma still has room for improvement, for instance, in the coverage of consumption data, in assessing the economic impacts of climate-related risks and in engaging tenants and lessees.

GRESB (Global Real Estate Sustainability Benchmark) is a global tool and framework for assessing and benchmarking, for example, the sustainability performance of real estate and



infrastructure investments, allowing investors to collect and compare their sustainability performance data.

GRESB assesses the sustainability of the entire direct real estate portfolio with respect to sustainability-related risks and opportunities, energy and water consumption, greenhouse gas emissions, environmental management systems and broadly the sustainability policies and management in the entire company. We use the GRESB Assessment as a tool to develop the sustainability of our real estate.

Waste monitoring extends to residential properties

Waste caused by Varma’s operations is mainly generated by its real estate business. Upstream in the value chain, waste is generated by construction, maintenance and renovation activities, while downstream waste is generated by rental housing, use of commercial premises and demolition of real properties. Waste is generated, in particular, by construction and demolition materials, and the daily purchases of our commercial and housing tenants.

We have been monitoring the waste volumes of the business premises and the carbon dioxide emissions calculated on the basis of this data since 2018. In 2021, the calculation included 35 (33) sites, the total waste volume of which was 2,397 (2,395) tonnes, and the related carbon dioxide emissions were 667 (689) tonnes of CO<sub>2</sub>e (tCO<sub>2</sub>e).

We also started monitoring the waste volumes of residential properties in 2021. The calculation included 43 sites, the total waste volume of which

was 1,327 tonnes, and the related carbon dioxide emissions were 544 tonnes of CO<sub>2</sub>e (tCO<sub>2</sub>e).

Apartments’ waste-related data is collected by an external manager, who regularly reports to Varma. In commercial properties, we use a data collection system in which waste management companies directly report the amounts of different waste fractions. Demolition waste is reported to Varma by the demolition contractors.

We control waste-related impacts through, for example, close co-operation with service providers. The [Supplier Code of Conduct](#) is part of our agreements, and in the code, we require suppliers to reduce their environmental impacts. We have drawn up [circular economy guidelines](#) (in Finnish) for our renovation and new construction sites. Varma has published separate [circular economy guidelines](#) (in Finnish) for commercial premises, including Varma’s own Salmisaari property, which encourages to identify and adopt practices and arrangements that can be used to reduce waste and improve sorting and recycling.

Waste-related impacts are also monitored through separate control visits and, for commercial properties, in meetings with the real estate companies in which waste is addressed as part of other environmental responsibility measures. Real estate managers also have their own sustainability guidelines that are aligned with Varma’s circular economy guidelines. We also improve the processing and recycling of demolition waste from construction projects through the sustainable demolition Green Deal, an

Waste from commercial premises

	2021	2020
Amount of waste (t/a)	2,397	2,395
CO <sub>2</sub> emissions caused by waste (tCO <sub>2</sub> eq/a)	667	
Biowaste	513	
Waste utilised as energy	225	
Glass	42	
Metal	51	
Plastic	16	
Paperboard/cardboard	568	
Paper	115	
Combustible waste	749	
Wood-based waste	28	
Construction waste	51	
Fats, grease and sludge	25	
Electronic waste	3	
Confidential waste	9	
Hazardous waste	2	
Total gross area of sites monitored for waste, gross m²	712,738	681,701
Total CO <sub>2</sub> emissions caused by waste, kg/gross m²	0.9	1
Utilised as material	58%	57%
Utilised as energy	42%	43%
Sites monitored	35	33



Waste from residential premises

	2021
Amount of waste (t/a)	1,327
Biowaste	114
Waste utilised as energy	-
Glass	13
Metal	16
Plastic	46
Paperboard/cardboard	135
Paper	162
Combustible waste	841
Wood-based waste	-
Construction waste	-
Fats, grease and sludge	-
Electronic waste	-
Confidential waste	-
Hazardous waste	-
CO2 emissions caused by waste (tCO2e/a)	544
Total gross area of sites monitored for waste, gross m²	286,333
Total CO2 emissions caused by waste, kg/gross m²	1.9
Utilised as material	37%
Utilised as energy	63%
Sites monitored	43





agreement between the Ministry of the Environment and the business sector.

We also provide our tenants with guidance on sustainable living. We send our new flat tenants a guidebook on sustainable living that includes advice on recycling and sorting waste, and concrete tips on saving energy, among other things. We also provide our commercial tenants with tips on energy saving measures.

### Circular economy in real estate

Varma has drawn up and adopted circular economy principles for real estate properties and implemented them in the processes of new construction and renovation projects as well as in maintenance. The principles are aimed at steering construction and maintenance processes increasingly towards low-carbon and sustainable solutions.

The documentation of maintenance measures aligned with circularity has been started in the maintenance activities of Varma-owned commercial properties, and a similar practice will be adopted for residential properties in 2022.

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

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

Construction according to the principles of circularity strives, through the selection of appropriate construction materials fit for the purpose, for buildings that have a long useful life and are maintainable and environmentally friendly. The buildings are designed to be energy efficient, and construction waste and negative environmental impacts are minimised. Furthermore, the buildings are also planned to enable the dismantling of structures and adaptability.

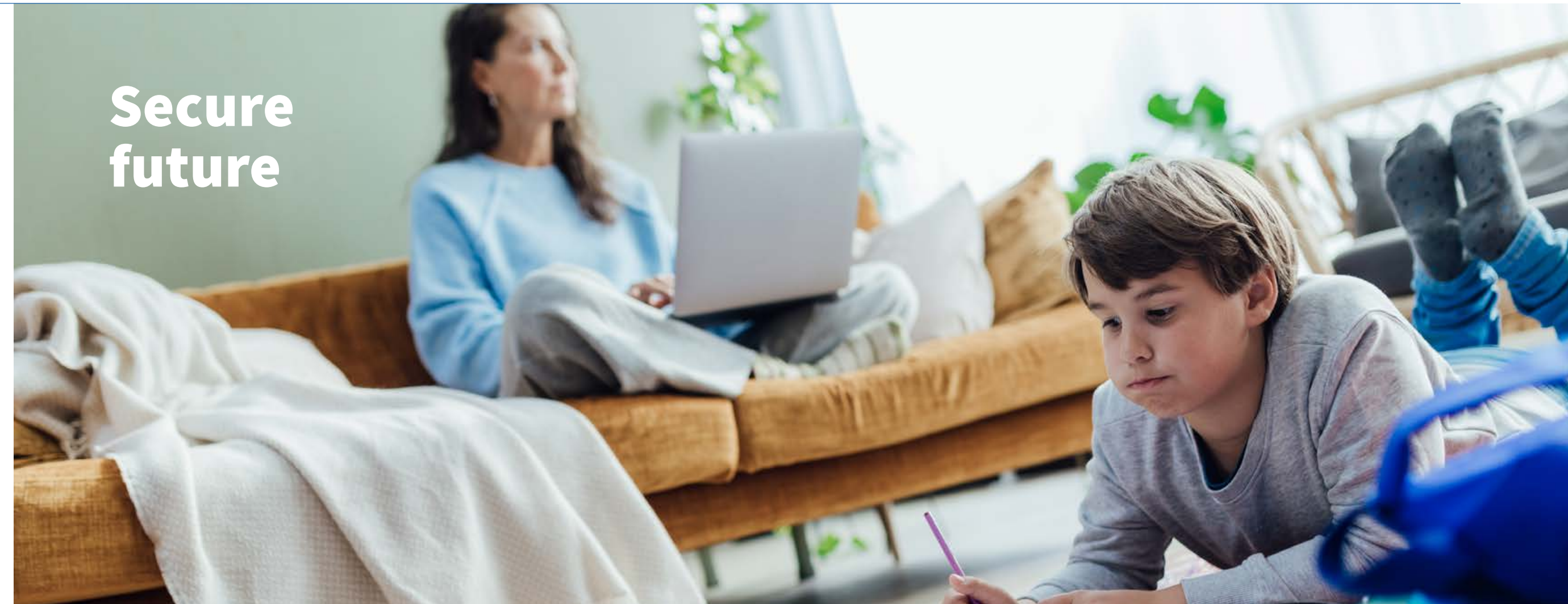
The circular economy principles are taken into account in the construction planning phase and in the choice of construction materials. The use of renewable energy is addressed in all projects. In demolition projects, the recycling rate of demolition waste is high, at nearly 100 per cent.

We are piloting circularity-based planning and construction in conjunction with the wood office building 'Keilaniemen Portti' in Espoo, for which construction work is scheduled to begin in 2022. Special attention will be paid to the principle of "designed for disassembly and re-use", prioritising low-carbon construction materials and calculating the carbon footprint over the building's entire life cycle. Keilaniemen Portti will incorporate solar panels and green roofs, and energy efficiency will be given special attention.

The wooden Katajanokan Laituri office and hotel development strives to minimise the climate impacts over the building's life cycle. Construction began in 2021.

**Some residential buildings will switch from district heating to geothermal heating, and electricity will be purchased emission free. These buildings will be carbon-neutral in terms of heating.**

## Secure future



### Energy renovations turn 857 homes carbon neutral in terms of heat and electricity

**In 2020, we started a series of energy renovations in blocks of flats, and by the end of 2021, renovations had been completed in a total of 13 sites. The measures include e.g. installing geothermal heat pumps, solar panels and air-to-air heat pumps in the properties.**

In 2021, we began energy renovations in seven sites. In 2021–2022, the renovations will cover a total of 20 residential properties, which means the emissions from Varma's total residential portfolio will decrease by an estimated 1,691 tCO<sub>2</sub>/a. These renovations will result in 857 flats that are carbon-neutral in terms of heating. Furthermore, the emissions of 475 flats will decline by an average of 26 per cent.

The sites to go through an energy renovation are located in the Helsinki Metropolitan area, and in Tampere, Turku, Lahti and Jyväskylä. Following the renovations, 15 sites will be carbon-neutral in terms of energy consumption, as Varma also uses, by default, emission-free electricity in all its residential properties.

Varma owns around 4,300 rental apartments in Finland. In 2020–2021, some of our residential properties switched to using geothermal heat pumps as a heat source. Some of Varma's residential properties will switch to using solar panels and property-specific heat pumps that recover heat from exhaust air. The new energy solutions will replace part of the buildings' district heat consumption.

We will continue the ongoing energy renovations in 2022 and in addition to renovating existing assets, we will also install geothermal pumps in new buildings and developments.



# Environmental aspects of the supply chain

## Supply chain surveying and sustainability requirements

Our sustainability requirements that apply to suppliers are laid down in the [Supplier Code of Conduct](#), which has been approved by Varma's Board of Directors.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the sustainability requirements. Direct suppliers are obliged to ensure that their subcontractors also comply with these sustainability requirements. It also includes a notification requirement and permission for audits performed by Varma. The Supplier Code of Conduct is attached to contracts.

The Supplier Code of Conduct calls for respect for the environment. We require our suppliers to be aware of their environmental impacts and to take them into account in their operations. Environmental legislation must be complied with, without exception. Particular attention must be paid to assessing, minimising and preparing for environmental impacts, in order to prevent environmental risks.

We encourage our suppliers to use a certified environmental system or a documented operating

method for managing their environmental matters. We also encourage them to develop environmentally friendly solutions. Especially in emission-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.

Our most significant purchases are related to construction and maintenance of buildings, and to IT systems. In terms of purchases related to real estate business, we have drawn up circular economy principles for real properties for the processes of [new construction and renovation projects](#) as [well as maintenance](#) (in Finnish). We also aim to increase the recycling rate of construction and demolition waste.

Of our purchases made in 2021, 98.5 per cent originated from Finland. The remaining 1.5 per cent originated from the US, France, the UK, Ireland and other European countries.

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





# Environmental aspects of our own operations

**For real estate investor Varma, its own head office serves as a test laboratory where, for example, solar panels, charging points for electric cars and fossil-free heating and electricity have been piloted. Our head office has switched to fossil-free district heating and cooling, which has significantly reduced Varma's own carbon footprint in recent years. Impacts of the Covid-19 pandemic have also contributed to lower emissions.**

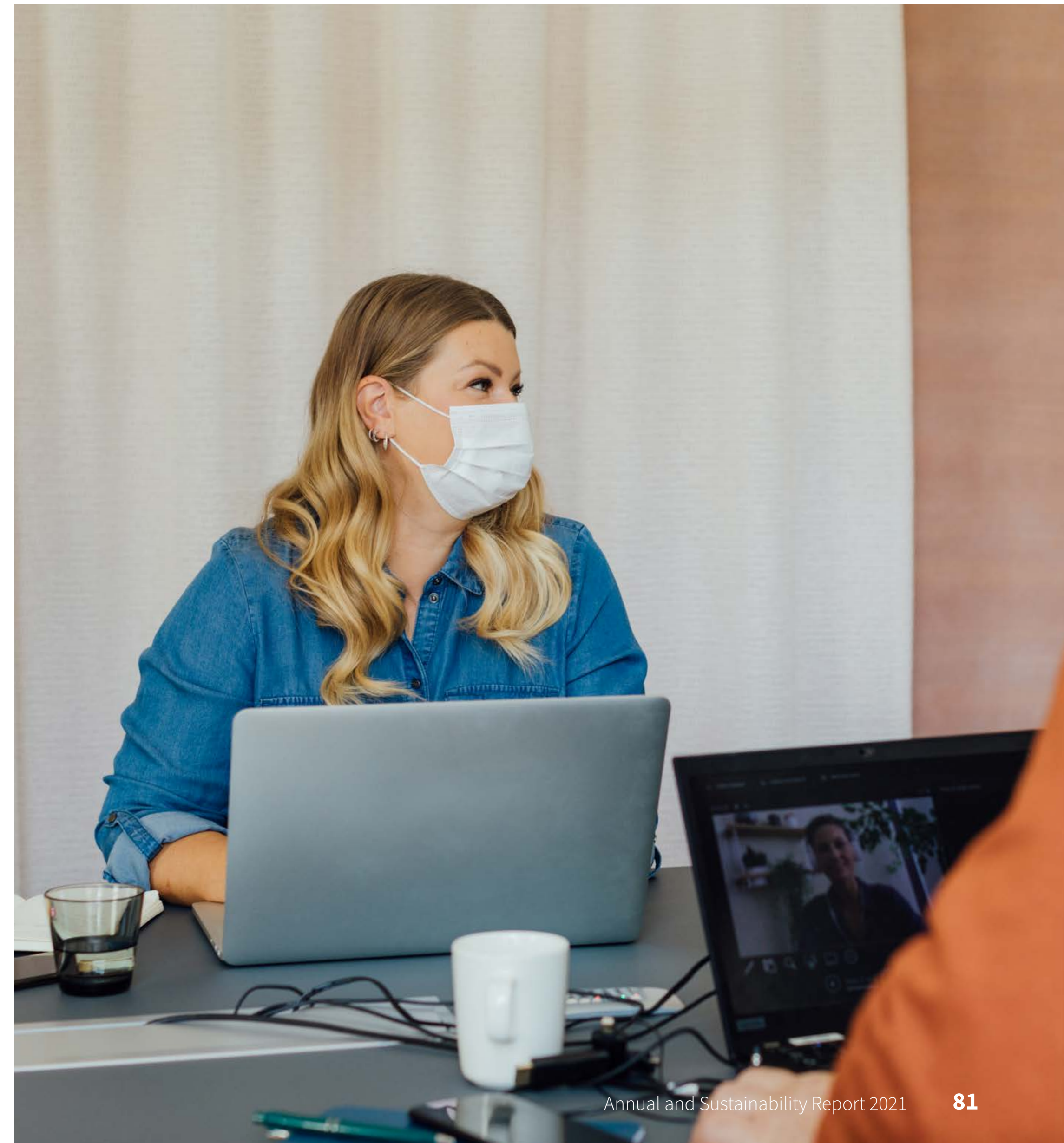
The environmental impacts of Varma's own operations are controlled using [WWF's Green Office system](#), which was introduced at the beginning of 2016. Our goal was to reduce the carbon footprint of our operations by 15 per cent by 2020 and strive for carbon neutrality by 2035.

The ambitious measures taken to improve environmental sustainability have been successful. The carbon footprint of our own operations has declined 84 per cent from the 2015 baseline.

Our Salmisaari head office has BREEAM Excellent certification.

Varma's Green Office targets and measures for 2021 related to reducing energy consumption and waste, cutting emissions from commuting, and adopting circularity guidelines, among other things. We are also in the process of applying a WELL certificate for the Salmisaari office.

Greenhouse gas emissions from energy consumption at our Salmisaari office were cut by as much as 100 per cent in five years, and 100 from the previous year. This is due to switching to fossil-free district heating and cooling based on recycled heat. Recycled heat is emission-free, carbon-neutral, 100 per cent recycled and further-processed waste





heat. The emissions from energy consumption were reduced back in 2016 by switching to fossil-free real estate electricity produced with hydropower.

The solar panels on the roof of our Salmisaari head office generated around 5.4 per cent of all electricity consumed in the building during the summer, and 2.7 per cent during the entire year.

Due to the Covid-19 pandemic, Varma employees’ air travel for business was reduced in 2020–2021 from the pre-pandemic level, which also contributed to the decline in the carbon footprint.

Varma employees worked significantly more remotely, which was reflected in lower waste volumes, which declined nearly 38 per cent in two years and 14 per cent since 2020. The majority of the waste generated in the building originates from the Compass Group’s restaurant. The amount of waste from preparing food was reduced earlier as a result of, for example, the restaurant starting to sell its leftovers in 2017.

We started an analysis of the potential of an emissions compensation scheme in the future, once we have reached the lowest possible level of emissions from our operations.

Printing paper consumption also declined 32 per cent from the previous year.

We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies. Varma acquires only normal 4- or 5-door family cars as company cars. Varma requires its employees to choose low-emission company cars. Varma acquires only fully electric or plug-in hybrid cars as company cars. The car’s carbon dioxide emissions must be below 80 g/km under the Worldwide Harmonised Light Vehicles Test Procedure (WLTP).

If the car’s CO<sub>2</sub> emissions do not exceed the 80 g/km limit under the WLTP, Varma pays the company car holder 20 per cent of the car’s tax value as

Our Salmisaari office building uses emission-free district heat and emission-free electricity, thanks to which our carbon footprint is down 84 per cent compared to 2015.

salary. In order to receive this compensation, the holder must commit to driving primarily in electric mode.

Eco-friendly motoring is also promoted by the electric-car parking area in Salmisaari’s parking facility. It is possible to charge electric or hybrid cars at more than 200 parking spots in the parking facility of Varma’s head office in Salmisaari, Helsinki. Besides Varma, the parking facility is used by other companies in the Salmisaari office campus.

Varma has arranged good facilities for employees who cycle to work, and encourages the use of public transport for commuting by offering an employee benefit.

Environmental information on Varma's operations

	2021	2020	2019
Water consumption, m³	2,227	1,649	3,054
Electricity consumption, MWh	1,355	1,313	1,375
Heat, MWh (weather-normalised)	2,113	2,126	2,082
Total waste (tonnes)	16	19	25
Carbon footprint tCO <sub>2</sub>	298	333	1,054

84%

The carbon footprint of our own operations has declined 84 per cent since 2015.





## Ethical and transparent business

Knowing and abiding by common rules is an essential part of responsibility for Varma employees.

In 2021, we joined the United Nations Global Compact initiative, continued to assess our human rights risks and impacts and carried out an extensive stakeholder survey on Varma's sustainability.



# Ethical business

Varma's core task, securing pensions, is a significant social mandate that requires a high level of ethics and transparency. Varma's way of operating is described in the company's [Code of Conduct](#). The purpose of the Code is to guide Varma employees in behaving responsibly. The Code of Conduct is approved by Varma's Board of Directors.

In the Code of Conduct, Varma commits to good insurance practices; combating the grey economy, corruption and bribery; and responsible investment principles, among other things. We are committed to operating in accordance with the UN Guiding Principles on Business and Human Rights, and we expect the same from our supply chain. The Code of Conduct also includes guidelines on what to do if one sees or experiences inappropriate behaviour at the workplace.

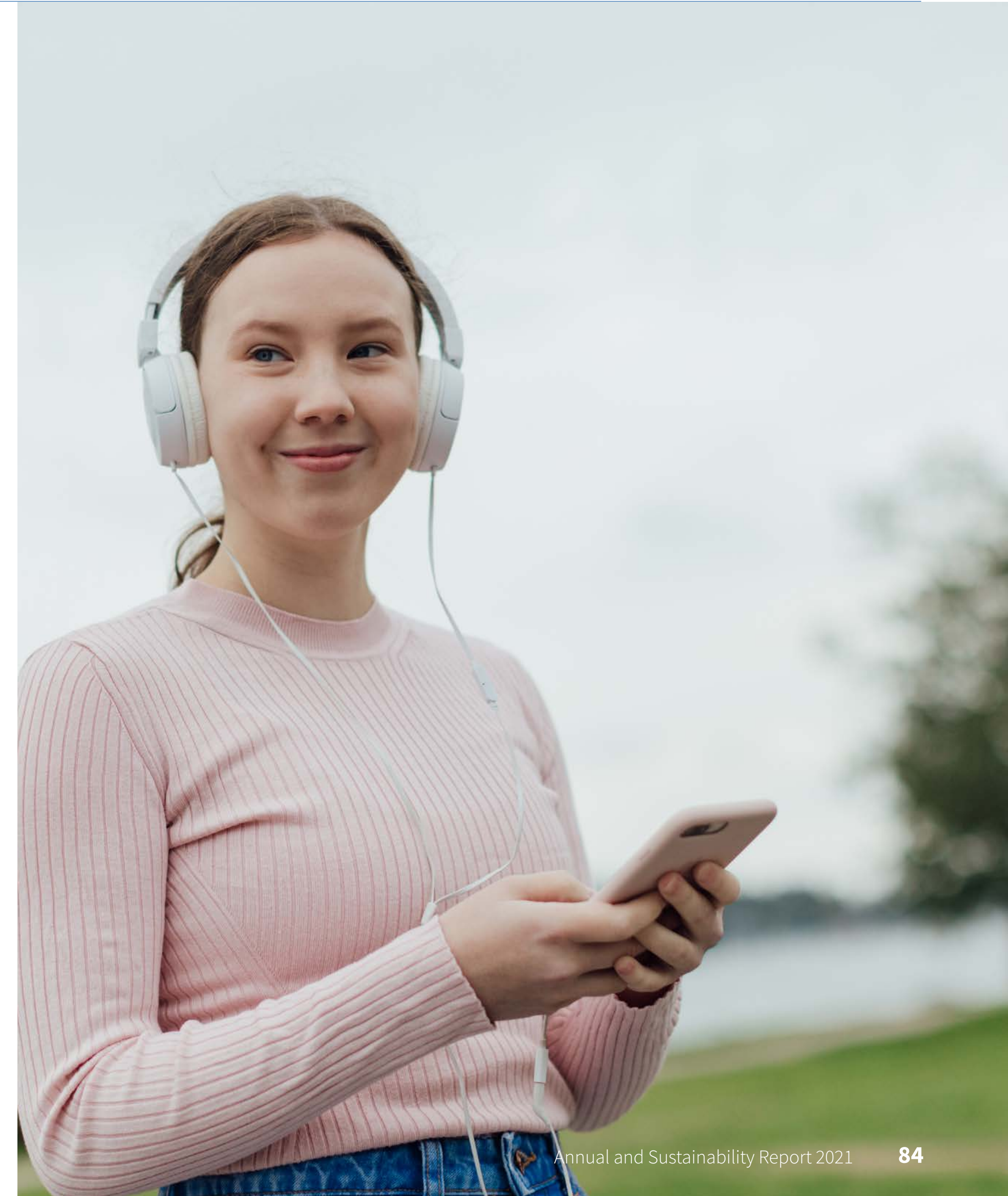
The Code of Conduct is complemented by Varma's other internal guidelines and instructions, which have been drawn up, for example, to guarantee data security and data protection, to prevent money laundering and to comply with insider regulations. Varma also has a separate anti-bribery policy in place. Compliance with the policy is monitored through, for example, a gift register that is maintained by the Compliance Officer. In order to

ensure tax responsibility, a separate tax policy was also published in 2021 (read more in the section [Tax responsibility](#)). Every Varma employee must abide by our common principles. In case of problems and suspected violations, employees can contact the Compliance Officer.

Since 2020, Varma has had a whistleblowing channel in place for anonymous reporting of misconduct. Behind the whistleblowing channel is an EU directive concerning the reporting of violations, for instance, in public procurements and financial services, and in competition-, bribery- and corruption-related matters. The whistleblowing channel is available both internally to Varma employees and to external stakeholders. In 2021, a total of 16 reports were received through the channel. None of these concerned misconduct referred to in the directive. Five reports pertained to customer service and five to disability pensions possibly granted on false pretences. Individual reports were also submitted relating to, for example, Varma's marketing activities.

In 2021, we joined the United Nations Global Compact initiative. In line with the Global Compact, we are continuing our work to promote human rights, labour rights, environmentally friendly business and anti-corruption, among other things,

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





and we report to the UN annually on our progress in these areas in conjunction with our annual and sustainability report.

In 2019, the Finnish Financial Supervisory Authority (FIN-FSA) outlined that the management of disability risk must focus on customers based on their risks, and its objective must be the reduction of the disability risk for which the earnings-related pension insurance company itself is responsible. Our service offering follows FIN-FSA’s guidelines, and we focus our services on disability risk management.

Respect for human rights

Varma is committed to respecting human rights through, for example, the implementation of its Code of Conduct, responsible investment principles, and active ownership and engagement principles. Our human rights efforts are also reinforced by becoming a participant of the UN Global Compact. Work on human rights is carried out in different parts of Varma and especially with respect to responsible investment, compliance and sustainability departments, and tasks related to supply chains.

In 2021, Varma continued the process to assess the fulfilment of human rights within the company’s operations, supply chain and investments. The UN Guiding Principles on Business and Human Rights include a due diligence concerning human rights, which means that companies must identify, prevent and alleviate the negative human rights impacts of their operations and address them. The assessment

helps us deepen our understanding of our human rights impacts and risks and create standardised practices for the continuous monitoring of the implementation of human rights and the related operating principles.

In 2021, we launched training within Varma on the corporate responsibility to respect human rights. The training efforts are targeted to the functions where we have identified major potential or actual human rights impacts, for example, our supply chains and investment activities.

Furthermore, one of the focus areas of responsible investment in 2021 was paying attention to the social responsibility of investees. We have identified more detailed human rights themes in investment operations, and we will monitor their implementation in our investments (read more in the section [Responsible investment](#)).

Responsible supply chain management

In order to ensure sustainability in our supply chain, we require all of our partners to commit to our [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 sustainability requirements. Direct service providers are responsible for their own supply chain, and they are obligated to ensure that Varma’s sustainability principles are abided by in their own operations.

The Supplier Code of Conduct covers, among other things, good business practices, anti-bribery aspects, human rights, occupational safety and

health, and respect for the environment. It also includes a notification requirement concerning Code violations and permission for audits performed by Varma. The Supplier Code of Conduct is attached to Varma’s supplier contracts.

In 2021, Varma was in the process of renewing its contract management system. The goal is to reduce the contract risk by introducing a harmonised contract management system and providing guidelines for contract and procurement processes. At the same time, we will be better able to ensure that the supply chain sustainability requirements are taken into account in our contracts. At the end of 2021, Varma’s operations were partly within the scope of the new contract management system, and the rest of the operations will transfer to it in early 2022. The company’s common procurement principles were also revised in 2021. The principles promote harmonised, transparent and sustainable procurement practices.

In 2021, Varma joined the United Nations Global Compact initiative.



Varma’s Compliance function

Through our Compliance function we ensure adherence to regulations, the Code of Conduct and other guidelines, and prevent legal risks from materialising at Varma. As the Compliance Officer, the head of legal affairs is responsible for organising the Compliance function.

Compliance is promoted through the use of online courses, which every Varma employee is expected to complete. Varma employees take the data protection and data security course annually and the Code of Conduct training every two years. The completion rate is monitored and reported, for example, to the Board of Directors. In 2021, the online course on data protection and data security was completed by 95.7 per cent of Varma employees. The latest online course on the Code of Conduct, in autumn 2020, was completed by all Varma employees (100%). The course is due next in 2022.

Data protection and data security

The data security measures implemented at Varma support the company’s core task, i.e. securing pensions. Varma processes the personal information of the insured, pensioners, rehabilitees and lessees, among others. We tend to the data protection of our private customers by ensuring that the processing of personal data fully conforms to laws and other rules and regulations. As a Controller, Varma is also responsible for its suppliers’ compliance. Varma’s data protection organisation and employees handling personal data work according to the data



protection principles approved by the Board of Directors and the guidelines based on them. Data security measures are in place to protect personal data, as well as Varma’s services, business operations and trade secrets, and the trade secrets of client companies. The targets, responsibilities and means of data security management are defined in Varma’s data security policy.

Data security management at Varma consists of planning based on the assessment of data security risks, measures that improve data security, reviewing and monitoring the level of data security, and continuous improvement of data security practices. In 2021, we arranged 33 training events, one of which is an annual online course on data protection and data security for all employees. We also arranged continuous automated training on data security awareness for all personnel.

The EU’s general data protection regulation (GDPR) requires that Varma as a controller identifies data security threats and is able to take preventive measures. In 2021, Varma employees reported 75 data security events, 24 of which concerned minor data security violations under the GDPR. One case was reported to the data protection ombudsman. We maintain on our website [descriptions](#) on the processing of personal data at Varma as required by the GDPR.





# Open communication and stakeholder co-operation

## Transparent and open operations

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

Varma is a major influencer on the economic, socio-political and business scene. We have a wealth of knowledge of, competence in and insight into important societal themes, and we strive for open dialogue.

Our intention is to be a bold leader in communication. This means that Varma's experts express their views and interpretations and propose new initiatives on themes that are socially important to us.

## Open communication in practice

We report quarterly on the development of our responsible operations as part of our financial reporting. We have also taken into account the statutory requirements concerning the reporting of non-financial and diversity data and published a report on non-financial data as part of the Report of the Board of Directors. We also anticipated future amendments to reporting regulations and disclosed information for 2021 in accordance with the EU's new proposed Corporate Sustainability Reporting Directive (CSRD) and the EU's Sustainable Finance Taxonomy requirements. We also report on climate risk management in accordance with the TCFD framework.

We strive to communicate openly also, for example, about our sponsorship practices, which are



steered by our sponsorship guidelines. Sponsorship should contribute to achieving our strategic goals, and we focus mainly on long-term co-operation. Varma does not grant financial support to political parties. We provide more detailed information on our [sponsorship and charitable donation principles](#) on our website.

Securing pensions is a responsibility that is based on trust. Protecting our good reputation is important to us, and we continuously monitor the development of our reputation in T-Media’s Reputation & Trust survey. The 2021 results show that Varma’s reputation is at a solid average level of 3.34 (3.42). The same survey measured the general public’s view of Varma’s sustainability. The score in this area was 3.36 (3.41). Our goal is to continuously strengthen our reputation and develop our responsible operations. A total of 9,265 Finnish people took part in the survey, with 302 respondents giving a more detailed assessment of Varma.

In the MediaBarometer survey carried out by T-Media in January 2021, reporters deemed Varma’s communication to be highly knowledgeable and reliable. Varma’s overall reputation among reporters was at a good level, and reporters found Varma to be a well-governed company. According to reporters, areas with improvement potential included communication activeness and initiative. The survey was completed by 143 reporters, 12 of whom assessed the success of Varma’s communication efforts.

**Stakeholder co-operation and sustainability networks**

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

Our main stakeholders are customers, personnel, members of Varma’s governance bodies, authorities and decision-makers, our investees, labour market organisations, sector organisations, other earnings-related pension providers, non-governmental organisations and the media. Our statutory task, securing pensions, naturally helps to define our main stakeholders; as does the fact that Varma is a mutual company, owned by its customers.

We promote open societal interaction and we listen to our customers and other stakeholders. The achievement of these targets is supported by Varma’s five Consultative Committees: the Consultative Committees for pension affairs, pensioners, self-employed persons, employers and the insured. An [up-to-date list of the members of the consultative committees](#) is available on Varma’s website. Varma also has in place a customer panel, consisting of private customers. The panel provides our customers an opportunity to influence our services. Customers can sign up for the panel in the Varma Online Service.

We engage in advocacy through memberships in the boards of directors of the Finnish Pension Alliance TELA and Finance Finland and in various

**In 2021, our stakeholders were especially interested in new ways of working, maintaining work ability and the sustainability of the pension system.**

permanent working groups and ad hoc working groups established for a specific initiative. The working groups address several national and EU-wide legislation initiatives related to our sector. We are also active in the working groups of the Finnish Centre for Pensions, a co-operation body for the earnings-related pensions sector.

Typical channels for interaction, in addition to the consultative committees and working groups, are different meetings with customers and other groups, briefing and training events, seminars, webinars, the website, chat, social media and publications. Similar to 2020, our stakeholder co-operation focussed more than usual on virtual channels.

Due to the continued exceptional times in 2021, our stakeholders were especially interested in topics related to changes in working life, new ways of working, hybrid work and maintaining work ability. The general impacts of the coronavirus pandemic on the economy and working life also raised interest. Finland’s demographic development,

sustainability of the pension system, climate change, corporate sustainability and uncertainties relating to the global economy and politics also raised debate. We engaged with non-governmental organisations on topics such as our climate targets and biodiversity, and our client companies were especially interested in climate measures and reporting as well as promoting sustainable practices.

In connection with the sustainability materiality analysis in spring 2021, we carried out a broad stakeholder survey in which we looked into our stakeholders’ views on what areas of sustainability Varma should focus on in the future. Issues that our stakeholders consider important include management of pension matters, securing solvency, good governance, promoting sustainable working life and promoting social topics in responsible investment.

We are also involved in different networks of responsible business, such as the Finnish corporate responsibility network FIBS and Finland’s

Interest organisations’ membership fees

	2021	2020	2019
Finance Finland	301,773	335,727	293,961
Finnish Pension Alliance TELA	644,811	657,235	733,328



Sustainable Investment Forum Finsif. We have also joined the Climate Leadership Coalition and the Climate Partners, and, in 2021, the Partnership for Carbon Accounting Financials (PCAF). All these initiatives combat climate change.

For Varma, it is important to promote equal and diverse working life. In 2021, Varma was an official partner of Helsinki Pride for the third consecutive year. During the 2021 Pride, we organised, among other things, a Pride picnic for Varma employees to celebrate equal working life. A working group of Varma employees has also developed non-discrimination and diversity in our work environment together with Helsinki Pride.

Accessibility of Varma’s online services

The Act on the Provision of Digital Services obliges both the public sector and earnings-related pension companies to comply with the accessibility requirements in their digital services. The Act has been applied to Varma’s statutory earnings-related pension insurance services, i.e. the public pages of varma.fi and the Varma Online Service, since 23 September 2020. The act is based on the EU’s Web Accessibility Directive, and its purpose is to guarantee everyone equal opportunities to use digital services.

When Varma’s online services are renewed, accessibility is taken into account as a requirement in the design phase. The launch of the reformed Varma Online Service and public varma.fi website in early summer 2021 marked a major improvement in the accessibility of these services. Although our digital

services largely fulfil the accessibility requirements and do not contain critical accessibility deficiencies, we continue to develop their accessibility.

In our [accessibility statements](#), we provide information on, among other things, the state of accessibility of our online services and how everyone can give feedback on accessibility deficiencies they have observed in our digital services.



Sustainability webinars for customers

In 2021, Varma organised a series of sustainability webinars for our customers.

In the webinars organised in 2021, we shared experiences and practices related to sustainability at Varma and Varma’s customers and heard presentations by experts from different fields. Through the series of webinars, we wanted to respond to our customer’s requests and share good sustainability practices. The webinars dealt with the early steps of sustainability work, working life after the exceptional times, sus-

tainable labour practices in terms of work ability, work culture and premises, mitigating climate change, and climate reporting. The participants gave excellent feedback on the webinars; the three webinars received an average satisfaction rating of 9.1 on a scale of 1 to 10. Recordings of the webinars are available on Varma’s YouTube channel (in Finnish).





## Reporting principles

We ensure the transparency of our operations by regularly and comprehensively reporting on our business and sustainability efforts. Our annual and sustainability report has been drawn up according to the GRI Standards, and in it we report on our compliance with the UN Global Compact principles. Additionally, we report on climate risks in accordance with the TCFD framework. The report is externally assured.



# Reporting principles

**Our sustainability report has been drawn up according to the GRI Standards. The contents of the report are based on a materiality assessment, which was used to identify the most important sustainability factors for Varma.**

Varma's sustainability report has been drawn up according to the international Global Reporting Initiative (GRI) standards. We have also reported information relating to Varma's own material topics in accordance with the GRI standards' reporting principles. This report has been prepared in accordance with the GRI Standards: Core option. Our GRI reporting follows partially the standards updated in autumn 2021. These indicators are marked in the GRI content index with the year 2021.

This report also serves as a Communication on Progress of the UN Global Compact. We report on our work to promote human rights, labour rights, environmentally friendly business and anti-corruption. The GRI content index shows whether the content in accordance with the GRI indicator also reports on measures or principles according to the UN Global Compact.

We have taken into account the statutory requirements concerning the reporting of non-financial and diversity data.

Reporting of Varma's material topics is based on the materiality assessment performed in autumn

2018, in which stakeholder groups were asked to assess sustainability aspects relevant to Varma. Stakeholder expectations were reviewed and processed by Varma's Executive Group according to their impact on society and the environment. As a result of the materiality assessment, we identified a total of four material topics in terms of Varma's sustainability. Their key performance indicators are described in the report. These four topics are: mitigating climate change, promoting work ability and good working life, ethical business and open communication, and responsibility for Varma employees. A comparison between the report content and the GRI Standards is provided through the GRI content index.

Varma's current work to update the sustainability programme is based on the materiality assessment carried out in 2021. We will report sustainability information in accordance with the new materiality assessment once we have updated the sustainability programme and its priorities.

The indicators for financial responsibility are based on Varma's accounts and approved financial

statements. The indicators relating to our pension services have been obtained from the systems of Varma and the Finnish Centre for Pensions, and from our online service reports. The personnel-related indicators are from Varma's personnel data systems.

As regards equity investments, turnover covered by the EU taxonomy has been analysed using data provided by the data service provider Bloomberg.

The data and CO<sub>2</sub> calculations behind the environmental performance indicators related to real estate investments have been mainly received from service providers. The CO<sub>2</sub>e figures for listed equity and corporate bond investments have been calculated using the data service provider MSCI's database and tool.

The analysis of industries exposed to climate change risk has been performed using MSCI's database. The carbon footprint (tCO<sub>2</sub>) of Varma's own operations has been calculated using the WWF's Climate Calculator.

In the case of investees' norm violations, we report the violation category, number of violations and the engagement principle.





Climate risks reported according to the TCFD framework

The reporting on climate-related risks follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to the recommendations, companies should report on how climate issues are reflected in their governance models, on their strategies concerning climate change and the transition to a low-carbon economy, on the risks and opportunities climate change brings to the company, and on the climate-related targets and metrics they have in place.

Climate Value-at-Risk (Climate VaR) is a tool developed by MSCI that is designed to provide an assessment of the potential profits and costs caused by climate change in the market value of an investment instrument. Climate VaR is made up of three elements: Policy Risk, Technology Opportunities and Physical Risk & Opportunities. Policy Risk describes at instrument level the company’s costs of reducing emissions in order to be aligned with different temperature scenarios. Technology Opportunities assess the company’s turnover and return potential under different temperature scenarios, based on the patents owned by the company. Physical Risk & Opportunities describes the potential cost of acute and chronic physical risks to the company in different temperature scenarios.

The Climate VaR percentage calculated for Varma’s equity investments describes the current monetary value of the costs of the potential risks and opportunities caused by climate change over the next fifteen years, divided by the current market value of the company’s equities. The weighted Climate VaR has been calculated by multiplying the

company-specific Climate VaR by the investment’s weight in the portfolio.

The temperature scenarios used by Varma are based on the framework published by the NGFS (Network for Greening the Financial System) and the forward-looking REMIND-MAGPIE (Regional Model of Investments and Development & Model of Agricultural Production and its Impact on the Environment) model.

Implied Temperature Rise (ITR) is a forward-looking metric developed by MSCI designed to show how well companies and portfolios are aligned with global temperature goals. The metric is based on company-specific carbon budgets, i.e. the absolute carbon dioxide emissions that a company can afford to release in order to keep global warming below two degrees Celsius by 2100, and whether the company’s projected emissions overshoot or undershoot the allocated budget. The data is publicly available for 2,900 companies on the MSCI website.

In the portfolio-level ITR calculation, portfolio holdings are proportioned to the company’s enterprise value including cash (EVIC), and this is used to allocate the companies’ emissions budget and estimated overshoots of the emissions budget. The ITR figure is calculated by dividing the portfolio-level emissions budget overshoot by the portfolio-level emissions budget, multiplied by the TCRE (Transient Climate Response to Cumulative Carbon Emissions) figure supplied by IPCC and multiplied by the global two-degree emissions budget in gigatonnes.

For further information on Climate VaR and Implied Temperature Rise, please visit the MSCI website.


Our annual and sustainability report also serves as a Communication on Progress of the UN Global Compact.

Real estate investments’ scenario analyses

In all the scenarios of the analysis concerning the development of our real estate portfolio’s greenhouse gas emissions, the estimate of properties’ heat consumption is based on the actual development shown in the district heating statistics. The development is affected by both climate change and energy efficiency measures. In the scenarios, the consumption of electricity was assumed to stay at the current level, except for the impact of the increase in heat pumps. The electricity purchased for the heat pumps was assumed to be carbon neutral, and district cooling was assumed to remain carbon neutral also in the future. On the basis of the district heating statistics’ data, the specific emission factors per municipality were assumed to linearly decline from the current calculated level towards the future target levels reported by the district heating companies. For companies that have not announced an official emission reduction

target, the development was assumed to mirror Finland’s carbon neutrality target for 2035. The emission factor for the residual mix of electricity was assumed to decline linearly from the 2020 value of 232 g/kWh by 70 per cent by 2035 and 100 per cent by 2050.

Real estate’s sea flood risk analysis is based on the Finnish Environment Institute’s (SYKE) data describing the current and future sea flood risk. In the analysis, the real estate properties were placed on a map on the basis of their location data, and the data concerning the sea flood risk was integrated into the map. Sea level data is based on SYKE’s estimate, and ground elevation data on laser scanning. The 2019 physical risk analysis on real estate investments was qualitatively updated, in addition to which a map analysis corresponding to the sea flood risk analysis was performed for new sites. Transition risks caused by climate change were identified and a rough estimate of materiality was performed according to the TCFD framework.



COMMUNICATION  
ON PROGRESS

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.



### Methodology for calculating the carbon footprint of investments

The carbon intensity (tCO<sub>2</sub>e/M€) and absolute carbon dioxide emissions of Varma's listed equity investments cover all listed equity investments. The calculation covers direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), indirect emissions from energy mainly from the generation of purchased energy (scope 2) and emissions from the value chain (scope 3). The carbon footprint (tCO<sub>2</sub>e) and the key figures based on it have been calculated on the basis of Varma's holdings.

In the carbon footprint calculation, the market value of shares owned by Varma is proportioned to the company's enterprise value including cash (EVIC), and this ratio is used to allocate the emissions and revenue of the company. In the calculation of the weighted average carbon intensity, all Varma's shares of the companies' emissions are added together and then divided by the sum of all the shares of the companies' revenues.

The calculation of the carbon intensity (tCO<sub>2</sub>e/M€) of Varma's listed corporate bond investments includes all listed corporate bond investments. The calculation covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The corporate bond owned by Varma is proportioned to the company's EVIC when possible, and the emissions are allocated to Varma on the basis



of this proportion. The PCAF value is used when no other data has been available.

Emissions are calculated according the PCAF (Partnership for Accounting Financials) and TCFD recommendations.

The weighted average carbon intensity (tCO<sub>2</sub>e/M€) of investments is based on the weighting of the investment in the portfolio. The figure is calculated by multiplying the carbon intensity of the companies by their portfolio weight, and adding these up. For companies that do not report their greenhouse gas emissions, Varma or MSCI estimates the emissions. For the purposes of emissions assessment, Varma uses PCAF's open database or the average carbon intensity for the sectors.

The emission and turnover data used in the calculation for listed equities and corporate bonds apply to the situation at the end of the year preceding the reporting year.

The carbon footprint (tCO<sub>2</sub>) of real estate investments takes into account residential and commercial premises' emissions from energy consumption and, for commercial premises, also emissions from water consumption. The average CO<sub>2</sub> emissions from the three previous statistical years in Finland have been used as the emission factors for heat and electricity (Motiva).

In electricity's emission factor, only energy produced in Finland has been taken into account. Heat consumption is weather adjusted. The emission



factor for district cooling is based on factors received from local utilities. The emission factor for water is based on the latest, 2020, factors for wastewater treatment and potable water production provided by Helsinki Region Environmental Services HSY. Emissions generated by household water consumption are not taken into account in the calculation.

The calculation of the CO<sub>2</sub> emissions of waste takes into account emissions from the collection, transportation, processing, utilisation and final disposal of the waste. Emissions from the production, distribution and usage of products that end up as waste are not taken into account. Emission factors for the different fractions of waste have been determined according to the Julia 2030 project, in which the factors are based on the Helsinki metropolitan area’s waste management system. There is large variation in the emission factors, as 14 different types of waste fractions are monitored. The factors range between 37 and 1,405 kg CO<sub>2</sub>/waste tonne; the lowest factor is for wood waste and the highest for hazardous waste. Other fractions’ emission factors lie somewhere in between.

Calculation of scope 3 value chain emissions

In autumn 2021, Varma calculated its value chain emissions (scope 3). The calculation followed the Greenhouse Gas (GHG) Protocol, which is the most widely established way globally to calculate the carbon footprint. The calculation made use of emission data from 2020. On the basis of the materiality

analysis, eight emission categories were chosen for the calculation. The categories are: purchased goods and services (1), capital goods (2), fuel- and energy-related activities (3), waste generated in operations (5), business travel (6), employee commuting (7), downstream transportation and distribution, i.e. in Varma’s context, travelling of shopping centre visitors (9) and investments (15). Of the scope 3 emissions, 95 per cent were caused by the investors’ scope 1 and scope 2 emissions. Other major scope 3 emissions are caused by categories 1 (1.1 per cent), 2 (2.3 per cent) and 9 (0.5 per cent).

As regards investments (category 15), the calculation includes Varma’s direct equity and fixed income investments. The primary data covers approximately 75 per cent of the listed equity portfolio and 59 per cent of the fixed income portfolio and has been scaled up to cover the entire portfolios.

The majority of category 1 (purchased services and goods) and category 2 (capital goods) emissions have been calculated using the cost method and [Exiobase factors](#). Other sources of emission factors include [Helsinki Region Environmental Services HSY](#), [IVL Swedish Environmental Research Institute](#) and [OpenCO<sub>2</sub> database](#).

The mix of category 9 travel methods (travelling of shopping centre customers) was assessed, for the shopping centre Willa, on the basis of a visitor survey. In the absence of more accurate data, the passenger traffic statistics for northern Finland were used for the shopping centre Rajalla.

The rest of the categories included in the calculation make up a total of 0.8 per cent of all the value

chain emissions. When calculating category 3 (fuel- and energy-related activities) emissions, the WTT (well-to-tank, emissions from the entire value chain of used energy) emissions from energy usage have been estimated using [Defra’s](#) emission factors and the volume of losses on the basis of statistics. Since the driving kilometres of leasing cars, as a full-type car benefit, should be included in the calculation of Varma’s scope 1 emissions, their WTT emissions have been calculated here. In the absence of more accurate data, the leasing car driving kilometres have been estimated on the basis of contract kilometres.

In category 5 (waste generated in operations), the emissions from the waste management of residential real estate have been calculated by the service providers for 70 per cent (m<sup>2</sup>) of the real estate for waste other than paper, and for 19 per cent for paper. The figure has been scaled up based on square metres to cover the entire portfolio. The emissions from the waste management of business premises have been calculated by the service provider for 75 per cent (m<sup>2</sup>) of Varma’s real estate. The figure has been scaled up based on square metres to cover the entire portfolio.

In the calculation of category 6 (business travel), the emissions from business travel have been estimated using the cost method and Exiobase factors, except for air travel, for which there is data available, classified into three groups according to the distance of the trip, and the emissions of which have been calculated using Defra’s factors. Train travel is assumed to have taken place in Finland, and no

greenhouse gas emissions have been allocated to it, owing to VR Group’s carbon neutrality pledge.

In the calculation of category 7 (employee commuting), we have taken into account the number of employees and working days, and the share of remote work in 2020. The commuting distance and the mix of means of travel have been estimated using Helsinki Region Transport’s (HSL) statistics. The emission factors for different means of travel are from Defra, and rail travel is assumed to be carbon-free, in accordance with VR Group’s and HSL’s carbon neutrality pledges.

Integrated, assured report

Since sustainability is an integral part of Varma’s core task – securing pensions – and all our operations, it is natural for us to combine the traditional annual report contents and sustainability information into a single integrated report. The report is published in pdf format in Finnish and English.

Varma’s parent company’s data has been mainly used as the indicator boundaries. Any deviations to the boundaries are mentioned in conjunction with the table on page 95.

Our principle is to rectify any reporting errors observed following publication in the latest report.

The Sustainability Report has been verified by EY’s Climate Change & Sustainability Services.



Varma’s sustainability focus areas, material topics and topic boundaries

Varma’s sustainability focus areas	Material GRI topics and Varma’s own material sustainability topics	Topic boundaries
<b>Solvency as a cornerstone</b> <b>(Responsibility for pension assets)</b>	GRI 201: Economic Performance GRI 203: Indirect Economic Impacts Cost-efficient operations, loading profit* Responsible investment*	Varma’s own operations Varma’s societal impacts Varma's investments
<b>Promoting work ability and a good working life</b> <b>(Responsibility for customers)</b>	Disruption-free implementation of pension provision* Customer service* GRI 418: Customer Privacy Promoting work ability and longer careers in client companies*	Varma’s own operations Customers
<b>Mitigating climate change</b> <b>(Responsibility for the environment)</b>	Mitigating climate change in investments* GRI 302: Energy GRI 305: Emissions GRI 306: Waste (2020) GRI 308: Supplier Environmental Assessment	Varma's investments Supply chain Varma’s own operations
<b>Responsibility for Varma employees</b>	GRI 401: Employment GRI 403: Occupational Health and Safety (2018) GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity	Varma’s own operations
<b>Ethical and transparent business</b>	GRI 102: Stakeholder engagement GRI 102: Ethics and integrity GRI 205: Anti-corruption GRI 414: Supplier Social Assessment GRI 415: Public Policy GRI 419: Socioeconomic Compliance	Varma’s own operations Supply chain

\*Varma’s own material sustainability topic



# GRI content index and UN Global Compact

Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
GRI 102: General Disclosures					
Organisational profile					
102-1	Name of the organisation		Varma Mutual Pension Insurance Company	■	
102-2	Activities, brands, products, and services	Varma in brief, p. 4, Earnings-related pension system, p. 19-20		■	
102-3	Location of headquarters		Salmisaarenranta 11, 00180 Helsinki, Finland	■	
102-4	Location of operations	Varma in brief, p. 4		■	
102-5	Ownership and legal form	Varma in brief, p. 4		■	
102-6	Markets served	Varma in brief, p. 4		■	
102-7	Scale of the organisation	Key figures 2021, p. 8		■	
102-8	Information on employees and other workers	Personnel, p. 47, Persons working for Varma who are not employees, p. 48		■	
2-7 (2021)	Employees	Personnel, p. 47		■	
2-8 (2021)	Workers who are not employees	Persons working for Varma who are not employees, p. 48		■	
102-9	Supply chain	Environmental aspects of the supply chain, p. 80		■	1–10
102-10	Significant changes to the organisation and its supply chain		No significant changes.	■	
102-11	Precautionary Principle or approach	<a href="#">Risk management, p. 47-54 (Report of the Board of Directors and Financial Statement)</a> , Climate risks and opportunities according to the TCFD recommendations, p. 63-73	Varma follows the Precautionary Principle in its operations. In all operations, the company’s operating model is based on preparing in advance to avoid or mitigate risks and adverse effects relating to the environment.	■	7
102-12	External initiatives	Responsible investment, p. 37-38 Climate risks and opportunities according to the TCFD recommendations, p. 64-65		■	7-9
102-13	Memberships of associations	Open communication and stakeholder co-operation, p. 88		■	
Strategy					
102-14	Statement from senior decision-maker	President and CEO’s Review, p. 5–6		■	1–10
2-22 (2021)	Statement on sustainable development strategy	President and CEO’s Review, p. 5–6		■	1–10
102-15	Key impacts, risks, and opportunities	Operating environment, p. 16-17, How Varma creates value, p. 18, Sustainable Varma, p. 22-23 Climate risks and opportunities according to the TCFD recommendations, p. 63-73		■	



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
Ethics and integrity					
102-16	Values, principles, standards, and norms of behaviour	Strategy and goals, p. 14 Ethical business, p. 84-86		■	1–10
102-17	Mechanisms for advice and concerns about ethics	Ethical business, p. 84-86	Seeking advice: Our external stakeholders can contact persons in charge of sustainability, whose contact information can be found on our website. Varma employees are advised to contact their supervisor or the Compliance Officer.	■	
Governance					
102-18	Governance structure	<a href="#">Corporate Governance Report, p. 4-20 (Corporate Governance)</a>		■	
2-10 (2021)	Nomination and selection of the highest governance body	Our key sustainability targets and their follow-up, p. 25	The selection of an earnings-related pension insurance company is strongly determined by law, and some members of both the Supervisory Board and Board of Directors are elected on the proposal of labour market organisations. The selection of the Board of Directors is also steered by operating principles, approved by the Supervisory Board, and the statutory eligibility criteria concerning the selection of the Supervisory Board have been compiled in a separate eligibility document. Provisions on avoiding conflicts of interest are laid down in law, and the above-mentioned documents also include procedures concerning the same. Both genders must be represented on the Supervisory Board and Board of Directors. Members of the Board of Directors must also have good knowledge of the earnings-related pension insurance sector, and the Board must have sufficient competence in investment activities. The Financial Supervisory Authority assesses the fitness and propriety of the Board of Directors and their suitability for the role.	□	10
2-11 (2021)	Chair of the highest governance body	<a href="#">Corporate Governance Report, p. 9, 15 (Corporate Governance)</a>		■	
2-14 (2021)	Role of the highest governance body in sustainability reporting		The Executive Group approves the annual and sustainability report before its publication.	■	
2-15 (2021)	Conflicts of interest	<a href="#">Corporate Governance Report, p. 8, 14 (Corporate Governance)</a> , <a href="#">Statement on remuneration at Varma, p. 21 (Corporate Governance)</a> , GRI content index and UN Global Compact, p. 97	Additionally, operating principles and eligibility requirements concerning the selection of the highest governance body.	■	10
2-16 (2021)	Communication of critical concerns	Ethical business, p. 84	Compliance Officer reports biannually on reports submitted through the whistleblowing channel to the Executive Group, Audit Committee and Board of Directors. Other critical concerns that we become aware of through, for example, customer feedback, customer surveys or sustainability surveys, are reported to the Executive Group as needed.	■	10
2-17 (2021)	Collective knowledge of the highest governance body		The Board of Directors approves the Code of Conduct and updates thereto. The Executive Group completes the Code of Conduct online course, like other Varma employees. Sustainability issues are also regularly discussed by the Executive Group, and the Executive Group members participate in the sustainability work of their own functions. Sustainability reviews are organised for the Board of Directors.	■	



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
2-19 (2021)	Remuneration policies	<a href="#">Statement on remuneration at Varma, p. 21-28 (Corporate Governance)</a> , Strategy builds on our core task, p. 13-14	Varma’s strategic goals influence the remuneration of Varma’s executive management (e.g. solvency, efficiency).	■	10
2-20 (2021)	Process to determine remuneration	<a href="#">Statement on remuneration at Varma, p. 21-28 (Corporate Governance)</a>	When determining remuneration, external consultants that are independent of the company are used as needed.	■	10
Stakeholder engagement					
102-40	List of stakeholder groups	Open communication and stakeholder co-operation, p. 88		■	
102-41	Collective bargaining agreements	Personnel, p. 47		■	3
102-42	Identifying and selecting stakeholders	Open communication and stakeholder co-operation, p. 88		■	
102-43	Approach to stakeholder engagement	Open communication and stakeholder co-operation, p. 87-89, Sustainable Varma, p. 22-23, Responsible investment, p. 33-35, Customer service, p. 41-43, Work culture that keeps up with change, p. 47-49, Equality and non-discrimination, p. 52-54	In future, we will develop reporting on stakeholder engagement in accordance with the 2021 revision of the GRI Standards.	□	1-2, 6
102-44	Key topics and concerns raised	Open communication and stakeholder co-operation, p. 88-89, Work culture that keeps up with change, p. 47-49, Equality and non-discrimination, p. 52	In future, we will develop reporting on stakeholder engagement in accordance with the 2021 revision of the GRI Standards.	□	
Reporting practice					
102-45	Entities included in the consolidated financial statements	<a href="#">Notes to the financial statements, p. 23-24 (Report of the Board of Directors and Financial Statement)</a>		■	
2-2 (2021)	Entities included in the organisation’s sustainability reporting		The reporting covers the Group’s parent company Varma.	■	
102-46	Defining report content and topic Boundaries	Sustainable Varma, p. 22-23, Reporting principles, p. 95		■	
102-47	List of material topics	Reporting principles, p. 91		■	
102-48	Restatements of information			■	
102-49	Changes in reporting	How Varma creates value, p. 18, Our key sustainability targets and their follow-up, p. 24, Customer service, p. 42, Climate risks and opportunities according to the TCFD recommendations, p. 68	No other significant changes.	■	
102-50	Reporting period		1 Jan – 31 Dec 2021	■	
102-51	Date of most recent report		12 Mar 2021	■	
102-52	Reporting cycle		The report is published annually.	■	
102-53	Contact point for questions regarding the report		viestinta@varma.fi	■	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles, p. 91		■	
102-55	GRI content index	GRI content index and UN Global Compact, p. 96-103		■	
102-56	External assurance	Reporting principles, p. 94, 104	Members of the Executive Group have been involved in the assurance process, providing information on managing sustainability at Varma and practical measures, among other things.	■	



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
Material topics					
GRI 103: Management Approach					
103-1	Explanation of the material topic and its Boundary	Sustainable Varma, p. 22-25, Reporting principles, p. 95		■	
103-2	The management approach and its components	Sustainable Varma, p. 22-23, Responsible investment, p. 33-38, Managing disability risks, p. 44-45, Responsibility for Varma employees, p. 47-56, Climate risks and opportunities according to the TCFD recommendations, p. 63-65, Environmental impacts of real estate investments, p. 75-79, Progress towards climate targets in 2021, p. 60, Ethical and transparent business, p. 84-89	In future, we will develop reporting on the management approach in accordance with the 2021 revision of the GRI Standards and our sustainability programme, which we are currently updating.	□	
103-3	Evaluation of the management approach	Sustainable Varma, p. 22-23, Responsible investment, p. 38, Managing disability risks, p. 44-45, Responsibility for Varma employees, p. 47-56, Climate risks and opportunities according to the TCFD recommendations, p. 63-64, Environmental impacts of real estate investments, p. 75-77, Ethical and transparent business, p. 84-89	In future, we will develop reporting on the management approach in accordance with the 2021 revision of the GRI Standards and our sustainability programme, which we are currently updating.	□	
Economic responsibility					
GRI 201: Economic performance					
201-1	Direct economic value generated and distributed	Key figures 2021, p. 8, Tax responsibility, p. 31-32		■	
201-2	Financial implications and other risks and opportunities due to climate change	Climate risks and opportunities according to the TCFD recommendations, p. 63-73	Key risks and opportunities related to climate change are linked to our investment activities. We monitor the costs of managing these risks and opportunities as part of our investment expenses.	□	7-9
GRI 203: Indirect Economic Impacts					
203-2	Significant indirect economic impacts	How Varma creates value, p. 18, Responsible investment, p. 33-38		■	10
GRI 205: Anti-corruption					
205-2	Communication and training about anti-corruption policies and procedures	Ethical business, p. 84-86	The Supplier Code of Conduct, in which anti-corruption efforts, for example, are required, is attached to new contracts.	□	10



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
Environmental responsibility					
GRI 302: Energy					
302-1	Energy consumption within the organisation	Environmental aspects of our own operations, p. 82	We are looking into the possibility of reporting on energy consumption by renewable and non-renewable energy sources in future.	□	
302-4	Reduction of energy consumption	Environmental aspects of our own operations, p. 81-82 Reporting principles, p. 91		■	7-9
GRI 305: Emissions					
305-2	Energy indirect (Scope 2) GHG emissions	Climate risks and opportunities according to the TCFD recommendations, p. 67-68, Environmental aspects of our own operations, p. 81, Reporting principles, p. 90-93	Calculation of equities and fixed income investments started in the base year 2015. Calculation of hedge fund investments started in 2020. The source of GWP values for equities and corporate bonds is MSCI. PCAF’s emission factors have been used for hedge fund investments. No clear insight into the calculation basis of the carbon dioxide equivalents.	■	7-9
305-3	Other indirect (Scope 3) GHG emissions	Overall picture of Varma’s climate impacts, p. 61, Reporting principles, p. 93	Biogenic emissions were not reported.	□	7-9
305-4	GHG emissions intensity	Climate risks and opportunities according to the TCFD recommendations, p. 68, Reporting principles, p. 92-93	For equities, corporate bonds and hedge funds, the calculation is in relation to net sales, for real estate investments in relation to gross square metres. The calculation includes the Scopes 1 and 2.	■	7-9
GRI 306: Waste (2020)					
306-1	Waste generation and significant waste-related impacts	Environmental impacts of real estate investments, p. 77-79 Environmental aspects of our own operations, p. 81-82		■	7-9
306-2	Management of significant waste-related impacts	Environmental impacts of real estate investments, p. 77-79 Environmental aspects of our own operations, p. 81-82		■	7-9
306-3	Waste generated	Environmental impacts of real estate investments, p. 77-78, Environmental aspects of our own operations, p. 82, Reporting principles, p. 91	We will develop waste-related reporting and are going to start a more detailed monitoring and reporting of construction and demolition waste.	□	7-9
GRI 308: Supplier Environmental Assessment					
308-1	New suppliers that were screened using environmental criteria	Environmental aspects of the supply chain, p. 80	The percentage share of screened suppliers is not reported. The Supplier Code of Conduct includes environmental aspects, and the Code is attached to all new contracts.	□	7-9



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
Social responsibility					
GRI 401: Employment					
401-1	New employee hires and employee turnover	Personnel, p. 47		■	
GRI 403: Occupational Health and Safety (2018)					
403-1	Occupational health and safety management system	Work ability and safety, p. 55-56		■	1-2
403-2	Hazard identification, risk assessment, and incident investigation	Work ability and safety, p. 55-56		■	1-2
403-3	Occupational health services	Work ability and safety, p. 55-56		■	1-2, 6
403-4	Worker participation, consultation, and communication on occupational health and safety	Work ability and safety, p. 55-56		■	6
403-5	Worker training on occupational health and safety	Work ability and safety, p. 55-56		■	6
403-6	Promotion of worker health	Work ability and safety, p. 55-56		■	1-2, 6
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		The Supplier Code of Conduct includes aspects related to OHS matters, and the Code is attached to all new contracts.	■	1-2, 6
403-8	Workers covered by an occupational health and safety management system		We only monitor information of persons employed by Varma. 100% of personnel is covered by OHS management.	□	6
GRI 404: Training and Education					
404-1	Average hours of training per year per employee	Personnel, p. 47	Average hours of training are presented as average hours for all employees. As a more pertinent indicator of personnel development, we follow the three-year development plans (94% of employees updated their plan in 2021).	□	6
404-2	Programs for upgrading employee skills and transition assistance programs	Competence development, p. 50-51	Supervisors discuss continuing careers and retirement with their employees who are approaching retirement age. Those who plan to retire are offered coaching by the pension company and advice to sort out the related practical matters. Employees who face redundancy or whose employment relationship is coming to an end are offered guidance and support according to the situation. The support may be, for example, career coaching and coaching for finding employment.	■	6
404-3	Percentage of employees receiving regular performance and career development reviews	Personnel, p. 47		■	6



Disclosure	Contents	Location	Additional information	Reported in full ■ Reported in part □	UN Global Compact principles
GRI 405: Diversity and Equal Opportunity					
405-1	Diversity of governance bodies and employees	Equality and non-discrimination, p. 53		■	6
405-2	Ratio of basic salary and remuneration of women to men	Equality and non-discrimination, p. 53		■	6
GRI 414: Supplier Social Assessment					
414-1	New suppliers that were screened using social criteria	Ethical business, p. 85	The percentage share of screened suppliers is not reported. The Supplier Code of Conduct includes social aspects, and the Code is attached to all new contracts.	□	1-6
GRI 415: Public Policy					
415-1	Political contributions	Open communication and stakeholder co-operation, p. 88		■	
GRI 418: Customer Privacy					
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Ethical business, p. 86		■	1-2
GRI 419: Socioeconomic Compliance					
419-1	Non-compliance with laws and regulations in the social and economic area		No incidents in 2021.	■	1-6, 10



Disclosure	Contents	Location	Additional information	UN Global Compact principles
Varma’s own material topics				
Responsible investment				
	Engaging with investees on environmental, social and governance matters	Responsible investment, p. 34-37		1–10
	Reviewing investees’ compliance with standards	Responsible investment, p. 35-37		1–10
Disruption-free implementation of pension provision				
	Pension application processing time	Correct pensions on time, p. 40		1
Customer service				
	Net promoter score	Customer service, p. 42		
Promoting work ability and longer careers in client companies				
	Effectiveness of rehabilitation	Managing disability risks, p. 45		1, 6
	Effectiveness of work ability management	Our key sustainability targets and their follow-up, p. 24		1, 6
Mitigating climate change in investments				
	Carbon footprint of Varma’s listed equity investments	Climate risks and opportunities according to the TCFD recommendations, p. 68		7-9
	Carbon footprint of Varma’s listed corporate bond investments	Climate risks and opportunities according to the TCFD recommendations, p. 68		7-9
	Carbon footprint of Varma’s direct real estate investments	Climate risks and opportunities according to the TCFD recommendations, p. 68		7-9
Cost-efficient operations				
	Loading profit	Key figures 2021, p. 8		



# Independent accountant's assurance report

(Translated from the original report in Finnish language)

## To the Management of Varma Mutual Pension Insurance Company

### Scope

We have been engaged by Varma Mutual Pension Insurance Company (hereafter Varma) to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, hereafter referred to as the engagement, to report on Varma's Annual and Sustainability Report 2021 (the "Subject Matter") for the period 1.1-31.12.2021.

### Criteria applied by Varma

In preparing the Annual and Sustainability Report 2021, Varma applied the Global Reporting Initiative Sustainability Reporting Standards and Varma's own internal reporting principles (Criteria). As a result, the subject matter information may not be suitable for another purpose.

### Varma's responsibilities

Varma's management is responsible for selecting the Criteria, and for presenting the Annual and Sustainability Report 2021 in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

### Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000'), and the terms of reference for this engagement as agreed with Varma on 24.9.2021. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the

Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

### Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and have the required competencies and experience to conduct this assurance engagement.

Ernst & Young also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards

and applicable legal and regulatory requirements.

### Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Annual and Sustainability Report 2021 and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- An update of our knowledge and understanding of Varma's material sustainability reporting topics, organization and activities,
- An assessment of the suitability and application of the reporting principles regarding the stakeholders' needs for information,
- Interviews with senior management to understand Varma's corporate responsibility leadership,
- Interviews with personnel responsible for gathering and consolidation of the corporate responsibility information to understand the systems, processes and controls related to gathering and consolidating the information,
- Assessing corporate responsibility data from internal and external

sources and checking the data to reporting information on a sample basis to check the accuracy of the data,

- Performing recalculation of reported information and evaluating the correctness of underlying data and narrative disclosures.

We also performed such other procedures as we considered necessary in the circumstances.

### Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the Annual and Sustainability Report 2021 for the period 1.1- 31.12.2021, in order for it to be in accordance with the Criteria.

Helsinki, 8 March 2022

Ernst & Young Oy  
Authorized Public Accountant Firm

Antti Suominen  
Authorized Public Accountant



# VARMA

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