

# Varma Annual Report 2013



**VARMA**

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# Varma in brief

Varma provides pension insurance for work carried out in Finland. Varma is a mutual company, owned by its client companies and self-employed persons, insured employees and owners of the guarantee capital. We take care of the statutory earnings-related pension cover of private sector employees and self-employed persons efficiently and competitively. We have approximately 70,000 self-employed and employer clients, and we handle the earnings-related pension coverage of some 870,000 people.

We invest the assets collected as pension contributions profitably and securely for current and future pensions. With investments of EUR 37.7 billion, Varma is the largest private investor in Finland.

Varma's headquarters are located in Salmisaari, Helsinki, and our network of account managers covers nearly the whole country.

# President and CEO's Review



In the highly challenging and difficult-to-predict market situation of 2013, Varma's priority was to foster the company's strong solvency. Proactive investment activities and careful diversification of investments produced good results, and Varma has reinforced its position as the most solvent earnings-related pension insurance company in Finland. Varma's record-strong solvency considerably improves the company's capacity to operate in a challenging market situation. Our customers can focus on their own business challenges and rely on Varma's ability to take care of the current and future pension liabilities entrusted to its care.

The total return of 9 per cent on Varma's investments was achieved at a very moderate risk level. As proof of this, our solvency capital increased and stood at EUR 9.1 billion, or 31.6 per cent of the technical provisions at the end of the year. We improved our operating expense efficiency over the course of the year, and as a result we have reserved EUR 105 million for client bonuses.

The Finnish economy faces severe challenges. The aging of the population is seen and felt at Varma too: the amount of pensions paid out by the company increased by EUR 300 million to a total of EUR 4.8 billion. The Finnish earnings-related pension system's pension liabilities are growing, whereas the nation's economy is not. However, our country's private earnings-related pension system stands on a solid base, and the main labour market organisations are negotiating on the need for its reform.

In recent years, differences in the level of risk buffers between pension companies have substantially increased. Some companies are doing better than others, and consolidation in the sector has been progressing. Has the time finally come to test the effect of a moderate increase in competition on the efficiency of the implementation of the earnings-related pension system?

I would like to extend my thanks to Varma's customers, policyholders and insured, and to our personnel for their co-operation over the years and for good work during 2013.

A handwritten signature in black ink, appearing to read 'M. Vuoria', written in a cursive style.

Matti Vuoria

# Outlook



I would like to thank my predecessor, Matti Vuoria, for his significant contribution to Varma. Matti Vuoria became CEO of Varma in 2004, and under his leadership the company strengthened its position and developed into the strongest player in the sector. Good work, Matti!

The Finnish economy faces major challenges, and we have to take a pragmatic approach to them. We have already passed the point where individual decisions could turn around the course of the national economy. As a major investor Varma has been in a position to observe that little has been done over the past decade to renew corporate structures, especially in mid-sized companies. There is no quick fix to the impacts created by this neglected work. Besides, Finland desperately needs growing neighbouring markets and a growth-hungry Europe.

Varma is well-positioned to face economic challenges; our solvency capital and investment assets are at a record high. Our good position is based on the strong recovery of the investment markets, efficient Finnish regulation and the good work carried out at Varma. Our efficiency also improved significantly last year. Varma's clients benefit from our strong solvency and high efficiency through increasing client bonuses. In fact, the client bonuses based on our performance in 2013 will reach a new record.

The economic challenges are reflected in Varma's single largest client group, industry, as a loss of jobs and diminishing total payroll. As a result, the growth of Varma's premium income slowed in 2013, and we have to prepare for the fact that this trend will continue. We intend to meet this challenge by maintaining Varma's good financial performance. We will take care of our solvency, operate efficiently and attend to the healthy development of our clientele. We will not compete for customers in ways that jeopardise the above-mentioned targets.

A handwritten signature in black ink, appearing to read 'Risto Murto', with a stylized, cursive script.

Risto Murto

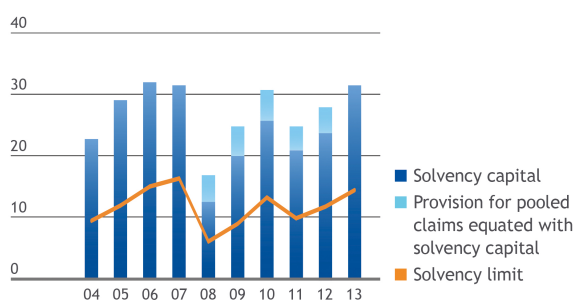
CEO (effective 1 January 2014)

# The year in brief

Equities drove the total return on Varma's investments to 9 per cent in 2013. Thanks to the good investment result, Varma's solvency was at a record-high level at the end of the year.

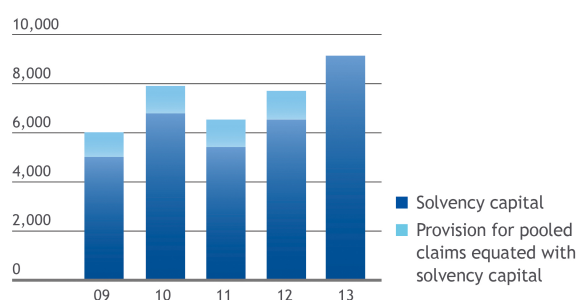
### Solvency 2004-2013

% of technical provisions



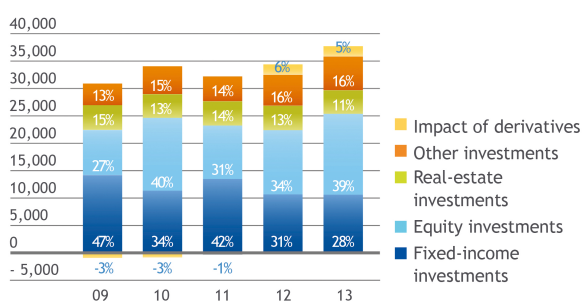
### Solvency capital

€ million



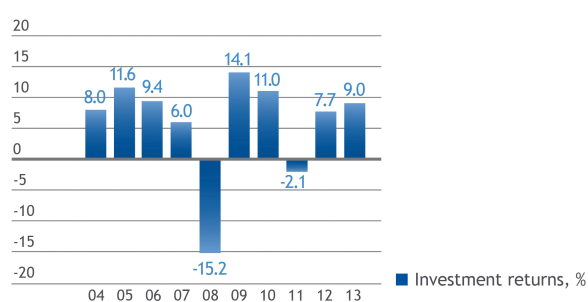
### Investment portfolio

€ million



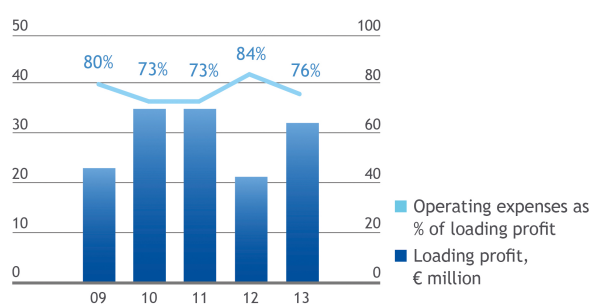
### Investment returns

%



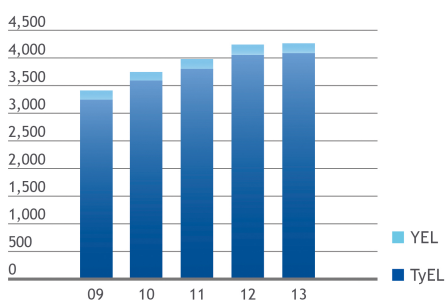
### Loading profit

€ million



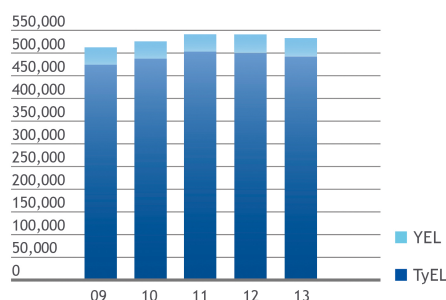
### Premiums written

€ million



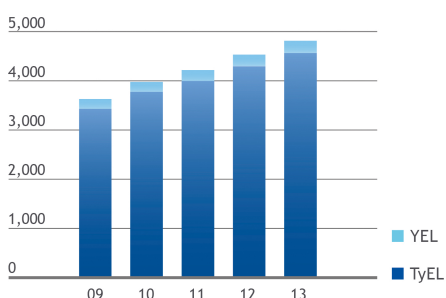
### Insured persons

Persons



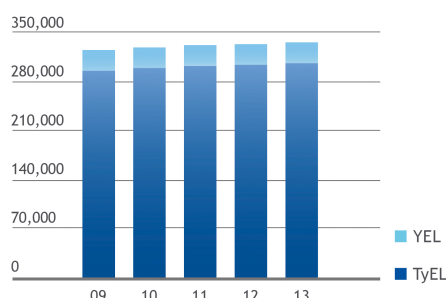
### Pensions paid

€ million



### Pensioners

Persons



Share prices increased strongly during 2013, and interest rates remained at a low level owing to the European and U.S. central banks' monetary policies with their strong focus on stimulus. Long-term interest rates increased but remain at a very low level.

## Solvency at an all-time high

The return on Varma's investments was very good. The value of investments stood at EUR 37.7 (34.4) billion at the end of the financial year, and their return was 9.0 (7.7) per cent. As a result of the good return development, Varma's solvency capital strengthened to EUR 9.1 billion, i.e. to 31.6 (28.0) per cent of the technical provisions.

Equities generated the strongest return of all asset classes. During the year, Varma increased the share of equities and reduced the share of fixed-income investments in its portfolio.

Varma is a major investor in Finland: 36.4 per cent, or EUR 13.7 billion, of our total investments has been invested in different ways in Finnish society.

Read more about Varma's investment activities in Investment year 2013.

## Operating expense efficiency raised client bonuses

Varma improved its operating expense efficiency and used 76 (84) per cent of the expense loading component included in insurance contributions for operating expenses. That efficiency benefits customers: EUR 105 (78) million was set aside for client bonuses.

Premium income stood at EUR 4.3 (4.2) billion.

At the end of the year, 531,200 (539,700) people were insured by Varma, and the company had 333,700 pension recipients. EUR 4.8 (4.5) billion in pensions were paid out, i.e. 6 per cent more than in the previous year.

Varma's rehabilitation services consistently produce good results; 72 per cent of those who received our rehabilitation continued in working life following their rehabilitation.

# Key figures 2013

## Key figures, parent company

	2013	2012
Premiums written, € million	<b>4,258.0</b>	4,230.7
Pension payments to pensioners, € million <sup>1</sup>	<b>4,786.7</b>	4,500.5
TyEL insured 31 December	<b>491,400</b>	498,500
YEL policies	<b>39,810</b>	41,280
Pensioners	<b>333,700</b>	331,400
Investments, € million	<b>37,718.1</b>	34,406.0
Investment income, € million	<b>3,160.1</b>	2,492.3
Return on invested capital, %	<b>9.0</b>	7.7
Total result, € million	<b>1,558.5</b>	1,201.4
Loading profit, € million	<b>32.0</b>	21.2
Operating expenses as % of loading profit	<b>76.0</b>	84.0
Transfer to client bonuses, € million	<b>105.0</b>	78.0
% of TyEL payroll	<b>0.6</b>	0.4
Technical provisions, € million	<b>31,399.1</b>	29,766.6
Solvency capital, € million	<b>9,139.7</b>	7,716.3
Solvency capital/technical provisions, % <sup>2</sup>	<b>31.6</b>	28.0
Solvency capital/solvency limit	<b>2.2</b>	2.4
Parent company staff 31 December	<b>558</b>	567

<sup>1</sup> Before the reduction of received clearing of pay-as-you-go (PAYG) pensions

<sup>2</sup> Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit

# Varma secures pensions

Varma's core function is to secure pensions. Our operations are based on work carried out in Finland and on securing the sustainability of the earnings-related pension system. We take care of the statutory earnings-related pension cover of private sector employees and self-employed persons. We invest the assets collected as pension contributions profitably and securely for present and future pensions. Varma is a sought-after and competent partner in workability management. Our goal is that the employees of our client companies are able to cope better and remain in working life longer. We also aim for the lowest pension costs in the sector for our customers.



## Earnings-related pension is accrued on all gainful employment

Earnings-related pension is accrued through all work and self-employment. Pension is based on income earned as an employee or self-employed person, and its purpose is to secure a reasonable standard of living after retirement. Earnings-related pension in the private sector is an essential part of the Finnish statutory social security system.

Earnings-related pensions are financed through pension contributions paid by employers and employees and through returns on investment activities. Successful investment activities can help reduce the pressure to increase pension contributions due to, for instance, the aging of the population.

Varma takes care of the statutory earnings-related pension cover of private sector employees and self-employed persons efficiently and competitively. Approximately 67,000 companies and entrepreneurs have

entrusted Varma with handling their pension coverage. We consider this an acknowledgement of our strong competence in insurance matters.

A pension decision is of great significance to the future of the recipient. Earnings-related pension is a statutory social security benefit, which is why we closely monitor the accuracy of our decisions and the speed of our services. New pensions are paid as quickly as possible to ensure that there is no interruption to our customers' income. We provide reliable and useful information about pension insurance.

## Good workability helps to extend careers

Finland needs domestic work, successful and competitive companies and longer careers – they help to secure the funding of future earnings-related pensions. Our services in workability management and rehabilitation help client companies to save in pension and sick-leave costs. Employees' good workability and well-being support the target of extending their careers.

Statutory vocational rehabilitation gives employees and entrepreneurs the opportunity to continue in working life when their capacity to work is threatened. We ensure the effectiveness of rehabilitation through seamless co-operation with the employee, employer and occupational health care.

## We invest pension assets profitably and securely

With EUR 37.7 (34.4) billion in investment assets, Varma is Finland's largest private investor. Responsibility for pensions extends well into the future, and, through a controlled risk profile, we strive for the best possible return on investments in order to secure the payment of pensions. We safeguard our solvency in order to ensure that pension liabilities are covered at all times.

We accumulate pension assets in order to cover current and future pensions. The earnings-related pension system is based on a defined benefit scheme and creates security and stability in uncertain economic situations. Earnings-related pensions and the assets that are funded for them are well secured in the Finnish pension scheme even during periods of economic turmoil.

Varma's goal is to maintain strong solvency under all circumstances. We succeeded well in achieving this key goal: Varma's solvency strengthened clearly and is at the strongest level ever. At the end of 2013, Varma's solvency capital was EUR 9,140 million (7,716), or 31.6 (28.0) per cent of the technical provisions. Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions.

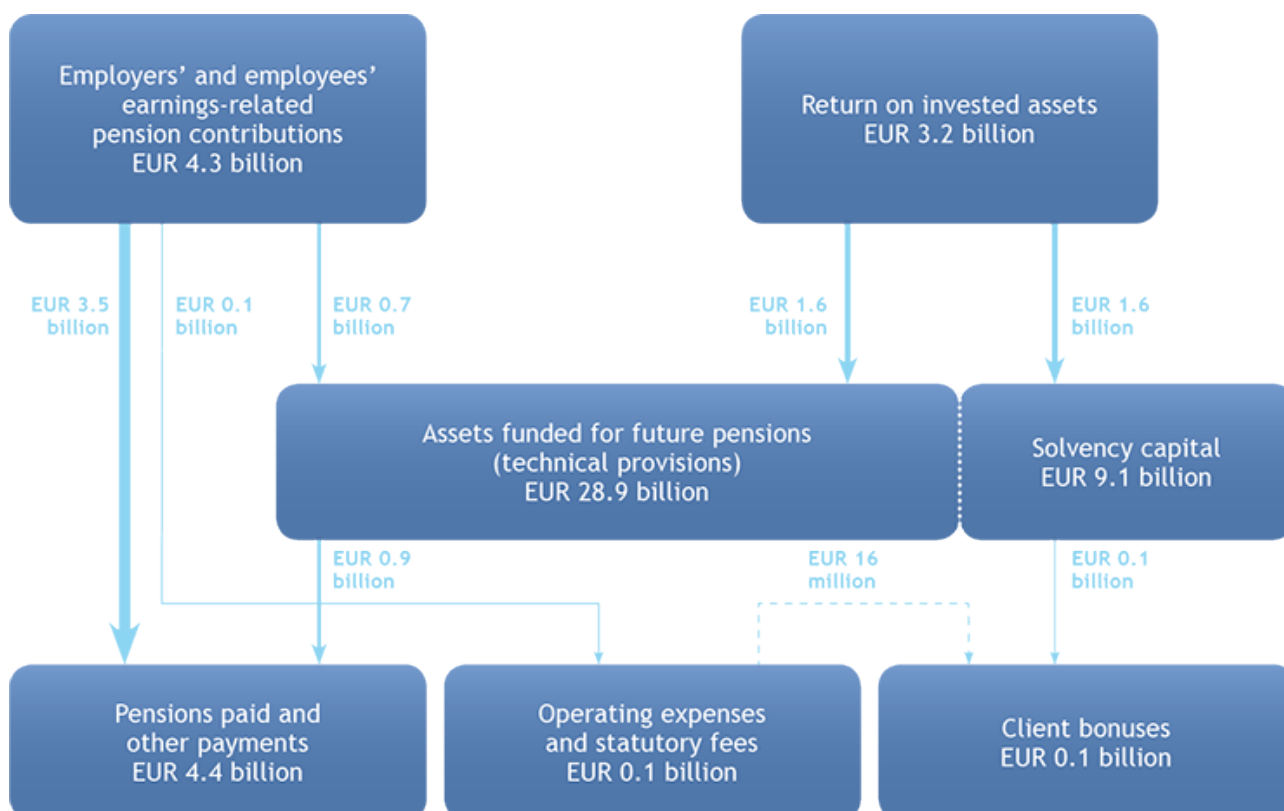
# Pension contributions pay pensions and a portion is set aside in funds for future pensions

The Finnish statutory earnings-related pension scheme is partially fund-based. The majority of the pension contributions paid by employers and employees are used to pay the pensions for that year. A portion of the contributions is set aside in funds for future pension payments. Approximately a quarter of the pensions under payment are financed through previously collected pension assets and the returns on them. A small portion of the contributions goes towards the operating expenses of the different operators within the earnings-related pension system.

By law, pension assets must be invested profitably and securely. Part of the investment returns is used to strengthen pension liabilities and part is used to maintain the solvency of the earnings-related pension company. Based on the solvency and operational efficiency of the pension company, it may grant client bonuses.

Varma's operating expense efficiency and solvency have been extremely competitive for several years. Our high cost efficiency and strong solvency lower our customers' pension contributions. For several years now Varma's client companies have benefited from very competitive client bonuses.

The YEL contribution paid by those who are self-employed is dedicated entirely to paying pensions for the current year, i.e. the assets are not set aside in funds.



# A strong pension system brings security during economic turmoil

Earnings-related pensions and the assets that are funded for them are well secured in the Finnish defined benefit pension scheme. In a challenging market situation, Varma's priority has been to foster strong solvency and to actively and carefully diversify investments.



The positive development in the U.S. cast light on the 2013 economic year. The situation in Europe is also more balanced, and cautious expectations of strengthened recovery emerged towards the end of the year. The central banks' continued monetary policy interventions boosted the stock markets, especially in developed economies.

In the U.S., growth picked up towards the end of the year, bolstered by the increase in consumer spending, which was supported by the strengthening housing market and a decline in unemployment. Employment rates improved more than expected by the markets.

However, recovery has been slow in the U.S. too. Expectations of reasonable economic growth and the strengthening of the labour market promoted speculation that monetary policy would be tightened. Inflation continued at a higher rate than targeted by the U.S. central bank.

## Europe seeks balance

Recovery in Europe is not yet on a quite solid base, although growth expectations increased somewhat towards year-end. The problem countries have managed to balance their public finances, yet the strong euro has weakened the competitiveness of several countries.

Industrial production figures were expected to take an upswing late in the year. Simultaneous savings measures and the slow rise in wages, however, dampened the increase in consumer demand. Inflation has slowed down in the eurozone, and the impact of monetary policy measures on the real economy has been modest. The European Central Bank has announced that it is ready also for negative interest rates if need arises.

## The Finnish economy calls for structural reforms

The Finnish economy contracted in 2013. Industrial production volumes and export volumes shrank strongly, and the added value of our exports has diminished. Employment is still at a reasonable level considering the economic situation.

Balancing public finances calls for structural reform. At the end of 2013, the Finnish government decided on structural measures to help close the sustainability gap. The earnings-related pension system plays a major role in closing the gap, since earnings-related pension assets are considered a part of the national economic accounts and pension legislation is reflected in the supply of workforce.

## Varma emphasises strong solvency

The capital markets showed strong development in 2013, especially in developed economies. Share prices climbed strongly in Finland too, reflecting investors' confidence in the future profitability of Finnish companies.

The financial crisis hit pension systems and institutional investors worldwide. In the prevailing difficult-to-predict market situation, Varma's priority has been to foster strong solvency and to actively and carefully diversify of investments. Our strong solvency position gives a major strategic competitive edge in the challenging market situation.

## Financing of the earnings-related pension system is on a solid foundation

The private sector earnings-related pension system is on a solid financial footing, and it offers employees and self-employed persons a reliable source of income after retirement. At the start of 2013, international experts released their findings on the state and development needs of Finland's earnings-related pension system. Among the particular strengths are the cover provided by the system, the consensual, tripartite approach to decision-making, and a commitment to securing stable and long-term sufficiency of funding.

The social partners upheld the agreed pension contribution increases, which will raise the average pension contribution to 24.4 per cent in 2016. The social partners are committed to negotiating in 2014 the pension system reform, which would take effect at the start of 2017. Tentatively, the reforms will target an extension of careers by 1.5 years and will have a major contribution to managing the sustainability gap in public finances.

Varma strives to reinforce the pension system and secure pensions through highly successful investment operations, by improving cost-effectiveness, and by offering effective earnings-related pension insurance services that support employees and companies in extending careers.

## Recovery in sight

The global economy is gaining momentum. The financial markets are experiencing an unprecedented wave of tightening regulation; the EU is building a banking union in order to have better means of abating future financial crises. Stricter regulation will restrict lending and raise borrowing costs, which could hinder economic recovery.

The outlook for Finland's economy is phlegmatic, despite the positive effect the upswing in global demand is expected to have on our economy in 2015.

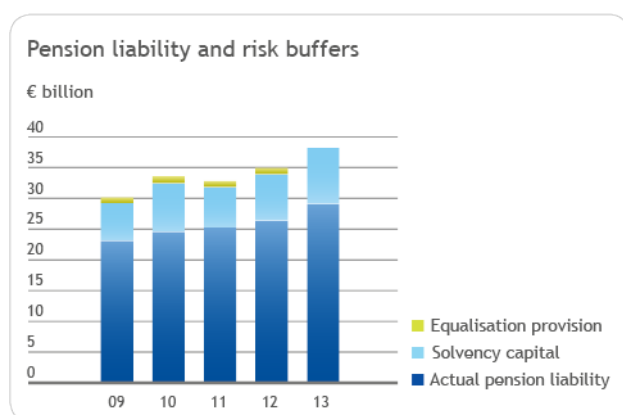
In the short-term, the goal of extending careers and companies' financial requirements do not necessarily coincide. Varma's client companies will experience difficult transformations also in 2014. The ability to understand customers' needs is highlighted especially during major economic shifts. Varma's goal is to offer its customers effective pension insurance services that have a tangible economic impact.

# Solvency is at a record-high level

Varma's solvency continued to develop favourably throughout the year and is at a record-high level measured in both euros and relative terms.

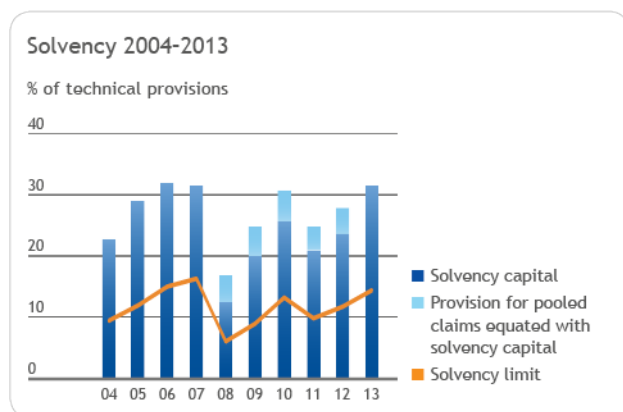
At the end of 2013, Varma's solvency capital was EUR 9,140 million (7,716), or 31.6 (28.0) per cent of the technical provisions. Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions. Strong solvency is a strategic choice for Varma.

Legislation on the solvency mechanism of earnings-related pension companies was amended as of the beginning of 2013, boosting the use of risk buffers, among other things. The legislative amendment did not substantially alter Varma's solvency position.



Strong solvency capital acts as a risk buffer for investment activities and provides protection against volatility in the capital markets. Solvency capital is strengthened during profitable investment years and, correspondingly, weakened during poor economic periods. Strong solvency enables Varma to aim for higher returns by making higher-risk investments with a higher return potential. The higher the risk of investments, the greater the amount of solvency capital required. Solvency capital also includes the equalisation provision, which helps to carry insurance risks.

The statutory requirements on solvency capital are dimensioned so that solvency capital will be sufficient also during lean economic periods. The key requirement is the solvency limit, which is based on the risk level of investments. The insurance risk is also taken into account in the calculation of the solvency limit. Varma's solvency limit at the end of 2013 was 14.5 (11.8) per cent of the technical provisions, and the solvency capital's ratio to the solvency limit was 2.2 (2.4).



Solvency also has an effect on the amount of client bonuses. In other words, a higher degree of solvency means lower insurance contributions for customers. Owing to its strong solvency capital and efficient operations, Varma has been paying very competitive client bonuses for many years.

An extensive reform of the regulations on assets covering the technical provisions and solvency is being prepared under the guidance of the Ministry of Social Affairs and Health. The reform could take effect at the beginning of 2016, at the earliest.

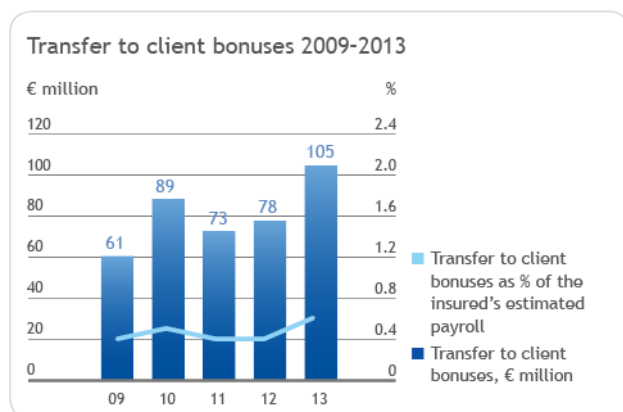
# Expert and flexible pension services

Varma focussed on developing diverse online services in 2013. We revamped the earnings-notification service to make the handling of pension matters easier than before. The Workability Management Information Service, which was launched in the autumn, provides companies with better means of managing their pension costs and improving their operations based on up-to-date information.

The year under review was characterised by numerous co-determination negotiations and layoffs caused by the structural change in working life, and the situation also affected Varma's clientele. Varma's total premium income increased to EUR 4,258 (4,230) million, of which TyEL policies accounted for EUR 4,071 (4,041) million and YEL policies for EUR 187 (190) million. At year-end, Varma provided insurance for 531,200 (539,700) people.

Competition within the earnings-related pension sector remained brisk, and the volume of insurance account transfers has doubled in recent years. In terms of Varma's sales, 2013 was especially good in medium-sized companies, and the trend was positive also among the self-employed. Varma has traditionally provided pension insurance to large companies, and this is still strongly reflected in our clientele.

Varma takes care of its clients' earnings-related pension cover in a cost-effective way. Varma reserved EUR 105 (78) million, i.e. 3.4 (2.5) per cent, of the employers' TyEL contribution from 2013 for client bonuses. For several years, Varma has given its clients the best bonuses in the sector, and in 2013 the company maintained the bonuses at a competitive level. Client bonuses lower the employers' final contributions. The amount of the bonuses is influenced by the pension company's solvency capital and by the loading profit, an indicator of the cost-effectiveness of the operations.



Increasing competition within the earnings-related pension sector benefits both the earnings-related pensions system and customers, and Varma is open to developing competition. The Ministry of Social Affairs and Health is preparing a bill which, if adopted, would allow company-specific expense loading.

## Services target added value for our customers

Varma develops its customer service by listening to the customers and charting their needs. In 2013 we focussed on improving the online service used to report earnings. Thanks to the streamlined service, our customers can now handle everything in one in one go, which makes the handling of pension matters faster. Our customers are avid users of our online services, and handling matters electronically is now preferred over contacting us by phone.

Varma has customer-service professionals who specialise in insurance and pension matters that particularly concern entrepreneurs and small businesses. For self-employed clients and small client companies, Varma offers a comprehensive service network with our co-operation partners, If P&C Insurance and Nordea Bank. Co-operation with these companies was reinforced during the year to give our corporate customers improved overall service. The self-employed and executive management of companies now have access to comprehensive information about the services of all three companies so that the customer can take care of their insurance, pension and banking matters in one go.

Major employers are served by Varma's company-specific service teams, which channel our experts' knowledge for the benefit of our customers. Major employers benefit from the new Workability Management Information Service, through which they can analyse the current disability risk, examine the savings potential related to the disability contribution category and make preliminary calculations. We aim to develop services that provide added value and cost benefits to our customers. Varma's website also includes a wide range of workability management tools for day-to-day work.

#### Number of insured and insurance policies

	31 Dec. 2013	31 Dec. 2012	Change
Number of insured			
TyEL <sup>1</sup>	<b>491,400</b>	498,460	-7,060
YEL	<b>39,810</b>	41,280	-1,470
Total	<b>531,210</b>	539,740	-8,530
 <sup>1</sup> of which covered by TEL registered supplementary pension insurance	 <b>4,928</b>	 5,545	 -617
Number of insurance policies			
TyEL	<b>26,930</b>	27,620	-690

# Employees' good workability lowers companies' pension costs

**Our workability management and rehabilitation services help client companies to save in pension and sick-leave costs. Employees' good workability and well-being support the target of extending their careers.**

Workability management is an overall approach developed on the basis of an analysis of the company's current situation, realistic target setting and chosen methods. The development of measures to promote workability management helps reduce disability pension costs and absences due to illness, and improves smooth workflows and the well-being of employees.

In 2013, we worked with around 500 of our client companies to develop their workability management.

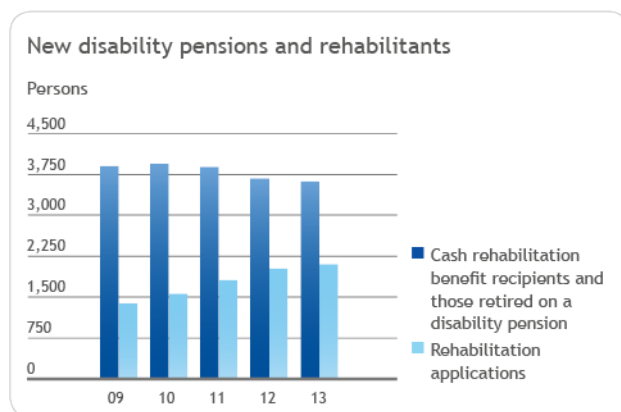
We surveyed the effectiveness of our services among our client companies that were, at the time, taking part in a workability management project supported by Varma. According to the survey, our clients are satisfied with the effect of our workability management services. On a scale from 1 to 5, the average score was 4.2 (4.1 in 2012). The survey respondents were the most pleased with the activities of the workability management development managers, who received a score of 4.5 (4.4 in 2012). Our clients appreciate the business-oriented and sparring approach of the development manager. Varma's workability management development manager is there to ensure that workability management projects have clear indicators to measure the effect of measures aimed at supporting workability. Key indicators include the disability pension contribution category, sick leave rate and development of supervisory work.

During the year under review, the Workability Management Information Service was finalised. The service provides online tools for knowledge-based management, and enables a company to compare its current information on workability to Varma's database or peer companies. The service also allows clients to examine the financial effects and estimates of disability contributions and the components of the disability contribution.

In 2013, Varma partnered with Västeliitto (Family Federation of Finland) on a 'family-friendly workplace' project. New tools and practices were developed for workplace communities during the project. Family-friendly workplaces take different life situations into account in working and workplace policies. Studies show that family-friendly practices improve employees' well-being.

## Good level of employment following rehabilitation

In 2013, the number of rehabilitation applications received by Varma continued to grow. The total number of applications exceeded 2,000. In spite of the difficult economic environment, Varma's vocational rehabilitation programmes implemented at workplaces, i.e. work trials, job coaching and apprenticeships, continued to produce good results: 72.4 per cent of those who used our rehabilitation services continued in working life following their rehabilitation.



Varma participated as an expert member in a project led by the Ministry of Social Affairs and Health to develop the insurance physician system. Among the aims of the project are to improve the transparency of the insurance physician system and to improve communication between the primary care physician and the insurance physician.

Varma annually carries out several investigations into the situation of those receiving rehabilitation services and those who are applying for disability pension. In 2013 we looked into the reasons and processes that lead to disability pension among our self-employed customers. The results will help us improve our services for the self-employed.

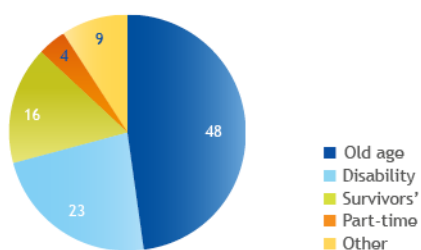
During the year under review we examined the situation in 2011 of those people whose mental health rehabilitation provided by Varma had ended in 2009. The results show that those who had received Varma's mental health rehabilitation services returned to working life more often than other private sector rehabilitees. A survey on the employment of Varma's rehabilitees following rehabilitation shows that rehabilitation improves the chances of employment.

# Earnings-related pension services for employees, the self-employed and pensioners

In 2013 Varma paid EUR 4.8 billion in pensions to 333,700 recipients. The number of pension decisions made by Varma was on the rise during the year under review, totalling 43,000.

In 2013 Varma paid out pensions in the amount of EUR 4.8 billion, i.e. approximately 6.4 per cent more than in 2012. The increase is mainly due to the constant rise in the number of pension recipients, which is a consequence of the change in the population's age structure and longer life expectancy.

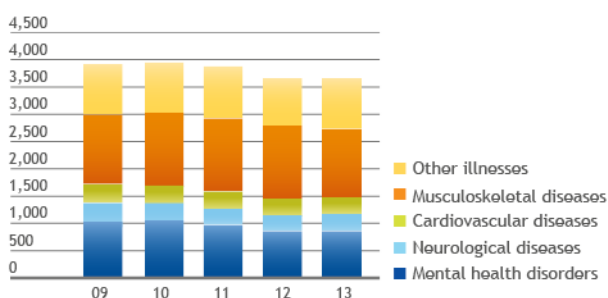
Pension decisions by pension category, %



A total of 24,000 new pension decisions were made, which is 8.7 per cent more than the previous year. The biggest increase was seen in old-age pension decisions; they increased 12.6 per cent over 2012. 8.3 per cent of old-age pensions have been granted to 68-year-olds who have been working while receiving pension. Working while drawing a pension has been on the rise in recent years. Those insured by Varma retire on average at the age of 63.5.

The volume of new disability pension applications continued to decrease slightly, which is in line with the positive trend visible for several years now. The rejection rate for new disability pension applications by earnings-related pension companies has been on the rise in recent years; this is attributed to the general decline in the number of applications over the past ten years. The actual number of rejections has not been increasing. Varma's rejection rate is in line with the general development in the sector. In 2013, Varma rejected 31.4 per cent of new disability pension applications.

Disability pensions granted by Varma by type of illness 2009-2013



During the year under review, we examined the situation in 2012 of those whose disability application had been rejected in 2009. The results show that 26 per cent of those people had retired on disability pension by the end of 2012. Few were working, and over 30 per cent were unemployed. Varma will be using these results when providing consultation to its customers and in its in-house training.

## Comprehensive online services for managing pension matters

Varma offers its customers, i.e. employees, the self-employed, pension applicants and pension recipients, comprehensive online services for managing their pension matters.

Increasing numbers of our customers are actively using our online services. In 2013, the use of online services for private customers increased 43 per cent. The pension application monitoring service is particularly popular: 82 per cent of pension application enquiries were made through it. In total 74.5 per cent of all private customer contacts took place online. As many as 66.4 per cent of pensioners handled their enquiries through our online services too.

Varma received 6,500 electronic pension applications in 2013, which accounts for 27 per cent of all new applications. The number of online pension estimates totalled 127,051, which equals as much as 90 per cent of all estimates.

# At Varma, we do good work

Varma's success is based on competent personnel efficiently handling our customers' pension cover. In 2013, we focused on improving our expertise and developing supervisory work.

## Strong expertise requires renewal

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. In 2013 we organised a development programme for experts, which focused on business development, customer relationship skills, building networks and strengthening expertise.

Customer focus is at the core of Varma's expert work. Service that is appreciated by our customers is created as a result of broad competence and co-operation. During the year under review, our experts were given the opportunity to get to know each other's work, with the aim of deepening their knowledge of the services related to workability management.

At Varma, supervisory work consists of productive and inspiring performance management with measurable results. In 2013 we brought together all supervisor's tools and methods and harmonised our ways of working. The development of supervisory work focussed on coaching skills.

## We have clear targets for our own workability management

As a strong expert in workability management we also take care of the workability of our own personnel. Focal areas include goal-oriented and inspiring management, improving co-operation, renewal and taking care of workability.

The success of workability management is measured by the trend in sick leave rates and the disability contribution category. Absences due to illness have decreased at Varma in recent years. In 2013, the number of sick days averaged 9.2 days/employee, equalling 3.5 per cent of total working hours – the sector average is 3.8 per cent. The disability contribution category has also been developing favourably and was 3 in 2013. Our employees enjoy their work, which is demonstrated by their long careers with the company and the low turnover rate.

A good balance between work and other aspects of life promotes workability and improves occupational well-being. During the period under review we surveyed Varma employees' views on balancing work and family life. The results show that a significant share of the respondents consider Varma a family-friendly workplace. Especially immediate supervisors' attitudes and flexible working hours were positively viewed.

## Varma's values:

- Success through customer-oriented co-operation.
- Each and every Varma employee is responsible for the results of his or her work and contributes to Varma's success. Productive operations help to make the earnings-related pension system more efficient and functional.
- Customer orientation at Varma means identifying customers' needs and customer benefits, and acting accordingly.
- Co-operation with our customers is based on openness and flexibility. We encourage open dialogue and we respect and value the work done by others.

**Personnel**

	<b>2013</b>	2012
Personnel 31 Dec.	<b>558</b>	567
Women/men	<b>73%/27%</b>	74%/26%
Average age	<b>48 y 2 m</b>	48 y 1 m
Average age of retirement on old-age pension	<b>63 y 10 m</b>	63 y 5 m
Average service period	<b>15 y 5 m</b>	15 y 5 m
Personnel turnover rate	<b>3%</b>	2%
Exit turnover rate	<b>7%</b>	6%
Sickness leave	<b>3.5%</b>	4.0%
Training days/employee	<b>3.8</b>	4.0

	<b>2013</b>	2012	2011	2010	2009
Average number of personnel					
Group	<b>565</b>	572	588	601	615
Parent Company	<b>565</b>	572	588	601	615
Salaries and remunerations, EUR million <sup>1</sup>					
Group	<b>37.9</b>	37.0	39.5	36.9	34.3
Parent Company	<b>37.9</b>	37.0	39.5	36.9	34.3

<sup>1</sup> Do not include the salaries paid by Tieto Esys Ltd., as the figures for the company have been consolidated using the equity method.

# Varma is a responsible and long-term investor

**Varma's economic responsibility entails managing pension assets - the company must deliver strong returns in the long term on the pension assets entrusted to its care.**

With EUR 37.7 billion in investment assets, Varma is Finland's largest private investor. We invest the assets to secure present and future pensions.

Varma bears long-term responsibility for its pension assets. Our responsibility essentially involves ensuring sufficient pension assets and securing funding for the pension system. We accomplish this by maintaining the profitability of our investment activities, by ensuring good solvency and by maintaining low operating costs.

Varma invests in Finnish and international equities, bonds and other interest-bearing instruments, hedge funds, private equity funds and unlisted shares, real estate as well as commodities.

Careful risk management ensures that if individual risks are realised they will not cause significant financial losses.

## We promote work carried out in Finland

36.4 per cent, or EUR 13.7 billion, of Varma's total investments has been invested in different ways in Finnish society. Varma is an important investor in Finnish companies and in this way participates in the long-term development of Finnish industry and commerce. Varma invests in the shares of Finnish companies, provides funding through different loan instruments and owns real estate.

We are familiar with domestic companies. Varma is an active shareholder in the Finnish companies it invests in. We participate in the Annual General Meetings of Finnish companies, and have representatives in the nomination committees and, in certain cases, in the Boards of listed companies. We engage in regular dialogue with company management in investor meetings organised between Annual General Meetings.

## Major real estate investor in Finland

Our real estate investments include, in addition to direct real estate investments, domestic and international real estate funds. We also consider it important to offer quality rental flats at a reasonable price, especially in growth regions.

As a real estate investor using its own equity, Varma has made major real estate investments and supported the progress of several real estate projects. Through these actions, we play a key role in supporting Finnish industry and trade and Finnish employment.

## Efficient portfolio management

Varma manages its investments internally for the most part. Funds are used, for example, in private equity and hedge investments, and in emerging markets. We make diverse use of our role as a major investor, which makes it possible to achieve low trading costs and the best service.

Our investment operations are efficiently organised: in 2013, investment charges amounted to 0.061 (2012: 0.063) per cent of invested assets. In the long term, cost efficiency is a major competitive factor in our investment operations.

# We make profitable and secure investments

Varma's guiding principles in the investment of pension assets are profitability and security. We strive for the best possible return on investments in order to secure the payment of pensions.

Varma's investment plan, which is annually confirmed by the Board of Directors, steers the company's investment activities. The investment plan outlines the general principles for investments, the basic allocation for investments, targets for return, diversification and liquidity, decision-making powers, control systems and reporting, among other things. A benchmark index is defined for each asset class, against which the result is compared. The Board regularly monitors the implementation of the investment plan. The investment plan also covers the share ownership policy, social responsibility and ownership principles.

## We diversify investments in different asset classes

Our goal is to maintain the return of the investment portfolio as high as possible while securing a low overall risk level by identifying versatile sources of return. Diversification into different asset classes is essential, as they perform differently under different market conditions. Broad diversification also ensures that the risk of a single asset class or investment does not rise to a significant level. Diversification into different asset classes also allows the allocations to be flexibly changed according to the market environment.

## Diversification within asset classes

Diversification is a guiding principle also within the different asset classes. Single investments are chosen based on the portfolio manager's analysis.

Fixed-income investments is the most secure asset class, where creditworthiness and liquidity are the most important factors. Fixed-income investments are broadly diversified between different bond issuers and maturities.

Equity investments are diversified by geographic location, industry and company size. In Varma's portfolio, listed equity investments seek the highest returns and are also the most volatile asset class. Varma has strived to identify investments with similar returns as equities but with less volatility. These include private equity investments and hedge funds.

Diversification of these outsourced investments is implemented through fund types and different managers. The funds selected must meet the most stringent institutional requirements. We know our partners well and have long-term partnerships with them.

Varma uses derivatives to make diversified index-type investments in commodities.

Varma's direct real-estate investments are located in Finland. The assets are diversified according to the types of premises and geographical location. Approximately 57 per cent of Varma's real estate investments are in the Helsinki area. In addition to rental flats, the portfolio includes all types of business premises, with the greatest weight on office and retail premises.

## Risk-return ratio

Investments aim for the best possible risk-return ratio. Desirable investments for a pension investor are those with a steady long-term return and little annual volatility.

We actively seek different types of return sources. The initial investment is based on extensive groundwork and is often fairly small, but the investment's share in the portfolio may be increased. Fairly new asset classes in Varma's portfolio include commodity and inflation-linked investments.

## Liquidity

The investment portfolio is kept as liquid as possible. This has been beneficial for instance when the demand for TyEL loans has increased. The importance of liquidity is highlighted in a difficult market environment, for example, when the company must be able to adjust the share weighting quickly in accordance with the market situation.

# Varma's Principles for Responsible Investment

Responsibility issues are having an increasing measure of influence on the value of companies, which introduces new challenges, above all, to companies, but also to investors. In addition to the financial aspect, investors nowadays must assess potential investments from a broader perspective.

Responsible investment provides a framework for incorporating environmental, social and corporate governance criteria into investment operations and ownership policies, acknowledging that these issues may have a major impact on investment returns in the longer term.

## Our objectives

Varma is committed to taking responsibility into account in its investment operations. This contributes to Varma's objective of having first-rate investment competence and to the company's position as a long-term pension investor.

## Our approach

Varma's Principles for Responsible Investment cover the company's investment assets in their entirety.

The principles are based on identifying the key responsibility aspects of investments and focussing on those. We aim to integrate responsibility issues systematically into our investment processes. The ultimate goal for investment activities is to produce returns, which must be accounted for in the application of the Principles for Responsible Investments and in the allocation of resources.

In our investment activities we take into account internationally acknowledged principles and norms, such as the UN Global Compact initiative for corporate responsibility, OECD guidelines for multinational enterprises and ILO labour conventions.

Varma has signed the UN Principles for Responsible Investment (PRI).

Through its Principles for Responsible Investment, Varma commits to

- incorporating environmental, social and corporate governance factors into investment analysis and decision-making processes.
- being an active owner and adopting environmental, social and corporate governance aspects into our ownership policies. We are also willing to discuss our approach and criteria with the investment objects.
- carefully assessing at the corporate, sector and asset class level investments which entail above-average risks relating to the environmental, social and corporate governance factors. Our aim is to engage with the companies we invest in, rather than excluding the investment. Exclusion is, however, possible, especially as a result of non-productive discussions.
- promoting appropriate reporting on environmental, social and corporate governance matters by its investment objects.
- promoting responsible investment within the investment sector together with other investors, the PRI Initiative and other operators.
- reporting on its activities and progress in implementing its Principles for Responsible Investment. We set annual targets for our activities, monitor our progress, and report on our activities annually.

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

Varma acts lawfully and with integrity and in compliance with legal and regulatory requirements. Varma will not enter into transactions with the main purpose of securing a tax advantage contrary to the intention of the legislator in enacting the relevant tax legislation. Varma's principle is to avoid double taxation on its investment returns; double taxation would contradict the ultimate objective of the investment operations, which is to generate returns.

## Specific policies for asset classes

Varma's Principles for Responsible Investment are applied differently depending on the asset class and type of investment. Varma's asset classes are fixed income investments, equity investments, private equity investments, real estate and hedge funds. Varma's Principles for Responsible Investment provide general guidelines for investment activities, and more detailed asset-specific policies are drawn up on the basis of the guidelines.

## About the principles

Varma's Principles for Responsible Investment are included in the investment plan that steers its investment operations. Varma has also published a separate ownership policy, which provides guidelines for listed companies' corporate governance.

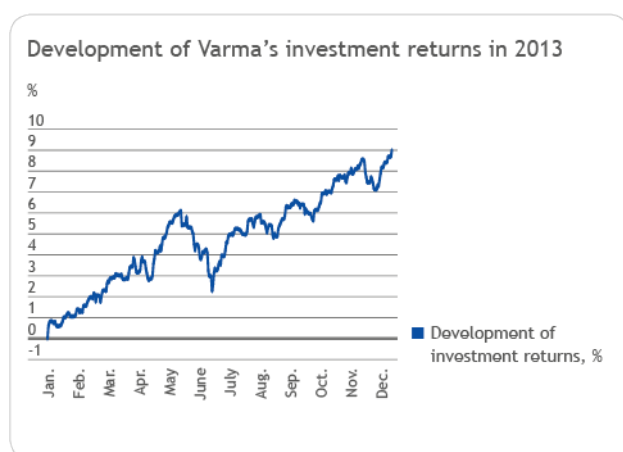
Varma's Board of Directors approves the Principles for Responsible Investment. The principles are updated as our responsible investment activities evolve and new issues to consider emerge. The Board receives annual reports on the operations.

# Strong investment year 2013

Share prices increased strongly during 2013, and interest rates remained at a low level owing to the European and U.S. central banks' monetary policies with their strong focus on stimulus. Long-term interest rates increased but remain at a very low level. The return on Varma's investments was very good, and solvency continued to strengthen.

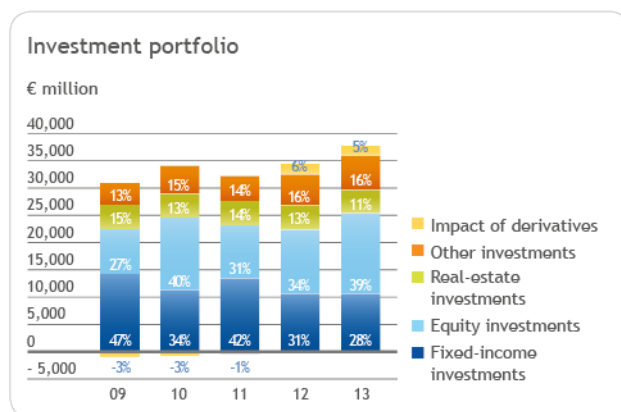
At year-end the value of Varma's investments stood at EUR 37.7 (34.4) billion, and their return was at 9.0 (7.7) per cent. As a result of the good return development, Varma's solvency capital strengthened to 31.6 (28.0) per cent of the technical provisions, providing a strong buffer against any volatility in the capital markets.

The result was generated consistently over the course of the year, except for the temporary downswing in share prices and the rise in long-term interest rates in June. The increase in share prices strengthened in the second half of the year.



The investment environment was fairly positive for nearly the entire year. Uncertainty relating to the eurozone clearly eased during the year, and for example the interest rates of Spanish and Italian government bonds decreased and their liquidity improved. U.S. economic recovery and expectations of emerging growth in Europe paved the way for a rise in share prices. The sustained low interest rates and the low return expectations on fixed-income investments also supported the equity markets.

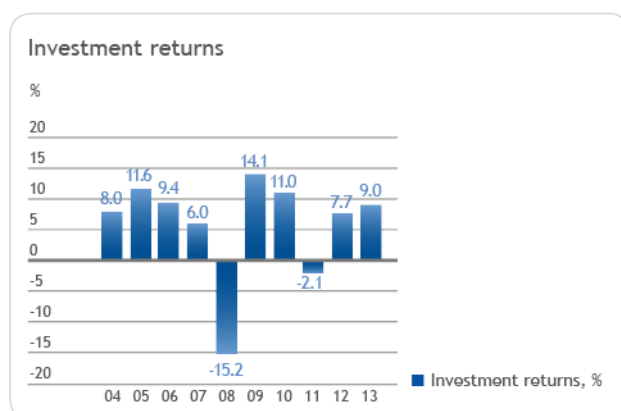
The development of national economies deviated substantially from that of the capital markets. In Europe and Finland, GDP development was weak, unemployment rates remained high and public debt continued to increase. Finnish companies announced several job cuts and temporary lay-offs during the year, and the investment level remained low. However, the positive trend in share prices reflects investors' confidence in companies' future earnings power.



Over the year, Varma increased the proportion of its equity investments, lowered the proportion of fixed-income and real estate investments and kept other investments at their previous level.

## Very good investment result

The total return on Varma's investments was 9.0 (7.7) per cent. Equities generated the strongest return, and fixed-income investments, real estate and other investments also generated a positive return.



The average 10-year nominal return on investments was 5.6 per cent. The period after the financial crisis has been very good in terms of investments, despite the uncertain economic situation. The average 5-year return increased to 7.8 per cent. When inflation is taken into account, the real return is 5.8 per cent.

At 7.4 per cent, equity investments accounted for the majority of the total return of 9.0 per cent on Varma's investments, while fixed-income investments accounted for 0.4, real estate for 0.4, and other investments for 0.8 per cent.

Varma's investment activities focussed on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management. The company also uses derivatives for investment risk management, mainly for hedging and controlling the portfolio risk level.

Varma has US-dollar-denominated investments in hedge funds, equities, corporate bonds and private equity funds. In accordance with Varma's policy, most of the exchange rate risks were hedged. For diversification reasons, a proportion of the currency position was unhedged, which slightly lowered the overall result as the value of the U.S. dollar fell. In terms of operations, foreign currency risks are managed as a single entity, while in the performance indicators the exchange rate result is included in the investment returns of various asset classes.

# Investments classified according to risk

	Risk position 12/2013 mn €		Risk position 12/2012 mn €		Return MWR 1-12/2013 %	Return MWR 1-12/2012 %	Volatility 24 m
<b>Fixed-income investments</b>	<b>10,624</b>	<b>28</b>	<b>10,666</b>	<b>31</b>	<b>1.2</b>	<b>4.4</b>	
Loan receivables	<b>2,026</b>	<b>5</b>	2,441	7	<b>3.3</b>	3.2	2,3 <sup>2</sup>
OECD/EEA public sector bonds	<b>3,869</b>	<b>10</b>	4,052	12	<b>-1.8</b>	3.6	
Other bonds	<b>5,363</b>	<b>14</b>	5,347	16	<b>3.0</b>	8.1	
Other money-market instruments and deposits	<b>-635</b>	<b>-2</b>	-1,175	-3	<b>-0.4</b>	0.7	
<b>Equity investments</b>	<b>14,756</b>	<b>39</b>	<b>11,727</b>	<b>34</b>	<b>21.8</b>	<b>14.5</b>	
Listed equities	<b>11,579</b>	<b>31</b>	8,567	25	<b>23.7</b>	14.9	13.2
Private equity	<b>2,175</b>	<b>6</b>	2,394	7	<b>12.1</b>	13.0	
Unlisted equities	<b>1,002</b>	<b>3</b>	766	2	<b>26.7</b>	15.5	
<b>Real estate investments</b>	<b>4,304</b>	<b>11</b>	<b>4,463</b>	<b>13</b>	<b>3.1</b>	<b>4.5</b>	
Direct real estates	<b>3,739</b>	<b>10</b>	3,961	12	<b>2.0</b>	4.6	
Real estate funds	<b>565</b>	<b>1</b>	503	1	<b>11.6</b>	3.1	
<b>Other investments</b>	<b>6,157</b>	<b>16</b>	<b>5,640</b>	<b>16</b>	<b>4.5</b>	<b>6.0</b>	
Hedge funds	<b>4,850</b>	<b>13</b>	3,779	11	<b>8.8</b>	6.8	1.8
Commodities	<b>201</b>	<b>1</b>	289	1			
Other investments	<b>1,106</b>	<b>3</b>	1,571	5	<b>-6.3</b>	6.0	
<b>Total investments</b>	<b>35,840</b>	<b>95</b>	<b>32,496</b>	<b>94</b>	<b>9.0</b>	<b>7.7</b>	<b>3.3</b>
Impact of derivatives <sup>1</sup>	<b>1,878</b>	<b>5</b>	1,910	6			
<b>Investment allocation at fair value</b>	<b>37,718</b>	<b>100</b>	<b>34,406</b>	<b>100</b>			

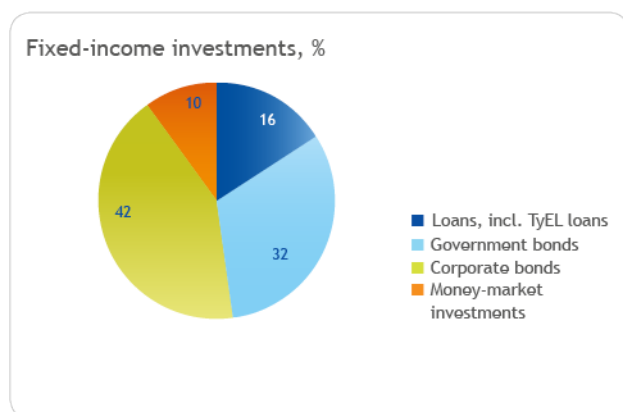
The modified duration for all the bonds is 4.1.

<sup>1</sup> Includes the impact of derivatives on the difference between risk position and market value of investments.

<sup>2</sup> Volatility was calculated for all bonds (not just public sector bonds).

# Low interest-rate level reflected in fixed-income investments

At year-end, fixed-income investments accounted for 28 (31) per cent of Varma's investment portfolio and their market value amounted to EUR 10.6 billion. They consisted of government and corporate bonds, money-market instruments, and loans, mainly TyEL loans.



The return on fixed-income investments was 1.2 per cent, and was marked by divided returns. Considering the underlying interest rate level, the return on the loan portfolio and on corporate bonds was good. The returns on government bonds were burdened as a result of adhering to bonds with the best credit rating and also by the increase in long-term interest rates during the year.

Inflation has remained higher than the general interest rate level, which will make it more challenging to achieve a positive real return on fixed-income investments. Interest income may also easily turn negative, should interest rates rise.

In government bonds, Varma maintained its cautious risk policy, focussing investments on bonds with the best credit rating. The share of government bonds in the portfolio was reduced, accounting for 10 per cent of Varma's investments and yielding a return of -1.8 per cent. The conservative investment policy lowered returns. The situation in the eurozone eased during 2013, and the previously high interest rates of Italy and Spain continued to fall.

Corporate bonds continued to generate reasonably good returns at 3.0 per cent. Varma's risk selection was successful, as index returns remained practically at the zero level. The share of corporate bonds was reduced during the year and stood at 14 per cent.

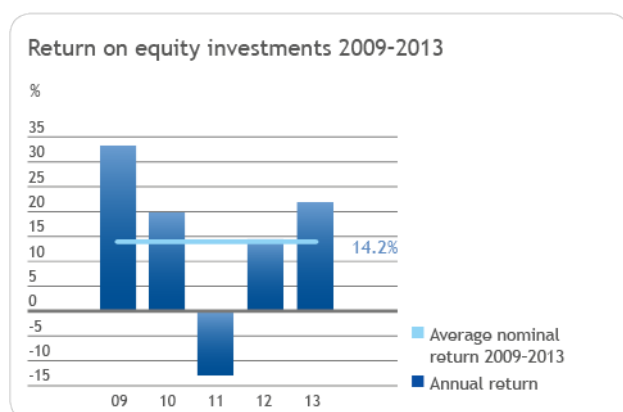
## Good return on TyEL loans

Varma's loans consist mainly of TyEL loans granted to our customers. Their proportion of the total investments decreased during 2013 from 7 per cent to 5 per cent, as the demand for new loans decreased and old loans were repaid. The return was good, at 3.3 per cent, and clearly higher than the average interest rate level.

The interest on TyEL loans is tied to governments' interest rate levels in the European area and they are mainly covered by bank guarantees.

# Top return on equity investments

Equity investments yielded very good returns and had the strongest performance of all asset classes. They accounted for 39 (34) per cent of Varma's investment assets and yielded a return of 21.8 (14.5) per cent. Equity investments consisted of listed equities (31%), private equity investments (6%) and unlisted equities (3%). Equity investments have had a very strong five-year period, with an average return of 14.2 per cent in 2009–2013.



## Record rise in share prices

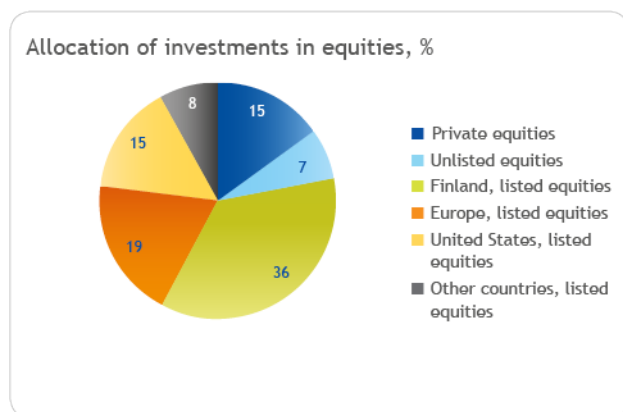
The return trend of listed equities was very good. The return was generated by developed markets, especially the U.S., and Finnish equities also generated a strong return. Share prices climbed during the year, and listed companies paid high dividends. On the other hand, returns from emerging markets remained slightly negative.

The return on Varma's listed equities amounted to 23.7 (14.8) per cent. Finnish listed equities yielded the strongest returns in the equity portfolio, at 33.7 (21.3) per cent, and U.S. equities showed a similar increase, to 31.8 (14.9) per cent. The performance of Sampo Corporation, Varma's largest holding, was especially strong, with an annual return of 55.8 per cent.

Share prices rose steadily throughout the year, with the exception of a temporary downswing in June. Market confidence recovered quickly, however, and the rest of the year was very strong. The U.S. stock markets drove share price increases during the year.

From an economic perspective, the outlook for the equity markets is challenging. The U.S. economy picked up and interest rates remained low, which promoted an increase in share prices. Share prices, however, reflect high hopes of improvement in companies' results. They are very sensitive even to the slightest decline in return expectations or increase in interest rates.

Finnish equities accounted for 46 per cent of Varma's listed equities at the end of the year. European equities accounted for 24 per cent, U.S. equities for 19 per cent and other areas for 11 per cent of all equities. To counterbalance the high share of domestic equities, Varma has broadly diversified its portfolio outside of Finland, not only in international equities, but also in private equity investments, hedge funds and corporate bonds.



## Good return on private equity investments and unlisted equities

Private equity investments and unlisted equities also generated good returns. Private equity investments yielded a return of 12.1 (13.0) and unlisted equities 26.7 (15.5) per cent.

Close to half of Varma's private equity investments are invested in the U.S., and the rest mainly in Europe and the Nordic countries. The value of these investments developed strongly in all areas. The rise in share prices and the positive financial performance of private equity funds' portfolio companies translated into good returns. Private equity funds made use of the strong demand and liquidated large amounts of their investments. On the other hand, the volume of new investments was fairly low and the total volume of investments decreased somewhat. Activity in the U.S. financial and acquisition markets was brisk, resulting in major capital distributions.

Unlisted equities include Varma's holdings in the housing real-estate companies SATO Corporation and VVO Group, and in the forestry company Tornator Oyj. All three companies developed very favourably due to dividends distributed and an increase in value.

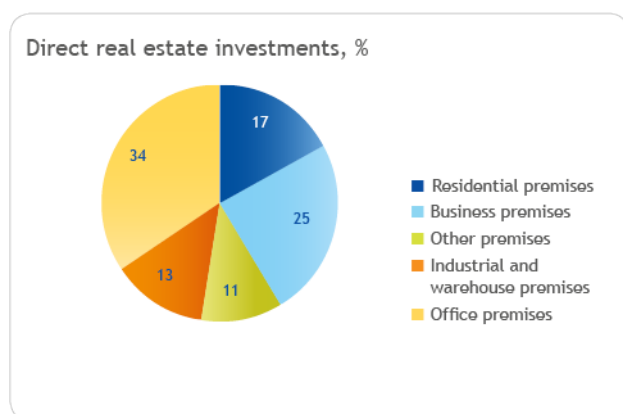
Private equity and unlisted equities are a long-term asset class, and their long-term return has been very good.

**15 largest equity investments, holding**

	€ mill.	Varma's holding of shares, %
Sampo plc	1,568	7.85
Nokia Corporation	497	2.28
Nordea Bank AB	389	0.99
Wärtsilä Corporation	367	5.20
SATO Corporation	340	45.67
Nokian Tyres plc	314	6.75
Elisa Corporation	178	5.58
KONE Corporation	170	1.07
UPM-Kymmene Corporation	142	2.19
Amer Sports Corporation	125	6.99
Kemira Oyj	115	6.09
Stora Enso Oyj	114	1.99
Sponda Plc	99	10.27
Metso Corporation	90	1.93
YIT Corporation	86	6.63

# High occupancy rate in Varma's real estate portfolio

The volume of Finland's real estate trade remained at a low level in the first half of 2013. However, new real estate funds specialised in residential and care properties actively added to their portfolios. The markets picked up towards the end of the year and the volume of real estate trade grew significantly as a result of several commercial real estate transactions. In 2013 the total volume of real estate transactions in Finland was approximately EUR 2.4 billion. International investors' interest towards Finnish real estate increased: foreign real estate investments accounted for 30 per cent of all real estate transactions during the year.



Varma's new real estate investments stood at EUR 84 million. Varma had a total of 230 new rental flats under construction in the Helsinki area. In terms of investments in business premises, Varma shifted its focus from new investments and new construction to developing and to maintenance construction and renovations. In 2013, Varma divested 25 real estate properties. The total return on real estate investments was 3.1 (4.5) per cent.

The uncertainty of the Finnish economy has influenced the lease markets of business premises in recent years. Especially the vacancy rate of office premises in the Helsinki metropolitan area is at a high level, but vacancy rates have been on the rise in other areas and types of properties too. Despite the challenging market situation, the occupancy rate of real estate properties owned by Varma remained at a good level in 2013. At year-end, the vacancy rate of the real estate owned directly by Varma was as low as 5.3 per cent.

In 2013, the impact of fair valuation of real estate under Varma's direct ownership totalled EUR -131 million. The market value of the real estate owned directly by Varma stood at EUR 3.7 billion at the end of the year. The return on capital employed in direct real estate investments was 2.0 (4.6) per cent. The value of and total return on the portfolio were influenced by fair valuations and the divestment of properties.

During 2013, Varma actively started to increase its indirect and international real estate investments. At year-end, the value of international and Finnish real estate fund investments amounted to EUR 565 million and the return was 11.6 (3.1) per cent.

## Energy efficiency reduces the carbon footprint of real estate

Varma has been focussing strongly on reducing the energy consumption of its business premises. The goal is to reduce energy consumption by 6 per cent by 2016.

The measures used focus on controlling lighting, ventilation and heating, among other things. In 2011–2013, more than 370 individual energy saving measures have been implemented in around 70 properties owned by Varma, generating annual savings of approximately EUR 500,000. This is equal to the annual energy consumption of 470 detached houses heated with electricity.

Simultaneously the carbon footprint of Varma-owned properties has been reduced by 1,800 tonnes of carbon dioxide.

# Successful year for hedge funds

Other investments accounted for 16 (16) per cent of Varma's portfolio. They consist of hedge funds (13 per cent), inflation-linked investments (3 per cent) and a relatively small commodities position. The return on other investments was 4.5 (6.0) per cent.

The return on hedge fund investments was 8.8 (6.8) per cent. They performed consistently with only minor fluctuations. Hedge-fund investments are almost entirely US-dollar denominated. Changes in euro exchange rates somewhat diminished the return; the return on hedge funds, excluding the impact of currency exchange rates, was 11.2 per cent. The five-year return has been steady and at a very good level at 12.1 per cent, which has contributed significantly to Varma's total returns.

Inflation-linked investments include inflation-linked bonds issued by states with good creditworthiness. Their return, -8.2 (6.5) per cent, was affected by the rise in real interest rates and by the slow-down in the inflation rate. Bonds typically have a long maturity, as result of which the increase in real interest rates and slowing of inflation weakened their capital values.

# Corporate Governance Report

This report is based on the Finnish Corporate Governance Code. Varma complies with the Code provisions that apply to the statutory activities of earnings-related pension insurance companies. The deviations from the Code are detailed below in the section "Deviations from the Finnish Corporate Governance Code". This report describes the situation on 31 December 2013. The up-to-date report can be viewed at [www.varma.fi](http://www.varma.fi).

## Main features of the internal control and risk management systems connected with the financial reporting process

Varma's financial reporting is in accordance with the Accounting Act, the Limited Liability Companies Act, the Insurance Companies Act, the Employee Pensions Insurance Companies Act and the Act on the Calculation of the Pension Provider's Solvency Border and the Covering of the Technical Provisions, the decree of the Ministry of Social Affairs and Health on financial statements and consolidated financial statements of insurance companies, the Accounting Decree, the technical bases approved by the Ministry of Social Affairs and Health and the regulations issued by the Financial Supervisory Authority.

Varma's Board of Directors decides on the content and organisation of internal company control, implementation of the internal control sectors and principles and approves the joint guidelines for the internal control of the Varma Group and approves the risk-management plan. The Board of Directors makes an annual assessment of whether the internal control is appropriately organised. The contents of the financial reporting to the Board of Directors are laid down in the Board of Directors' charter and the investment plan.

All financial reporting to the Board of Directors, company management and the authorities is carried out in Financial Administration independently of the function to be reported on. The company's result and solvency position are calculated daily.

The Board of Directors receives regular reports on, among other things, the total result, the balance sheet and the income statement at fair value, solvency position, details of investments as classified according to risk, derivative and foreign currency positions, risk concentrations and assets covering the technical provisions. Financial Administration also provides reports on the monitoring of risk limits laid down in the investment plan and on the use of authorisations, and carries out controls on the valuation of investments. In addition to the above, Investment Operations also submits reports on its activities to the Board of Directors. Adherence to authorisations and allocation, and investment assignments are monitored on a daily basis. Actuaries see to it that the insurance contributions and the technical provisions are calculated in accordance with the technical bases and the regulations issued by the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

In addition to the information required under the provisions, Varma also publishes quarterly interim reports. In order to increase transparency, Varma publishes a balance sheet and income statement at fair value and its investments and their returns, grouped in accordance with risks.

From the point of view of Varma's financial reporting, the most important elements are the valuation of the investments, investment return at fair value, interest credited on technical provisions and the company solvency (solvency capital) in relation to the solvency limit, which in turn is determined on the basis of the risks involved in each investment (solvency classification).

The risk-bearing capacity of the investment operations is determined on the basis of the solvency indicators. The adequacy of the assets covering the technical provisions must be known at all times.

The technical provisions are calculated on the closing date and in accordance with the best technical estimates during the financial year. Exact annual calculations are finalised in late spring. The division of responsibility between earnings-related pension companies is handled via the Finnish Centre for Pensions each year.

The tasks of the investment risk management within the Actuaries, which is independent of the risk-taking operations, include the identification of the risks contained in the investments, measurement of risk levels and reporting.

The Board of Directors decides on the principles concerning the use of derivative contracts and the principles for the solvency classification of investments. Investment Operations submit proposals and the CEO decides on the risk classification of investments in accordance with the classification criteria laid down by the Board of Directors, and the independent risk-management function will give an opinion on the proposals. The solvency classification of investments is reviewed on a regular basis. The Board of Directors receives an independent monitoring report on the use of derivative contracts and their impact on the solvency limit.

The company has drawn up detailed work descriptions and instructions for financial reporting. The reliability of financial reporting is supported by the principle that the company's business accounting is always periodised and kept up to date at fair value and that the figures contained in it match the investment category ledger systems used as ledgers and the data warehouse used in reporting.

Exact calculations of the technical provisions are made each year. The calculations of the technical provisions during the year are made using pension-insurance register information and insurance technique analyses. Insurance risks are analysed using, for example, risk assumption analysis (mortality, disability intensity), financial statements and business result analysis (insurance technique, distribution of responsibility) and, for example, when compiling statistics on contribution losses and disability pension expenditure.

In drawing up the financial statements, the payroll of the insured is an estimated amount. This is reflected in the company's premium income and the amount of technical provisions, but hardly affects the company's result.

Operational risks connected with Varma's financial reporting are charted on a regular basis. The potential impacts and likelihood of identified risks are assessed on a risk-specific basis.

## Auditing

In accordance with Varma's Articles of Association, the General Meeting elects two Auditors and two Deputy Auditors for the Company. The Auditors and Deputy Auditors shall be auditors approved by the Finland Chamber of Commerce. An auditing company may also be elected to act as Auditor and Deputy Auditor.

The Auditors' term ends at the next Annual General Meeting following their election.

Under the legislation in force concerning auditing, the Auditors' duty is to audit Varma's accounting records, the Report of the Board of Directors, the Financial Statements and the Consolidated Financial Statements and the governance. Auditing shall be carried out in accordance with good auditing practice.

The Auditors report on their work, observations and conclusions in the Auditors' Report addressed to the Annual General Meeting. In addition to this, the Auditors report on their observations concerning internal control, financial reporting and other auditing measures to the Board of Directors' Audit Committee, to the Board of Directors, to the Supervisory Board, to executive management and to the supervisory authority.

The Auditors provide the Board of Directors annually with written confirmation of their independence, required under the legislation in force. The Company's Board of Directors assesses the independence of the Auditors each year.

According to the decision made by the Annual General Meeting on 21 March 2013, Authorised Public Accountants Raija-Leena Hankonen (Varma's auditor since 2007) and Petri Kettunen (Varma's auditor since 2012), served as Varma's Auditors during the financial year 2013. Authorised Public Accountant Paula Pasanen and Authorised Public Accountants KPMG Oy Ab served as Deputy Auditors.

Remuneration paid to the Auditors for statutory auditing in 2013 amounted to EUR 233,519. Remuneration paid to KPMG Oy Ab for expert services other than those related to auditing totalled EUR 78,375 in 2013.

## Internal audit

Varma's internal audit operates in accordance with the principles laid down in the professional internal auditing standards. It comprises independent and objective assessment, assurance and consulting activities whose purpose is to support the organisation in achieving its goals by producing assessments and development proposals concerning the status of risk management and other internal controls.

The organisational status, tasks, responsibilities and powers of the internal audit are laid down in the instructions approved by the Board of Directors. The areas to be audited are set out in an annual audit plan approved by the Board of Directors after it has been heard by the Executive Group and the Audit Committee.

The audit observations are reported to the company management, the Audit Committee and the Board of Directors.

The internal audit is organised under the supervision of the CEO.

## Deviations from the Finnish Corporate Governance Code

The following is a summary of the deviations from the recommendations of the Finnish Corporate Governance Code at Varma.

- Recommendation 12 – Special order of appointment of the directors: Varma deviates from the recommendation because under the Finnish Act on Employment Pension Insurance Companies, all members of an earnings-related pension insurance company's Board of Directors must be appointed by the Supervisory Board. The order set out in the recommendation under which more than half of the members should be appointed by the annual general meeting would thus be against the law.
- Recommendation 14 – Number of independent directors: Eight of the members and two of the deputy members of Varma's Board of Directors were also members of the executive management of Varma's client companies. This means that the requirement concerning a majority of independent directors cannot be met; the details are given in the section Board of Directors. The exception is connected with the mutual character of Varma. In a mutual company, a client relationship also means shareholding, and the deviation from the recommendation thus compensates for the fact that under the Finnish Act on Employment Pension Insurance Companies, the Annual General Meeting does not appoint the

majority of the Board of Directors in the manner referred to in Recommendation 12. Furthermore, client representation in the Board of Directors helps to ensure that Varma can provide statutory earnings-related pension security in an efficient manner.

- Recommendations 25, 26, 29 and 32 – Number of independent committee members: One of the three members of the Compensation and Nomination Committee presented in the section Nomination and Compensation Committee and three of the four members of the Audit Committee (in the section Audit Committee) are members of the executive management of Varma's client companies. The grounds for the exception are the same as those concerning the safeguarding of efficient operations given in connection with Recommendation 14.

# Annual General Meeting

At Varma, the supreme power of decision is exercised in the General Meeting by the shareholders, who are:

- policyholders with a valid insurance contract with Varma pursuant to the legislation concerning employees' pensions,
- self-employed persons with a valid insurance contract with Varma pursuant to the legislation concerning self-employed persons' pensions,
- those persons jointly insured under one insurance policy who are covered by basic insurance valid with Varma pursuant to the legislation concerning employees' pensions, and
- the owners of guarantee capital.

The determination of the number of votes that a shareholder can exercise in the General Meeting is described in more detail in the Articles of Association.

The Annual General Meeting shall be held annually before the end of May. An Extraordinary General Meeting shall be held when the Board of Directors or the Supervisory Board considers it necessary, or when it has to be held pursuant to the Insurance Companies Act.

According to the Articles of Association, the Annual General Meeting shall confirm the Report of the Board of Directors and the Consolidated Financial Statements and decide on the disposal of profit, on discharging the responsible persons from liability and on the remuneration payable to the members of the Supervisory Board and the Auditors. The Annual General Meeting shall elect the members of the Supervisory Board and the Auditors and Deputy Auditors.

# Supervisory Board

As laid down in the Finnish Employee Pension Insurance Companies Act, Varma has a Supervisory Board that supervises the administration of the company by the Board of Directors and the CEO. In addition to this supervisory task, the Supervisory Board also:

- elects, on the basis of the proposal of the Election Committee, the members and deputy members of the Board of Directors,
- approves, on the basis of the proposal of the Election Committee, the remunerations of the Board of Directors' members,
- appoints the Election Committee from among its own members or from the members of the Board of Directors,
- submits to the Annual General Meeting its opinion on the Financial Statements, the Consolidated Financial Statements, the Report of the Board of Directors and the Auditors' Report.

The 28 members of the Supervisory Board are elected by the Annual General Meeting. Under the Articles of Association, the election procedure is as follows:

- seven members are elected from among the persons put forward by the Election Committee members representing the main employers' central organisations,
- seven members are elected from among the persons put forward by the Election Committee members representing the main employees' central organisations,
- fourteen members are elected on the basis of a joint proposal by the Election Committee.

Each member is elected for a term of three years such that each year the terms of a maximum of ten members expire. The Supervisory Board elects the Chairman and the Deputy Chairmen from among its members each year. Under the Finnish Employee Pension Insurance Companies Act, one of them must be elected on the proposal of the Election Committee members representing the insured. The composition of the Supervisory Board is presented in the Members of the Supervisory Board section and information about their remuneration in the Salary and Remuneration Statement section.

# Members of Supervisory Board

## Chairman and Deputy Chairmen

### Tapio Kuula

- Chairman
- b. 1957
- President and CEO, Fortum Corporation
- Term expires in 2015

### Martti Alakoski

- Deputy Chairman
- b. 1953
- Chairman, Finnish Electrical Workers Union
- Term expires in 2016

### Jari Paasikivi

- Deputy Chairman
- b. 1954
- President and CEO, Oras Invest Ltd
- Term expires in 2015\*

\* Term expired on 31 December 2013, Jari Paasikivi has been elected as a member of Varma's Board as of 1 January 2014.

## Members

### Juri Aaltonen

- b. 1969
- Chairman, Federation of Special Service and Clerical Employees ERTO
- Term expires in 2015

### Berndt Brunow

- b. 1950
- President of the Board, Oy Karl Fazer Ab
- Term expires in 2016

### Petri Castrén

- b. 1962
- CFO, Kemira Oyj
- Term expires in 2016

### Erkki Etola

- b. 1945
- Managing Director, Etola Oy, Etra Oy and Tiiviste-Group Oy
- Term expires in 2014

### Stig Gustavson

- b. 1945
- Chairman of the Board, Konecranes Plc
- Term expires in 2016

### Tauno Heinola

- b. 1953
- General Manager, ABB Oy
- Term expires in 2014

**Tapio Korpeinen**

- b. 1963
- CFO and Executive Vice President, UPM Energy
- Term expires in 2014

**Olli Luukkainen**

- b. 1957
- President, Trade Union of Education in Finland, OAJ
- Term expires in 2016

**Lauri Peltola**

- b. 1963
- EVP, Global Identity, Country Senior Executive, Finland, Stora Enso Oyj
- Term expires in 2016

**Juhani Pitkäkoski**

- b. 1958
- President and CEO, Caverion Corporation
- Term expires in 2016

**Kari Sairo**

- b. 1955
- Financial Manager, Finnish Metalworkers' Union
- Term expires in 2014

**Saana Siekkinen**

- b. 1972
- Development Director, Service Union United PAM
- Term expires in 2015

**Jorma J. Takanen**

- b. 1946
- Chairman of the Board, Sievi Capital Plc
- Term expires in 2015

**Leena Vainiomäki**

- b. 1961
- Head of Business Banking, Danske Bank Plc
- Term expires in 2016

**Päivi Kärkkäinen**

- b. 1955
- General Director, Finnish National Opera Foundation
- Term expires in 2015

**Ilkka Nokelainen**

- b. 1957
- Chief Shop Steward, Stora Enso Oyj
- Term expires in 2015

**Hannu Penttilä**

- b. 1953
- Managing Director, Stockmann plc
- Term expires in 2014

**Pertti Saarela**

- b. 1957
- President and CEO, Finrail Oy
- Term expires in 2016

**Mika Seitovirta**

- b. 1962
- CEO, Outokumpu Oyj
- Term expires in 2014

**Antti Sippola**

- b. 1955
- Executive Vice President, SOK Corporation
- Term expires in 2015

**Arja Talma**

- b. 1962
- Senior Vice President, Store Sites and Capital Expenditure, Kesko Corporation
- Term expires in 2015

**Kari Virta**

- b. 1970
- Country Manager, ISS Palvelut Oy
- Term expires in 2014

**Anssi Vuorio**

- b. 1965
- Head of ICT and Communication Sector, Trade Union Pro
- Term expires in 2014

**Göran Åberg**

- b. 1956
- Managing Director, Oy Schenker East Ab
- Term expires in 2016

**Satu Wrede**

- b. 1954
- Chairman of the Board of Directors, Metroauto Group Oy
- Term expires in 2015

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## Memberships that expired at the Annual General Meeting on 21 March 2013

**Ilkka Hallavo**

- b. 1956

**Antti Piippo**

- b. 1947

**Riitta Laitasalo**

- b. 1955

**Markus Rauramo**

- b. 1968

# Election Committee

The Supervisory Board appoints the Election Committee from among its members or from the members of the Board of Directors. Under the Finnish Employee Pension Insurance Companies Act, the Chairman or the Deputy Chairman of the Committee must be elected on the proposal of the Supervisory Board members representing the insured.

In addition to the Chairman and the Deputy Chairman, Varma's Election Committee also has four other members, of whom

- two are elected on the proposal of the Supervisory Board members representing the policyholders,
- two are elected on the proposal of the Supervisory Board members representing the insured.

Tapio Kuula, the Chairman of the Supervisory Board, acted as the Chairman of the Election Committee in 2013. Deputy Chairman of the Committee Martti Alakoski (Deputy Chairman of the Supervisory Board), Mikko Mäenpää (Deputy Chairman of the Board of Directors) and Veli-Matti Töyrylä (member of the Board of Directors) represented the insured, while Chairman Tapio Kuula, Kari Jordan (member of the Board of Directors) and Jari Paasikivi (Deputy Chairman of the Supervisory Board) represented the policyholders.

The Election Committee submits a proposal to the Annual General Meeting on the election of new Supervisory Board members as successors for those with expiring terms and members' remunerations, and a similar proposal to the Supervisory Board concerning members of the Board of Directors. The Committee does not have other tasks.

# Board of Directors

The task of the Board of Directors is to see to Varma's administration and the appropriate organisation of its operations. Under the Finnish Employee Pension Insurance Companies Act, the Board of Directors must also draw up an investment plan on the investment of the company's assets.

The Board of Directors appoints and dismisses the President and CEO. In addition, the Company may have a Deputy to the President and CEO, appointed by the Board of Directors. The Board of Directors may also appoint other executives.

The Board of Directors appoints the Actuary and Senior Physician for the Company.

Under the Finnish Employee Pension Insurance Companies Act, electing members to the Board of Directors is the responsibility of the Supervisory Board. The Board of Directors has 12 members and three deputy members. Under the Articles of Association the election procedure is as follows:

- three members and one deputy member are elected from among the persons put forward by Election Committee members representing the main employers' central organisations,
- three members and one deputy member are elected from among the persons put forward by Election Committee members representing the main employees' central organisations,
- six members and one deputy member are elected on the basis of a joint proposal made by the Election Committee.

The terms of four members of the Board of Directors expire each year.

The Board of Directors elects its Chairman and Deputy Chairmen from among its members. Under the Finnish Employee Pension Insurance Companies Act, one of them must be elected on the proposal of the Election Committee members representing the insured.

The composition of the Board of Directors in 2013 is presented in the Board of Directors section and information about their remuneration in the Salary and Remuneration Statement section.

There are no members of Varma's Executive Group in the Board of Directors. None of the Board members had an employment relationship with or held a position at Varma in 2013 or in the two years prior to that nor do any of them receive compensation from Varma for services rendered or other advice not connected with the duties of the Board.

In 2013 Varma's CEO Matti Vuoria served as Vice Chairman of the Board of Sampo Plc. Members of the executive management of Sampo Plc served on Varma's Board of Directors. This link established the relationship referred to in Recommendation 15 of the Finnish Corporate Governance Code.

# Members of the Board of Directors

## Sakari Tamminen

Chairman

b. 1953, M.Sc. (Econ.)

President & CEO, Rautaruukki Corporation, member of the Varma Board of Directors since 2008

Chairman of the Board of Metallinjalostajat ry; Deputy Chairman of the Board of Sanoma Oyj; member of the boards of the Federation of Finnish Technology Industries, the Finnish Business and Policy Forum EVA, the ETLA Research Institute of the Finnish Economy, and the World Steel Association; and Vice President of EUROFER, the European Steel Association.\*

Term ended 31 December 2013.



## Kari Jordan

Deputy Chairman

b. 1956, M.Sc. (Econ.)

President & CEO, Metsä Group, member of the Varma Board of Directors since 2013, term expires in 2016

Chairman of the Boards of Directors of Metsä Board Corporation, Metsä Tissue Corporation, Metsä Fibre Corporation and the Central Chamber of Commerce; Vice Chairman of the Board of the Confederation of Finnish Industries EK; and member of the Board of the Finnish Forest Industries Federation; in addition, holds several board memberships in various foundations and associations.\*



## Mikko Mäenpää

Deputy Chairman

b. 1954, LL.M.

President, Finnish Confederation of Professionals STTK; member of the Varma Board of Directors since 2000

Member of the Representatives of the Finnish Centre for Pensions and of the Economic Council; member of the Boards of the Council of Nordic Trade Unions and the European Trade Union Confederation ETUC; and member of the Trade Union Advisory Committee to the OECD.

Term ended 31 December 2013.



## Riku Aalto

b. 1965, M.Sc. (Admin.)

President, Finnish Metalworkers' Union; member of the Varma Board of Directors since 2012, term expires in 2014

Chairman of the Board of VVO Group; Chairman of the Finnish Industrial Unions TP; member of the Boards of The Central Organisation of Finnish Trade Unions SAK, Työväen Opintorahasto and VR Group; and member of the Supervisory Board of the Unemployment Insurance Fund.



## Mikael Aro

b. 1965, eMBA

President & CEO, VR Group Ltd., member of the Varma Board of Directors since 2010, term expires in 2015

Chairman of the Board of Nordic Cinema Group; member of the Boards of Directors of the Confederation of Finnish Industries EK, the Finnish National Theatre, the Service Sector Employers PALTA, Altia Finland, The Finnish-Russian Chamber of Commerce and East Office of Finnish Industries.\*



## Johanna Ikäheimo

b. 1968, M.Sc. (Admin.)

Chairman of the Board, Lappset Group Ltd; member of the Varma Board of Directors since 2009, term expires in 2016

Chairman of the Board of Directors of FEPI - Federation of the European Play Industry; and member of the Board of Kunnan Taitoa Oy.\*



## Ari Kaperi

b. 1960, M.Sc. (Econ.)

Executive Vice President, Nordea Bank AB (publ) and member of the Varma Board of Directors since 2010, term expires in 2015

Chairman of the Board of the Federation of Finnish Financial Services; Vice Chairman of the Board of the Confederation of Finnish Industries EK; and a member of the Advisory Board of the Central Chamber of Commerce, of the Board of Trustees of Turku University Foundation, and the Supervisory Boards of the Finnish Business and Policy Forum EVA and the ETLA Research Institute of the Finnish Economy.\*



## Lasse Laatunen

b. 1950, LL.M.

Labour Market Director, the Confederation of Finnish Industries EK; member of the Varma Board of Directors since 1998, term expires in 2015

Member of the Boards of the Finnish Centre for Pensions, the Federation of Accident Insurance Institutions (TVL) and the Social Insurance Institution.



## Karsten Slotte

b. 1953, B.Sc. (Econ.)

Member of the Varma Board of Directors since 2009, term expires in 2014

Member of the Boards of Onninen Oy, Fiskars Corporation, Oriola-KD Oyj, Onvest Oy, Royal Unibrew A/S, the Finnish-Swedish Chamber of Commerce, and the TT Foundation; and Chairman of the Board of Northforce Oy.\*



## Kari Stadigh

b. 1955, M.Sc. (Tech.), BBA

Group CEO, Sampo Plc., member of the Varma Board of Directors since 2008

Chairman of the Boards of Kaleva Mutual Insurance Company, Mandatum Life Insurance Company Limited and If Skadeförsäkring Holding AB (publ); Vice Chairman of the Boards of the Federation of Finnish Financial Services and the Confederation of Finnish Industries EK; and a member of the boards of Nokia Corporation and Nordea Bank AB.\*

Term ended 31 December 2013.



## Kai Telanne

b. 1964, M.Sc. (Econ.)

President & CEO, Alma Media Corporation; member of the Varma Board of Directors since 2009, term expires in 2014

Chairman of the Board of Talentum Oyj and member of the Board of Teleste Oyj.\*



## Veli-Matti Töyrylä

b. 1953, B.Sc. (Econ.)

Branch Manager, Nordea Bank Finland Plc, Nordea Järjestöpankki; member of the Varma Board of Directors since 2011, term expires in 2016

Chairman of the Board of the Kaute foundation and member of AKAVA ry's pension working group.



## Deputy members

### Mikko Ketonen

b. 1945, B.Sc. (Econ.)

Deputy member of the Varma Board of Directors since 1998, term expires in 2016

Chairman of the Boards of TS Group, Priimus Group Oy, Hansaprint Oy and Salon Seudun Sanomat Oy.\*



### Arto Kuusiola

b. 1952, M.Sc. (Econ.)

Finance Director and member of the Management Group of the Central Organisation of Finnish Trade Unions SAK; deputy member of the Varma Board of Directors since 2012, term expires in 2016

Chairman of the Board of Asuntosäätiö; Internal Auditor for the International Trade Union Confederation (ITUC); and member of the International Solidarity Fund Management Board.



### Liisa Leino

b. 1960, M.A. (Educ.)

Chairman of the Board and Managing Director, Leinovalu Oy; deputy member of the Varma Board of Directors since 2011, term expires in 2016

Member of the Boards of Metsä Board Corporation, Rautaruukki Corporation, Elomatic Oy, Partiovaruste Oy and the Federation of Finnish Technology Industries; and member of the Supervisory Boards of the Finnish Business and Policy Forum EVA and ETLA, the Research Institute of the Finnish Economy.\*



New Board members as of 1 January 2014 (Supervisory Board's decision on 3 December 2013):

Petri Niemisvirta, b. 1970, LL.M.

Managing Director, Mandatum Life Insurance Company Ltd, term expires in 2014

Jari Paasikivi, b. 1954, M.Sc. (Econ.)

President and CEO, Oras Invest Ltd, term expires in 2016

Antti Palola, s. 1959, Sea Captain

President, Finnish Confederation of Professionals STTK, term expires in 2015

Those marked with \* in the list of Board members are members of the executive management of important client companies of Varma; the other members are independent for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

# Board of Directors' Committees

As laid down in the Articles of Association, Varma's Board of Directors has elected a Nomination and Compensation Committee and an Audit Committee from among its members. The Chairman and the Deputy Chairmen of the Board of Directors also meet with the CEO, as necessary, to prepare matters to be considered by the Board of Directors.

## Audit Committee

The main tasks of the Audit Committee include the supervision of internal company control, risk management and financial and other reporting, as well as the monitoring of the work and observations made by the auditors and the internal audit. The Committee does not have the power to make decisions independently. The Committee reports on its work and observations to the Board of Directors.

In 2013, Sakari Tamminen (Chairman), Mikko Mäenpää, Karsten Slotte and Kai Telanne were members of the Audit Committee.

The Audit Committee convened two times in 2013, and the attendance rate was 87.5 per cent.

Of the Committee members, Sakari Tamminen, Karsten Slotte and Kai Telanne are members of the executive management of Varma's client companies for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

## Nomination and Compensation Committee

The Nomination and Compensation Committee prepares Varma's compensation and incentive schemes and the employment terms and conditions of the company management. The proposals of the Committee are submitted to the Board of Directors for decision.

In 2013, Sakari Tamminen (Chairman), Kari Jordan and Mikko Mäenpää were members of the Nomination and Compensation Committee. The Committee held nine meetings in 2013 (attendance rate 88.9 per cent).

Of the Committee members, Sakari Tamminen and Kari Jordan are members of the executive management of Varma's client companies for the purposes of the Finnish Corporate Governance Code (Recommendation 15).

# President and CEO

The CEO takes care of the administration of Varma according to the regulations and instructions of the Board of Directors. The CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

It is the duty of the CEO to promote the interests of the company. The CEO manages the company according to sound business principles and principles of good governance and risk management. The CEO represents Varma in matters that fall within the sphere of tasks laid down in legislation.

Varma's President and CEO until 31 December 2013 was Matti Vuoria, b. 1951, (LL.M., B.A., Varma's CEO since 2004, Vice Chairman of the Board of Sampo Plc, First Vice Chairman of the Board of the Finnish Pension Alliance TELIA, member of the Boards of Stora Enso Oyj, Wärtsilä Corporation and the Federation of Finnish Financial Services, and Chairman of the Board of the Securities Market Association).

Varma's CIO Risto Murto served as Deputy CEO until 31 December 2013; the Board of Directors appointed Murto President and CEO of Varma as of 1 January 2014.

The CEO is assisted by Varma's Executive Group, which in addition to the CEO has nine management representatives and two staff representatives as members. The task of the Executive Group is to steer and develop Varma's operations so that the strategic objectives approved by the company's Board of Directors are met.

The Investment Committee deals with major investment issues that are submitted to the CEO for decision. The Committee has the CEO and the executives responsible for investment operations as its members. The Committee prepares the investment proposals for the Board of Directors and makes decisions on matters in which it is authorised under the investment plan approved each year by the Board of Directors, and which have not been delegated to a lower level. The Committee also monitors investment risks.

Decisions on the remunerations and benefits of the CEO, the Deputy CEO and the other executives appointed by the Board of Directors are made by the Board of Directors. Information on these is presented in the Salary and Remuneration Statement of this report.

# Executive Group

## Matti Vuoria

### **President and CEO**

b. 1951, LL.M., B.A.

Key work experience:

Full-time Chairman of the Board of Directors, Fortum Corporation 1998–2003; Secretary General, Ministry of Trade and Industry 1992–1998

Vice Chairman of the Board of Sampo Plc; First Vice Chairman of the Board of the Finnish Pension Alliance TELA; member of the Boards of Stora Enso Oyj, Wärtsilä Corporation and the Federation of Finnish Financial Services; and Chairman of the Board of the Securities Market Association

President and CEO 2004–2013



## Risto Murto

### **Executive Vice President**

### **Deputy CEO**

### **Chief Investment Officer**

b. 1963, Ph.D. (Econ.)

Key work experience:

Senior Vice-President, Chief Investment Officer, Varma 2006–2010; Managing Director, Opstock Ltd 2000–2005; Director, Opstock Ltd 1997–2000

Chairman of the Boards of NV Kiinteistösijoitus Oy and VVT Kiinteistösijoitus Oy; Vice Chairman of the Boards of Kaleva Mutual Insurance Company and VVO-yhtymä Oyj; member of the Board of Nokian Tyres Plc

Member of the Executive Group since 2006

On 22 August 2013, Varma's Board of Directors appointed Risto Murto President and CEO effective 1 January 2014.



## Eija Kaipainen-Perttula

### Senior Vice-President, Insurance Services and Development

b. 1958, M.A.

Key work experience:

Director, Insurance and Major Clients, Varma 2006–2007; Insurance Director, Varma, 2002–2006; Department Manager, Insurance Technique, Varma 1998–2002; Department Manager, Insurance Technique, Pension-Varma 1995–1998

Member of the Boards of the Finnish Centre for Pensions, Foundation for the Advancement of Insurance Skills and Finnish Financial and Insurance Publishing Ltd FINVA

Member of the Executive Group since 2007



## Timo Kaisanlahti

### Senior Vice-President, Administration

b. 1962, LL.D., M.Sc. (Econ.)

Key work experience:

Ministerial Adviser, Ministry of Finance 2004–2005; Ministerial Adviser, Ministry of Transport and Communications 2003–2004; Legal Counsel, KLegal Oy 2003; Legal Counsel, Varma-Sampo 2001–2002; Ministerial Adviser, Ministry of Trade and Industry 1996–2000

Chairman of the Accounting Board and Chairman of the Board of Osakevarma Oy

Member of the Executive Group since 2007



## Tiina Kurki

### Senior Vice-President, IT

b. 1961, Master of Business Administration

Key work experience:

BCIO, Nordea Bank Finland Plc 2011–2012; Group IT management positions, Nordea Bank Finland Plc, 2008–2011; Vice President, TietoEnator Oyj 2002–2008; Department Manager and Specialist, TietoEnator Oyj 1986–2002

Chairman of the Board of Tieto Esy Ltd; deputy member of the Board of Arek Oy

Member of the Executive Group since 2012



## Ville-Veikko Laukkanen

### Senior Vice-President, Client Services

b. 1970, LL.M.

Key work experience:

Head of Household Customers and Group Marketing, Nordea Bank Finland Plc 2010–2012; Head of Business, TrygVesta/Nordea General Insurance 2003–2010; Vice President, Tryg Forsikring A/S/Nordea General Insurance 2001–2003; Legal Counsel and Claims Manager, AIG Europe S.A. Finland 1999–2001; Lawyer, Sampo Insurance Company 1996–1999; Federation of Finnish Financial Services, member of the non-life insurance committee 2006–2010; Nordea Investment Fund Company Finland Ltd, Board member 2010–2011

Member of the Board of Kaleva Mutual Insurance Company

Member of the Executive Group since 2012



## Pasi Mustonen

### Senior Vice-President, Actuaries

b. 1964, M.A., FASF

Key work experience:

Actuary, Varma 1998–2001; Actuary, Sampo Pension 1996–1998

Member of the representatives of the Finnish Centre for Pensions

Member of the Executive Group since 2004



## Pekka Pajamo

### Senior Vice-President, Finance

b. 1962, M.Sc. (Econ.)

Key work experience:

Employment with KPMG Oy Ab 1988–2012: Authorised Public Accountant 1993–2012, partner 1998–2012

Vice Chairman of the Boards of Arek Oy and the Finnish National Theatre Ltd.; member of the Boards of the Finnish National Opera Foundation and Varman kiinteistöyhtiöt

Member of the Executive Group since 2012



## Satu Perälampi

### Senior Vice-President, Communications

b. 1970, M.Sc. (Econ.)

Key work experience:

Vice President, Corporate Communications and Investor Relations, Pöyry Plc 2007–2009; Investor Relations Manager, Pöyry Plc 2000–2007

Member of the Executive Group since 2009



## Jyrki Rasi

### Senior Vice-President, Pension Services

b. 1966, LL.M.

Key work experience:

Department Manager, Varma 1999–2006; Legal Counsel, Pension Sampo 1996–1998

Member of the Board of Tieto Esy Ltd

Member of the Executive Group since 2007



## Mari Laine

### Employee Representative

b. 1974, BBA

Key work experience:

TyEL contribution expert, Varma 2005–

Member of the Executive Group since 2010



## Tuomas Virtanen

### Employee Representative

b. 1974, BBA

Key work experience:

Lead Designer, Pension Services, Varma 2009–; Software Development Manager, Project Manager, TietoEnator Esy 1998–2009

Member of the Executive Group since 2012



New Executive Group member as of 1 January 2014 (Board of Directors' decision of 10 October 2013):

Reima Rytsölä

Senior Vice-President, Investments

b. 1969, M.Soc.Sc., CEFA, AMP

Key work experience:

Senior Executive Vice President, Head of Banking, Group-level responsibility for major corporate and institutional customers, Pohjola Bank Plc 2008–2013; Management and investment positions at Pohjola Bank Plc and its subsidiaries, 1998–2007

Pasi Mustonen is Varma's Chief Actuary. Jukka Kivekäs is Varma's Senior Physician.

# Medical Affairs and Consultant Physicians

## Medical Affairs:

Jukka Kivekäs

Senior Physician

b. 1954, docent, insurance medicine, M.D.

## Consultant Physicians:

- Tuula Kieseppä
- Otto Lindberg
- Heikki Nikkilä
- Mikael Ojala
- Pekka Palin
- Ritva-Liisa Peltomäki
- Henrik Riska
- Tanja Rokkanen
- Sakari Tola

# Consultative Committees

Varma aims to promote open societal interaction, to develop more customer-oriented operations and to listen to its customers. To support these goals, Varma has five consultative committees which primarily serve an advisory role. The consultative committees' term of office is three years, and the members are appointed by Varma's Board of Directors.

# Consultative Committee for Pension Affairs

The Committee is made up of representatives from Varma and labour market organisations. It makes recommendations on disability pensions.

Chairman Jyrki Rasi, Pensions Director, Varma

Vice Chairman Jukka Kivekäs, Senior Physician, Varma

Antti Tanskanen, Senior Advisor, Confederation of Finnish Industries EK

Saana Siekkinen, Development Director, Service Union United PAM

Juhani Siira, Union Secretary, Finnish Paperworkers' Union

Riitta Työläjäarvi, Senior Adviser, Social and Health Policy, Finnish Confederation of Salaried Employees STTK

Anja Uljas, Head of R&D, Finnish Association of Graduates in Economics and Business Administration

Riitta Wärn, Senior Advisor, Confederation of Finnish Industries EK

From Varma, Arto Hartikainen, Pension Services Director, and Kari Ahtiainen, Adjudication Manager, also participated in the meetings of the Consultative Committee.

# Consultative Committee of Pensioners

The Consultative Committee of Pensioners develops co-operation between Varma and pensioners. It consists of pensioners from all over Finland as well as expert members. Varma's Board of Directors appoints the members for a three-year term.

Hemmo Auvinen

Kari Halme

Aulikki Kananoja, expert member

Pirkko Lahti

Marjatta Leppänen

Pekka Luoma

Heikki Malin

Pekka Merenheimo

Tarja Nyman, Vice Chairman

Maj-Len Remahl

Hannu Roine

Risto Siivola

Venho Takkinen

Sakari Tola, expert member

Hilppa Vienonen

Antti Viinikka, Chairman

# Consultative Committee of the Insured

The Consultative Committee of the Insured is a co-operative body that acts as an intermediary between Varma and the insured (TyEL). Its objective is to further co-operation and communication between the company and employees insured by the company. The members represent central employee organisations.

## Representatives of the Confederation of Unions for Professional and Managerial Staff in Finland, Akava:

Terttu Heinonen, Stora Enso Oyj

Jouni Jaakkonen, Nordea Bank Finland Plc

Sirpa Jukarainen, Suomen Lähikauppa Oy

Marko Klapuri, Etteplan Design Center Oy, Chairman

Jyrki Laisi, Elisa Corporation

Timo Veijola, Nokia Solutions and Networks

## Representatives of the Central Organisation of Finnish Trade Unions, SAK:

Ari Airas, Ovako Imatra Oy Ab

Eero Holsti, Abloy Oy

Jukka Hämäläinen, Jyväskylän Liikenne Oy

Kai Kolho, DS Smith Packaging Finland Oy

Juha Manni, Honkarakenne Oyj

Sakari Ojala, VR Group Ltd

Terhi Raatesalmi-Salonen, Suomen Lähikauppa Oy, Vice Chairman

Merja Saarti, Savon Sanomat Oy

Jouni Suomalainen, Sokotel Oy

Ville Vatka, HK Ruokatalo Oy

Timo Virtanen, Metsä Tissue Oyj

Kari Ylikauppila, Fortum Power and Heat Oy

## Representatives of the Finnish Confederation of Professionals, STTK:

Jari Mansikkamäki, Wärtsilä Finland Oy

Liisa Halme, If P&C Insurance Company Ltd

Timo Jaakkola, NCC Rakennus Oy

Lea Karjalainen, Lakeuden Palveluyhdistys ry

Juha Kivistö, Elisa Corporation

Kimmo Koskivaara, TS-Yhtymä Oy

Irma Kronlöf, Mehiläinen Oy

Kaija Roukala, Nordea Bank Finland Plc

Osmo Salo, STX Finland Oy

Ismo Toivonen, Ovako Imatra Oy Ab

# Consultative Committee of Employers

Interaction and communication between Varma and employers is strengthened by the Consultative Committee of Employers. The committee, which consists of employer representatives, keeps track of issues related to the Employees Pensions Act (TyEL) and gives statements and recommendations concerning companies' pension insurance and its development.

Chairman Tuomo Aine, Managing Director, Harjavalta Oy

Vice Chairman Eila Annala, Managing Director, PlusTerveys Oy

Matti Bergendahl, Managing Director, Mehiläinen Oy

Harri Broman, Managing Director, Broman Group Oy

Hilkka Heiskanen

Juha Hetemäki, Director, Skanska Oy

Jukka Hyryläinen, Managing Director, Katko Oy

Matti Hyytiäinen, Managing Director, PKC Group Oy

Erkki Kaunisto, CEO, Sähkö-Kaunisto Oy

Jari Kokkonen, chemist

Pekka Kopra, Managing Director, Versowood Oy

Heikki Kovanen, Managing Director, Kovanen Yhtiöt Oy

Eero Leskinen, Investment Director, Partner, Sentica Partners Oy

Kalle Lähdesmäki, Managing Director, Minimani-Yhtiöt

Olli Manner, President & CEO, Elomatic Ltd

Heikki Marva, Managing Director, Länsi-Suomen Yhtymä Oy

Ilkka Mäkelä, Managing Director, Saarioinen Oy

Jyrki Mäki, Managing Director, Atoy Oy

Jari Ollila, Chairman of the Board, Purso Oy

Virpi Paasonen, Managing Director, CWT Kaleva Travel Oy

Paul Paukku, Directors' Institute of Finland

Markku E. Rentto, Managing Director, Neo Industrial Plc

Seppo Saarelainen, Managing Director, Betonimestarit Oy

Timo Salli, Managing Director, Katsa Oy

Risto Salo, Chairman of the Board, Hollming Oy

Harri Savolainen, Managing Director, NCC Construction Ltd

Jorma Siren, Managing Director, Abloy Oy

Pekka Sivonen, Head of AppCampus

Jukka Suovanen, Managing Director, Odum Oy

Heikki Takamäki, Managing Director, Heikki Takamäki Oy/Rauta-Otra Nekala

Petteri Walldén, Chairman of the Board, Nokian Tyres Plc

Heikki Väänänen, Managing Director, Tokmanni Oy

Eero Väättäinen, Director, Oulun Diakonissalaitoksen säätiö

Pertti Yliniemi, Chairman of the Board, Lapland Hotels Group

# Consultative Committee of Self-Employed Persons

The Consultative Committee of Self-Employed Persons strengthens the co-operation between Varma and self-employed persons, and places Varma in a better position to listen to entrepreneurs' concerns. The committee also participates in developing services for entrepreneurs.

Chairman Riitta Hämäläinen-Bister, Deviation Finland Oy

Vice Chairman Michael Casagrande, Cleanside Oy

Aulis Asikainen, Insinööritoimisto Comatec Oy

Pia Backman, Suomen Uusyrityskeskukset ry

Leena Harkimo, Member of Parliament

Petteri Haru, Laattapiste Oy

Jarkko Hassinen, Hyvinkään Hyvä Kunto Oy

Kari Hiltunen, Federation of Finnish Enterprises

Kirsti Hintikka, Siivouspalvelu Kirsti Hintikka Ky

Pasi Holm, Pellervo Economic Research Institute PTT

Simo Jaakkola, Trade Association of Finnish Forestry and Earth Moving Contractors

Jaana Jääskeläinen, Jaanan Ompelimo ja Asuste Ky

Seija Kivimäki, Walkiakosken Apteekki

Jorma Kortesoja, RKT Rakennuspalvelu Oy

Merja Lintervo, Linvestia Oy

Harry Luokkamäki, Maarakennus Luokkamäki Oy

Isto Molarius, Ruoka-Norppa Oy

Pentti Mäkinen, Confederation of Finnish Industries EK

Juha Mäkitalo, Asianajotoimisto Mäkitalo Rantanen & Co Oy

Karri Nieminen, Fiscales Oy

Pekka Niinistö, APX-metalli Oy

Heikki Palin, Palin-Granit Oy

Paula Palmroth, Turun Kansallinen Kirjakauppa Oy

Erkki Rae, Raeventus Oy

Leena Rekola-Nieminen, Rantalainen & Rekola-Nieminen Oy

Kari Sorjonen, Tasowheel Group Oy

Niina Stolt, Studio Onni

Pekka Tsupari, Yleinen Teollisuusliitto YTL

# Salary and remuneration statement

This statement is based on the Finnish Corporate Governance Code. Varma complies with the Code provisions that apply to the statutory activities of earnings-related pension insurance companies. This statement describes the situation on 31 December 2013. The up-to-date statement can be viewed at [www.varma.fi](http://www.varma.fi).

# Decision-making procedure and remuneration principles

## Decision-making procedure

Varma's Board of Directors annually decides on the company's principles of performance-based remuneration, the maximum amounts and the personnel groups that are included. The Board of Directors also decides on the remuneration of the President and CEO and the members of the Executive Group, according to the 'one-above' principle, in which the decision is made by at least one organisational level above the superior of the person in question.

## Composition and authority of the Nomination and Compensation Committee

Preparation of remuneration matters to be discussed by the Board of Directors is the responsibility of the Nomination and Compensation Committee, appointed by the Board of Directors. In 2013, the Committee consisted of the Chairman of the Board of Directors Sakari Tamminen and Deputy Chairmen Kari Jordan and Mikko Mäenpää. The decisions on remuneration are made by the Board of Directors.

## Contents of the performance-based remuneration scheme

Varma has three performance-based remuneration schemes in use:

- the long-term incentive scheme,
- the separate scheme for Investment Operations, and
- the annual bonus scheme.

The key principles of performance-based remuneration are as follows:

- The schemes support Varma's long-term objectives, which include solvency, the return on investments and cost-efficiency.
- Remuneration should be planned so as to prevent unhealthy risk-taking. Therefore, the schemes include, among other things, pre-defined maximum amounts of remuneration and a force majeure clause, which gives the Board of Directors the right to discontinue the schemes before the end of the period if the company's economic position is jeopardised (see section "Basis for performance measurement and risk weighting" for more details).
- The Board of Directors decides on the payment of performance-based remuneration annually after the end of the incentive period.
- The share of performance-based remuneration of total remuneration shall increase along with an increase in the person's responsibility and capacity to influence the performance of other Varma employees and the success of the company.
- Compliance with the norms regulating the activities is also considered when making remuneration decisions. Performance-based remuneration is not paid or is recovered as an unjustified gain if it turns out that the person in question has behaved contrary to Varma's internal guidelines or ethical principles, legislation, or official regulations or guidelines.
- Remuneration decisions must always be made according to the 'one-above' principle.

## Long-term incentive scheme

The purpose of the long-term incentive scheme is to commit key persons to Varma and its objectives, which is why performance-based remuneration is determined on the basis of common, company-level criteria. The extent to which the objectives set for the criteria are achieved linearly determines how big a share of the maximum sum of the incentive is distributed.

Varma's long-term incentive scheme is based on incentive periods of three calendar years. At the beginning of each incentive period, the Board of Directors identifies the persons covered by the scheme, their maximum remuneration, and the remuneration criteria and their indicators.

The first incentive period covered the years 2010–2012 (37 persons), the second incentive period covers the years 2011–2013 (37 persons), the third covers the years 2012–2014 (maximum 40 persons), and the fourth covers the years 2013–2015 (maximum 40 persons). Maximum remunerations in the long-term incentive scheme correspond to 2, 3 or 4 months' salary of the person in question. The criteria for incentive periods 2010–2012, 2011–2013, 2012–2014, and 2013–2015 are based on solvency, customer account performance and cost control.

Key persons in Investment Operations do not participate in the long-term incentive scheme.

## Separate scheme for Investment Operations

The aim of the separate scheme for Investment Operations, approved by the Board of Directors, is to benefit from added value that is created if Varma's solvency and return on investments develop, in the long term, better than those of a peer group of competitors. The separate scheme for 2013 covered, in addition to the Senior Vice-President, Investments, a maximum of 54 key persons in Investment Operations.

Personal maximum remuneration was based on the last salaried month of the previous calendar year and in the 2013 scheme corresponded to a maximum of 3–14 months' salary.

The share of the remuneration that corresponds with no more than 6 months' monthly salary is paid within one month of the Board of Directors' approval of the remuneration, and the remainder in three equal instalments during the three following years.

## Annual bonus scheme

In 2013 all Varma employees were covered by an annual bonus scheme, with the exception of the persons covered by the separate scheme for Investment Operations (see above). The amount paid as an annual bonus is determined on the basis of the achievement of personal objectives agreed on in development discussions and on the company's result; the higher the person's possibility to influence the company's result, the greater its weight. In 2013 the criteria for getting the bonus were based on customer account performance, the investment result and cost control.

The base for the maximum annual bonus was determined by the person's position and monthly salary. The maximum bonuses under the 2013 bonus scheme of the President and CEO and the members of the Executive Group (not including the Chief Investment Officer, who is covered by the separate scheme for Investment Operations) correspond to 2.5–8 months' salary. Additionally, the base for the maximum bonus is increased or decreased for each by the incentive coefficient, which is based on the investment result. In 2013, the coefficient could be at maximum 1.25 and at minimum 0.75 (i.e. +25% /–25% of the basic maximum bonus).

## The relation of remuneration to performance

In all schemes, performance-based remuneration is dependent on the achievement of the criteria based on performance indicators. The extent to which the objectives set for the criteria are achieved linearly determines how large a part of the maximum sum is distributed.

## Basis for performance measurement and risk weighting

In all of Varma's incentive schemes, performance measurement is based on objective criteria, the realisation of which can be independently verified.

Apart from maximum remunerations determined in advance, the risk inherent in the remuneration schemes is managed so that the Board of Directors has reserved the right to discontinue the schemes before the end of the incentive period. The discontinuation can be based on the Board of Directors' assessment that Varma's economic position is seriously jeopardised due to a reason inside or outside the company.

Excessive risk-taking is also prevented by a maximum risk level confirmed by the Board of Directors.

# Remuneration of Supervisory Board members

The Supervisory Board convened three times in 2013. The average attendance rate was 69 per cent. The table below contains information on each member for 2013.

Remuneration of the Supervisory Board is decided by the Annual General Meeting. The annual remuneration of the Chairman of the Supervisory Board is EUR 5,000, of the Deputy Chairmen EUR 3,800 and of the members EUR 2,500. In addition, the members of the Supervisory Board receive a meeting fee of EUR 300.

Members of the Supervisory Board are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

## Varma's Supervisory Board 2013 – attendance and remunerations

Name	Supervisory Board meetings, attendance	Election Committee	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
<b>Chairman</b>					
Tapio Kuula	2/3	3/3	5,000	1,500	6,500
<b>Deputy Chairmen</b>					
Martti Alakoski	3/3	3/3	3,800	1,800	5,600
Jari Paasikivi	3/3	3/3	3,800	1,800	5,600
<b>Members</b>					
Juri Aaltonen	2/3		2,500	600	3,100
Berndt Brunow	3/3		2,500	900	3,400
Petri Castrén	2/2		1,875	600	2,475
Erkki Etola	1/3		2,500	300	2,800
Stig Gustavson	0/3		2,500		2,500
Ilkka Hallavo	1/1		625	300	925
Tauno Heinola	2/3		2,500	600	3,100
Tapio Korpeinen	2/3		2,500	600	3,100
Päivi Kärkkäinen	3/3		2,500	900	3,400
Olli Luukkainen	2/3		2,500	600	3,100
Ilkka Nokelainen	3/3		2,500	900	3,400
Lauri Peltola	2/2		1,875	600	2,475
Hannu Penttilä	2/3		2,500	600	3,100
Antti Piippo	0/1		625		625
Juhani Pitkäkoski	0/2		1,875		1,875
Markus Rauramo	0/1		625		625
Pertti Saarela	3/3		2,500	900	3,400
Kari Sairo	3/3		2,500	900	3,400
Mika Seitovirta	1/3		2,500	300	2,800
Saana Siekkinen	3/3		2,500	900	3,400
Antti Sippola	3/3		2,500	900	3,400
Jorma J. Takanen	2/3		2,500	600	3,100
Arja Talma	0/2		1,875		1,875
Leena Vainiomäki	2/2		1,875	600	2,475
Kari Virta	2/3		2,500	600	3,100
Anssi Vuorio	2/3		2,500	600	3,100
Satu Wrede	2/2		1,875	600	2,475
Göran Åberg	2/3		2,500	600	3,100

# Remuneration of the Board of Directors' members

The Board of Directors convened nine times in 2013. The average attendance rate (including deputy members) was 90.4 per cent. The table below contains information on each member for 2013.

Remuneration of Varma's Board of Directors is decided by the Supervisory Board. In 2013 the remuneration of the Board of Directors' members were as follows:

## Annual remuneration 2013

- Chairman EUR 45,000
- Deputy Chairman EUR 32,000
- member EUR 18,000
- deputy member EUR 13,000

The meeting fee paid to the Chairman, Deputy Chairmen, members and deputy members was EUR 600 per meeting. The same meeting fee was also paid for the meetings of the Board of Directors' committees, as well as for meetings of the presiding officers and of the Supervisory Board.

Members of the Board of Directors are insured under Section 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

## Varma's Board of Directors 2013 – attendance and remunerations

Name	Board of Directors' meetings, attendance	Nomina- tion and Compensation Committee	Audit Commit- tee	Election Commit- tee	Super- visory Board	Board of Directors' seminar	Annual remunera- tion, €	Meeting and Com- mittee remunera- tions, €	Total, €
<b>Chairman</b>									
Sakari Tamminen	9/9	9/9	2/2		3/3	1/1	45,000	14,400	59,400
<b>Deputy Chairmen</b>									
Kari Jordan	6/9	7/9		3/3	3/3		32,000	10,500	42,500
Mikko Mäenpää	8/9	8/9	2/2	3/3	1/3		32,000	12,300	44,300
<b>Members</b>									
Riku Aalto	8/9					1/1	18,000	5,400	23,400
Mikael Aro	8/9					1/1	18,000	5,400	23,400
Johanna Ikäheimo	8/9				1/3	1/1	18,000	6,000	24,000
Ari Kaperi	8/9					1/1	18,000	5,400	23,400
Lasse Laatumen	8/9				2/3		18,000	6,000	24,000
Karsten Slotte	9/9		1/2			1/1	18,000	6,600	24,600
Kari Stadigh	9/9				1/3	1/1	18,000	6,600	24,600
Kai Telanne	8/9		2/2			1/1	18,000	6,600	24,600
Veli-Matti Töyrylä	9/9			3/3	3/3	1/1	18,000	8,700	26,700
<b>Deputy members</b>									
Mikko Ketonen	8/9						13,000	4,800	17,800
Arto Kuusiola	8/9					1/1	13,000	5,400	18,400
Liisa Leino	7/9					1/1	13,000	4,800	17,800

# Remuneration scheme for the President and CEO and members of the Executive Group

## Remuneration and other benefits of the President and CEO

The Board of Directors appoints the President and CEO and decides on the terms of his/her employment relationship.

The remuneration and fringe benefits of President and CEO Matti Vuoria for his work as CEO in 2013 totalled EUR 739,684, of which EUR 103,968 is the bonus, or performance pay, for 2012, and EUR 77,802 is the performance pay for the long-term incentive scheme for 2010–2012. The President and CEO does not have a company flat. The value of the President and CEO's unlimited company car benefit is EUR 1,635/month and his mobile phone benefit EUR 20/month. The tax value of these fringe benefits is included in the members' salaries. The annual bonus of the President and CEO is based on the percentage of achievement of the profit targets set by the Board of Directors. The maximum bonus for 2012 determined for Mr Vuoria by the Board of Directors was a sum corresponding to the monthly salary of 8 months. Of that amount, he was paid EUR 103,968, which corresponds to the achievement of the profit targets, in the spring of 2013.

President and CEO Vuoria was included in the long-term incentive scheme described above in Decision-making procedure and remuneration principles; the maximum remuneration of the scheme corresponds to his monthly salary of 4 months during the incentive periods of both 2010–2012 and 2011–2013. In the spring of 2013 Vuoria was paid a bonus of EUR 77,802.72, corresponding to his achieved targets for the incentive period 2010–2012.

In the annual bonus scheme the maximum remuneration for the President and CEO for 2013 corresponds to the sum of ten months' monthly salary, taking into consideration the incentive coefficient, which is based on the investment result. Any annual bonus for 2013 will be paid in 2014 and any bonus corresponding to the achieved targets for the long-term incentive scheme for 2011–2013 will be paid in 2014.

It has been agreed that Mr. Vuoria will retire on an old-age pension when he turns 63 in March 2014. The pension benefit under the supplementary pension insurance taken out for the CEO is 60 per cent of the pensionable salary of the supplementary pension, which is based on the annual earnings of the two middle years in the course of the last four years prior to turning 60. Since Vuoria turned 60, Varma has not paid supplementary pension contributions on his salary – only statutory TyEL contributions.

The President and CEO has a period of notice of six months in addition to which he is entitled to severance pay equalling six months' salary.

In 2013, the deputy to the CEO was Risto Murto, Executive Vice-President of Investments. His remuneration and fringe benefits in 2013 totalled EUR 308,327, which includes performance pay of EUR 48,000 for 2012 under the separate scheme for Investment Operations; in addition, in 2015 he will be due to receive EUR 123,630 as a deferred bonus under this system. Under the separate scheme for Investment Operations for 2013, Murto's maximum bonus is no more than 14 months' worth of salary. The separate scheme for Investment Operations is described above, in section 1.3.2. Murto has not been included in Varma's annual bonus scheme or in the long-term incentive scheme. The deputy to the CEO

does not have a company flat, nor does he have a company car. He has a mobile phone benefit of EUR 20/month.

On 22 August 2013, the Board of Directors appointed Risto Murto as Varma's President and CEO starting on 1 January 2014. His fixed monthly salary for 2014 will be EUR 43,000. Murto will be included in Varma's annual bonus scheme and long-term incentive scheme, and in 2014 he will no longer be part of the separate scheme for Investment Operations. For 2014, the maximum annual bonus and maximum bonus to be paid under the long-term incentive scheme paid to Murto cannot exceed 12 months' salary.

Along with his appointment as President and CEO, Murto's retirement age will rise from the current 62 to 63. His pension benefits under supplementary pension insurance will be 60 per cent of the pensionable salary of the supplementary pension. The costs for Murto's supplementary pension agreement amounted to EUR 79,516 in 2013.

Murto has a period of notice of six months, in addition to which he is entitled to severance pay equal to six months' salary.

## Remuneration and other benefits of the members of the Executive Group

The Board of Directors decides on the remuneration and other terms of employment of the members of the Executive Group.

Members of the Executive Group are covered by the performance-based schemes as described above in Decision-making procedure and remuneration principles.

In 2013, the salaries and fringe benefits of the members of the Executive Group, excluding the President and CEO and the Executive Vice-President, were EUR 1,416,210 and performance pay EUR 62,943 (for 2012) and EUR 108,119 (for the long-term incentive scheme for 2010–2012), totalling EUR 1,587,273. The members of Varma's Executive Group do not have a company flat. The members of the Executive Group have the option of an unlimited company car benefit. The members of the Executive Group have a mobile phone benefit. The tax value of these fringe benefits is included in the members' salaries.

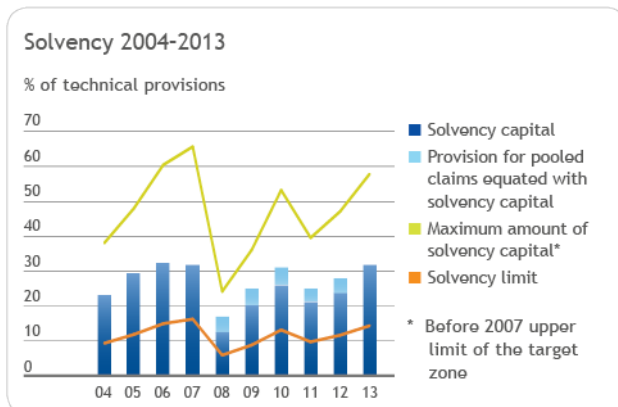
# Report of the Board of Directors and Financial Statements 2013

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# Report of the Board of Directors 2013

- The total result was EUR 1,558 (1,201) million, and the balance sheet total at fair value was EUR 38.3 billion (35.7 billion).
- Solvency remained the strongest in the sector, at EUR 9,140 (7,716) million or 31.6 (28.0) per cent of the technical provisions.
- The return on investment was 9.0 (7.7) per cent, and the market value of investments stood at EUR 37.7 (34.4) billion.
- The loading profit was EUR 32.0 (21.2) million.



# Economic operating environment

## Central banks' pro-active monetary policy supported the economy

The situation in the U.S. cast a brighter light on the 2013 economic year, and a clearer general picture of the global economy emerged. Economic problems in the eurozone also levelled out, but the crisis has not yet been overcome. The year was marked by the central banks' dynamic monetary policy interventions in the markets, and the consequent strong upswing, particularly in the stock markets of developed countries.

In the U.S., growth picked up towards the end of the year, bolstered especially by the increase in consumer spending, which was supported by the strengthening housing market and a decline in unemployment. The strengthening of the economy has increased the expectation that the Central Bank will begin to unwind its monetary policy stimulus. The U.S. Central Bank has announced it will continue with its measures: the monetary policy stimulus will continue for as long as is necessary. U.S. economic recovery has been slow compared to previous economic cycles.

## Europe seeks balance and anticipates strengthened recovery

In the eurozone, progress has been made in balancing public finances in troubled countries, and growth expectations have slightly improved. The strong euro presents a challenge to the competitiveness of many eurozone countries. Although signs of a pick-up in industrial production began to emerge towards the end of the year, simultaneous savings measures and a wage freeze could curtail consumer spending and impede inflation in the entire eurozone. The European Central Bank has announced that it is technically ready also for negative interest rates.

Capital markets showed strong development in 2013. The aggressive monetary policy in the U.S. propelled the securities markets to record figures. The financial markets are currently undergoing an unprecedented wave of regulation tightening and building. Increasing regulation will inevitably restrict lending and raise financing costs.

## No growth in Finland's economy

Finland's economic development in 2013 was very sluggish. Finland lags behind its peer countries in economic growth. Our exports recover after a delay, and we face considerable challenges in our business and trade structures and in our public finances. Industrial production figures and export volumes shrank during the year. The added value of our exports has diminished. Although unemployment is higher, considering the economic situation, it is still at a reasonable level. This is because as the population ages, growth in potential workforce slows. Weak growth and the changing age structure of the population are widening the sustainability gap in Finland's public finances. The significance of the earnings-related pension system is highlighted in closing the gap, since earnings-related pension assets are considered a part of the national economic accounts and pension legislation is reflected in the supply of workforce.

## Strong solvency is Varma's strategic choice

Varma's task is to invest pension assets profitably and securely. The financial crisis has hit pension systems and institutional investors worldwide. In the prevailing highly challenging and difficult-to-predict market situation, Varma's priority has been on fostering strong solvency. We strive for the best possible return on investments based on our chosen risk profile in order to secure the payment of pensions. Strong

solvency and pro-active and prudent diversification of investments are especially important in a demanding market situation.

In the short-term, the goal of extending careers and companies' financial requirements do not necessarily match. A number of Varma's client companies are also experiencing difficult transformations. Varma's strategic goal is to offer effective pension insurance services. The ability to understand customers' needs is highlighted during major economic shifts. Varma is a strong expert in handling earnings-related pensions and a preferred specialist partner in workability management. Varma's goal is to be the most efficient pension insurance company and to offer its customers the best client bonuses in the sector.

# Financing of the earnings-related pension system is on a stable foundation and benefits are well-secured

The labour market organisations have committed to negotiating the pension system reform such that it takes effect at the start of 2017. The pension reform is expected to extend careers by at least 1.5 years, which will fulfil the tripartite commitments that were previously made. The main strength of Finland's private-sector earnings-related pension system is its stable financing balance. As part of the Pact for Employment and Growth, the main labour and employer confederations upheld the previously agreed pension contribution increases, which will raise the average pension contribution to 24.4 per cent in 2016.

At the start of 2013, international experts released their findings on the state and development needs of Finland's statutory earnings-related pension system. The pension scheme received a very positive evaluation. Among the particular strengths of the Finnish pension system are the cover provided by the statutory system, a consensual approach to decision-making, and a commitment to securing stable and long-term sufficiency of funding.

A strong earnings-related pension scheme creates stability for the economy and for society, since the responsibility for pensions extends well into the future. A sustainable pension system must be based on longer careers, general confidence in the pension scheme, fair division of resources between generations, and improving well-being at work. Remaining in working life longer and the funding of pensions will help the Finnish economy endure the change in the age structure.

Major projects are under way to renew the regulation of the pension sector. The preparation of proposals concerning the development of solvency regulations, defining the regulation concerning the governance of earnings-related pension companies, promoting competition in the pension sector, and regulation supporting workability management will continue in 2014.

Varma, for its part, strives to reinforce the pension system and secure pensions through highly successful investment operations, by improving the cost-effectiveness of its operations, and by offering effective earnings-related pension insurance services that support the insured and policyholders in extending careers.

In 2013, the average TyEL contribution was 22.8 (22.8) per cent of the salaries and wages. Employees below the age of 53 contributed 5.15 (5.15) per cent of their pay, while the rate for employees aged 53 and over was 6.50 (6.50) per cent. The YEL contribution was 22.50 (22.50) per cent of the confirmed earnings for those below the age of 53, and 23.85 (23.85) per cent for those aged 53 and over. Earnings-related pension contributions will increase in a frontloaded manner between 2012 and 2016 by a total of 2.0 percentage points to 24.4 per cent. The increase is divided equally between employer and employee.

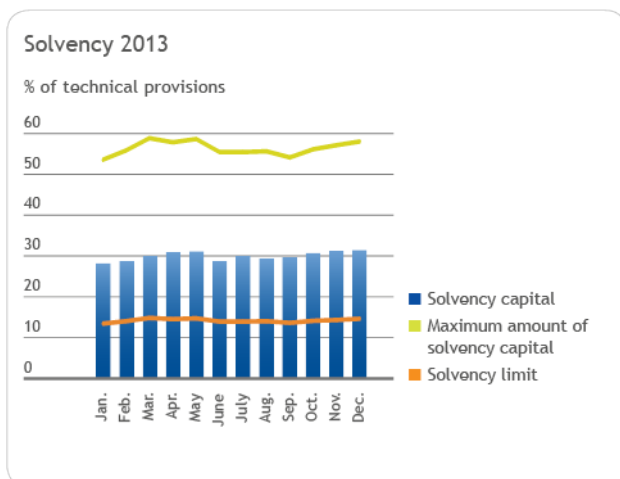
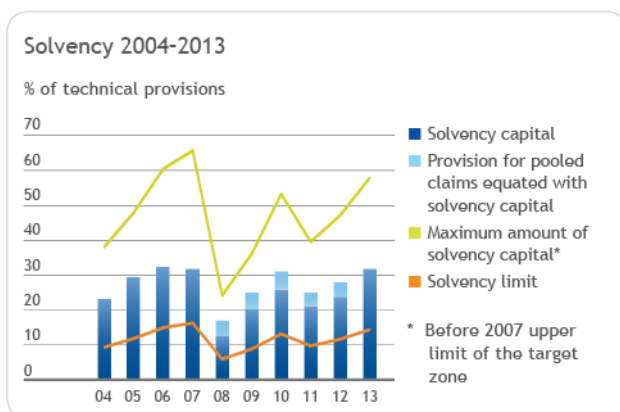
The return requirement on technical provisions consisted of a 3.0 (3.0) per cent fund rate, a pension liability supplementary factor and the return on equity component. The value of the supplementary factor was 0.94 per cent on average in 2013. The return on equity component in 2013 was 19.92 per cent. The technical interest rate, used to determine the interest rate of the oldest premium loans, insurance contributions and other items, was 4.0 per cent until the end of June, and 4.75 thereafter.

# Varma's financial trends

Varma's total result at fair value stood at EUR 1,558 (1,201) million. The total quarterly result varied during the financial year, such that the first-quarter result was the strongest and the second-quarter result the weakest. Varma's financial performance in the second half of the year was good.

Solvency regulations changed at the beginning of 2013. The change did not affect Varma's solvency position.

Varma's solvency strengthened during 2013 by EUR 1,424 million, and at the end of the year, solvency capital amounted to EUR 9,140 (7,716) million. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, is the highest among the main earnings-related pension companies, at 31.6 (28.0) per cent. Solvency capital was at a strong level: 2.2 (2.4) times higher than the solvency limit. The solvency limit is changed in accordance with the risk level of the investments. Varma's strategic goal is to maintain the company's strong solvency through stable returns and operational efficiency.



The return on investments was EUR 3,160 (2,492) million at fair value, which was 9.0 (7.7) per cent of the invested capital. The interest credited on the technical provisions was EUR 1,648 (1,303) million. Thus, the investment result for 2013 totalled EUR 1,512 (1,189) million. The average annual nominal return on Varma's investments over five years was 7.8 per cent, and over ten years 5.6 per cent. Operating expenses were 24 (16) per cent lower than the expense loading included in insurance contributions, and the loading profit stood at EUR 32 (21) million. The underwriting result was EUR 15 (-9) million.

At the end of 2013, EUR 105 (78) million was transferred to the provision for current bonuses for client bonuses. The transfer represents roughly 0.6 (0.4) per cent of the estimated payroll of the insured.

The TyEL payroll of those insured by Varma totalled about EUR 17.8 (17.7) billion in 2013. The payroll is estimated to have stayed at the same level as the actual 2012 figure. Varma's premiums written totalled EUR 4,258 (4,230) million, of which TyEL insurance accounted for EUR 4,071 (4,041) million and YEL insurance for EUR 187 (190) million.

At the end of the year, 531,210 (539,740) individuals were insured by Varma. The number of valid insurance policies totalled 66,740 (68,900), covering 39,810 (41,280) self-employed persons and 491,400 (498,500) employees.

During the year, a total of 3,796 (3,881) new TyEL insurance policies and 5,340 (5,782) YEL insurance policies came into force at Varma.

Earnings and employment notifications received during the year totalled 1,483,634 (1,476,812), of which 92 (90) per cent were received electronically.

Varma observes good insurance principles. All business transactions with policyholders are on market terms. Particular attention is paid to transactions covering the financing of a policyholder's operations, real estate and other transactions, and leases. At Varma, business transactions related to pension insurance or investments are carried out independently. When acquiring new assets in connection with client transfers, Varma is mindful not to infringe on the previous insurance portfolio.

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

In 2013, a total of EUR 4,490 (4,222) million in pensions was paid out. The number of pension recipients increased, and at year-end, Varma was paying TyEL and YEL pensions to 333,762 (331,383) people.

A total of 23,937 (22,031) new pension decisions were made during the year. The number of new pension decisions increased 8.7 per cent and the total number of all pension decisions was 3.1 per cent higher than in 2012. Old-age pension decisions numbered 11,514 (10,229), and 5,461 (5,457) disability pension decisions were made. Part-time pension decisions increased and stood at 1,052 (842). Continuation decisions on temporary pensions totalled 5,871 (5,653), and other decisions numbered 13,131 (13,960). These were decisions required as a consequence of the changes in pension rights.

Vocational rehabilitation is an alternative to disability pension, and the number of rehabilitation cases at Varma increased again. Rehabilitation has proven to be successful, as currently roughly 72 per cent of those who receive Varma's rehabilitation return to the job market either in full or partly. Varma has for years been a forerunner in vocational rehabilitation. Throughout 2013 Varma assisted its client companies in managing personnel risks through client-oriented co-ordination of well-being-at-work services, rehabilitation services and pension-decision services in order to support the management of pension costs and longer careers. Varma also contributed to the costs of customers' workability management projects in accordance with jointly agreed and often multi-year plans and contracts.

	31 Dec. 2013	31 Dec. 2012	Change
<b>Number of insured</b>			
TyEL <sup>1</sup>	<b>491,400</b>	498,460	-7,060
YEL	<b>39,810</b>	41,280	-1,470
<b>Total</b>	<b>531,210</b>	539,740	-8,530
 <sup>1</sup> of which covered by TEL registered supplementary pension insurance	 <b>4,928</b>	 5,545	 -617
<b>Number of insurance policies</b>			
TyEL	<b>26,930</b>	27,620	-460
<b>Number of pensioners</b>			
Part-time pension	<b>3,320</b>	3,986	-666
Survivors' pension	<b>51,427</b>	51,487	-60
Disability pension	<b>33,324</b>	36,195	-2,871
Unemployment pension	<b>38</b>	408	-370
Old-age pension	<b>230,249</b>	223,999	6,250
Early old-age pension	<b>15,404</b>	15,308	96
<b>Total <sup>2</sup></b>	<b>333,762</b>	331,383	2,379
 <sup>2</sup> Those receiving YEL pension	 <b>29,153</b>	 28,969	 184
Those receiving TEL/YEL supplementary pension	<b>43,286</b>	42,797	489

Varma's customer service has seen a considerable increase in the use of the company's online services. During the year under review, 74.5 per cent of all private customer contacts took place online. Pension recipients are able to update their address and account number information themselves by logging in using their Finnish personal banking codes. Through Varma's eServices, the insured can obtain the most recent estimate of their old-age and part-time pensions at various retirement ages, apply for a pension, and follow the progress of the application.

Varma sends a pension record to the insured once every three years. 235,287 (574,149) such pension records were sent out in 2013. The record shows information on earnings that apply to pension as well as the pension that has accrued until the end of the preceding year. The pension record is also available in electronic form via Varma's eServices.

# Technical provisions

Varma's technical provisions grew 5.5 (2.7) per cent to EUR 31,399 (29,767) million. They contain a provision of EUR 106 (79) million for current bonuses reserved for client bonuses, a provision of EUR 1,301 (1,073) million for future bonuses contained in the solvency capital, and EUR 720 (190) million in an equity-linked provision for current and future bonuses, which transfers part of the equity returns of the earnings-related pension system to create a buffer. The equalisation provision amounted to EUR 1,118 (1,108) million.

At the end of the year, the assets covering the technical provisions were 121 (118) per cent of the technical provisions.

# Investments

At the end of 2013, the value of Varma's investments totalled EUR 37,718 (34,406) million and the return at fair value was EUR 3,160 (2,492) million or 9.0 (7.7) per cent. All asset classes yielded a positive return. The average nominal return over the last five years was 7.8 per cent. The value and returns of the investments are grouped according to risk in this report. The Notes show the breakdown of investments and their returns by investment category, grouped according to regulations and according to risk.

The focus of Varma's investment activities was on active risk management, and the security of investments was emphasised. The key target was to secure a strong solvency position. During the year, Varma reduced the share of its fixed-income investments and increased the share of equities and other investments in its portfolio. In its investment risk management, the company used derivatives for hedging purposes and in controlling the risk level of the portfolio.

Varma's fixed income investments stood at EUR 10,624 (10,666) million at the balance sheet date and were distributed as follows:

- loan receivables EUR 2,026 (2,441) million
- public-sector bonds EUR 3,869 (4,052) million
- other corporate bonds EUR 5,363 (5,347) million
- other money-market instruments -635 (-1,175) million; the impact of derivatives, EUR 1,878 (1,910) million, is presented separately.

The return on fixed-income investments was 1.2 (4.4) per cent. The return on the loan portfolio was 3.3 (3.2), public-sector bonds -1.8 (3.6), other corporate bonds 3.0 (8.1) and other money-market instruments -0.4 (0.7) per cent.

In a low interest rate environment, the return on Varma's fixed-income investments was divided. Considering the prevailing interest rate level, the return on the loan portfolio and on corporate bonds was good. The returns on government bonds were burdened by sticking to bonds with the best credit rating and by the increase in long-term interest rates during the year.

At the balance sheet date, the value of Varma's equity investments was EUR 14,756 (11,727) million. Listed equities stood at EUR 11,579 (8,567) million, private equities at 2,175 (2,394) million and unlisted equities at EUR 1,002 (766) million. The return on Varma's equity investments was 21.8 (14.5) per cent. Listed equities yielded a return of 23.7 (14.9) per cent, private equities 12.1 (13.0) per cent, and unlisted equities 26.7 (15.5) per cent.

Equity investments performed the best of all asset classes. The return trend of listed equities was very good, with companies distributing high dividends and share prices rising substantially during the year. Finnish equities had the highest returns in Varma's portfolio, and U.S. equities showed a similar increase in value.

Private equities and unlisted equities also generated good returns. Of Varma's private equity investments, close to half are invested in the U.S., and the rest mainly in Europe and the Nordic countries. Private equity and unlisted equities represent a long-term asset class in Varma's portfolio, and their long-term return has been very good.

Real-estate investments stood at EUR 4,304 (4,463) million at the balance sheet date, with direct real estate investments accounting for EUR 3,739 (3,961) and real estate investment funds for EUR 565 (503)

million of the total. The return on real estate investments was 3.1 (4.5) per cent. Direct real-estate investments yielded a return of 2.0 (4.6) per cent and real-estate investment funds 11.6 (3.1) per cent.

The volume of Finland's real estate trade remained at a low level in the first half of 2013. However, new real estate funds specialised in residential and care properties actively added to their portfolios. The markets picked up towards the end of the year, however, and the volume of real estate trade grew significantly as a result of several commercial real estate transactions. Varma made EUR 84 million worth of new real estate investments, and had 230 new rental flats under construction in the Helsinki area in 2013. In terms of business premises, Varma shifted its focus from new construction to developing office premises and to maintenance construction and renovations. The change in fair value of Varma's directly owned real-estate holdings totalled EUR -131 million.

Other investments amounted to EUR 6,157 (5,640) million. These consisted of hedge funds EUR 4,850 (3,779) million, commodities EUR 201 (289) million, and other investments EUR 1,106 (1,571) million. The return on other investments was 4.5 (6.0) per cent.

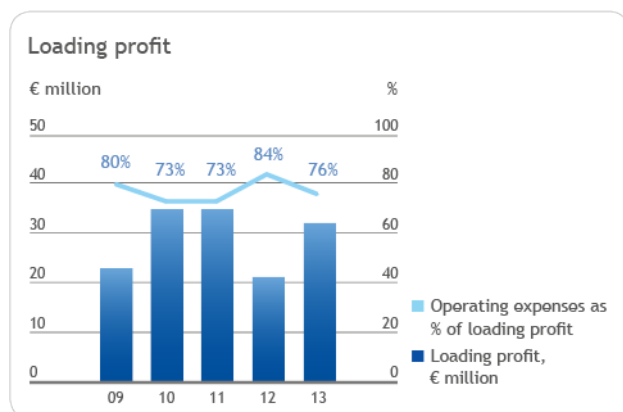
It was a successful year for hedge funds, and Varma's hedge-fund investments generated a return of 8.8 per cent. They performed consistently, with only minor fluctuations during the financial period. The return on inflation-linked investments was affected by the rise in real interest rates and by the slow-down in the inflation rate. The other investments asset class provided, on the whole, return and diversification benefits at a low risk level during the year.

The market risk of investments constitutes the greatest risk affecting the company's result and solvency. Equities constituted by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 1,118 (1,076) million. The figure represents the maximum fall in the market value of the company's investment portfolio in normal conditions over a period of one month with a probability of 97.5 per cent.

The central principles in Varma's ownership policy are high-quality governance in the companies in which it has a holding, transparency of operations, active engagement, and the monitoring of incentive schemes for key personnel. In 2013, Varma actively participated in the Annual General Meetings of the domestic companies in which it owned shares and in the work of companies' Shareholders' Nomination Boards. Varma's website contains a list of the company's memberships on the Nomination Boards of listed companies.

# Operating expenses

Varma used 76 (84) per cent of the expense loading, included in the insurance contributions, to cover operating expenses. Control of IT system expenses, in particular, improved Varma's operating expense efficiency compared to the previous year. Good operational efficiency benefits Varma's customers by means of client bonuses. Varma's goal is to manage the assets of both present and future pensioners as efficiently as possible.



In addition to economies of scale, increasing efficiency also requires continuous control of human resources and, in particular, IT system expenses, as these account for most of Varma's operating expenses. Overall operating expenses decreased on the previous year, totalling EUR 143 (149) million.

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

# Personnel

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

		2013	2012	2011	2010	2009
Average number of personnel	Parent					
	Company	<b>565</b>	572	588	601	615
Salaries and remunerations, EUR million	Parent					
	Company	<b>37.9</b>	37.0	39.5	36.9	34.3

Tieto Esys, which is included in the Consolidated Financial Statements using the equity method, had an average of 88 employees in 2013.

At the end of the year, Varma's personnel were distributed as follows: pension insurance and customer service departments 63 per cent, investment operations 12 per cent, and other functions 25 per cent.

# Group companies and associates

At the end of 2013, the Varma Group comprised 205 (226) subsidiaries and 22 (21) associates. The most important subsidiaries and associates are Tieto Esy Ltd (50.1 per cent), Garantia Insurance Company Ltd (30.5 per cent), SATO Corporation (45.7 per cent), Technopolis Plc (24.0 per cent) and NV Kiinteistösi joitus Oy (45 per cent). The Varma Group also owns 50 per cent of the guarantee capital of Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

# Corporate Governance

At Varma's Annual General Meeting, policyholders have about 78 per cent, the insured about 20 per cent, and the Sampo Group (the owner of the guarantee capital) about two per cent of the votes.

The Annual General Meeting held on 21 March 2013 elected Petri Castrén, Lauri Peltola, Juhani Pitkääkoski, Arja Talma, Leena Vainiomäki and Satu Wrede as new members of Varma's Supervisory Board.

Continuing as Supervisory Board members were: Juri Aaltonen, Martti Alakoski, Berndt Brunow, Erkki Etola, Stig Gustavson, Tauno Heinola, Tapio Korpeinen, Tapio Kuula, Päivi Kärkkäinen, Olli Luukkainen, Ilkka Nokelainen, Jari Paasikivi, Hannu Penttilä, Pertti Saarela, Kari Sairo, Mika Seitovirta, Saana Siekkinen, Antti Sippola, Jorma J. Takanen, Kari Virta, Anssi Vuorio and Göran Åberg.

At the Supervisory Board Meeting, Tapio Kuula was elected Chairman and Martti Alakoski was elected Vice-Chairman.

At the Annual General Meeting, Raija-Leena Hankonen, Authorised Public Accountant, and Petri Kettunen, Authorised Public Accountant, were elected as Varma's auditors, and Paula Pasanen, Authorised Public Accountant, and KPMG Oy Ab as deputy auditors.

In its meeting on 3 December 2013, the Supervisory Board re-elected to the Board of Directors the following members, whose terms were expiring: Johanna Ikäheimo, Kari Jordan and Veli-Matti Töyrylä. The new members elected were Petri Niemisvirta, Jari Paasikivi and Antti Palola. The Board of Directors was chaired by Sakari Tamminen, with Kari Jordan and Mikko Mäenpää acting as Deputy Chairmen.

On 22 August 2013, Varma's Board of Directors appointed Risto Murto (PhD Econ.) President and CEO, effective 1 January 2014. On 9 October 2013, the Board named Reima Rytsölä (M.Soc.Sci) as the company's Chief Investment Officer, effective 1 January 2014.

At its organising meeting on 31 January 2014, Varma's Board of Directors elected Kari Jordan as Chairman, and Jari Paasikivi and Antti Palola as Vice-Chairmen of the Board.

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

# Capital and reserves

Varma has 71 guarantee capital shares, which are held by Sampo Plc and Mandatum Life Insurance Company Limited. Under the Articles of Association, an interest approved by the Annual General Meeting is paid to the guarantee capital of EUR 11,941,342.78 each year. The maximum rate is the technical interest rate applied to the insurance provided in accordance with the legislation on employee pensions plus one percentage point. A guarantee capital share gives the holder 420 votes in the Annual General Meeting.

# Risk management

The risks related to Varma's result and solvency are primarily affected by the result of investment activities. The most important operative risk concerns IT systems, which have a key role particularly in the processing of pensions and insurances within a mainframe environment and in the networked operating environment of the pension system.

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

Varma's investment plan determines, among other things, the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising foreign currency business. The Board of Directors assesses the risks in Varma's investments with respect to changes in value, expected returns, security, and the foreign currency business, and the company's risk-bearing capacity in the area of investments, including the development of the company's solvency position. The basic allocation laid down in the investment plan also lays down the basic level for the total portfolio risk. Deviations from the basic allocation are allowed within defined limits. The maximum risk level is measured so that even after a 25 per cent drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Risks are managed by, for example, diversifying investments by asset class and item, by analysing the investment portfolio and items, by avoiding risk concentrations, by securing guarantee policy, through careful valuation practice, by using derivatives, and by applying a supervision and follow-up system.

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

# Outlook

The global economy has begun to recover. The balancing of economic problems in the eurozone will create room for growth. Industrial production began to show increasing signs of improved growth in the eurozone towards the end of the year. For many countries, however, the strong euro will put pressure on the price competitiveness for some time to come.

There are many challenges to be solved in Finland's economy, despite the positive effect the upswing in global demand is expected to have on our economy in 2014. Economic forecasts covering the next few months remain sluggish. As a result of long-term developments, our business and trade structures have changed, and the added value of our exports has diminished. Finland needs new sources of growth.

The capital markets have enjoyed strong growth in Finland, particularly when considered in relation to the situation in the real economy. This is indicative of investors' confidence in the solid future profitability of Finnish companies. Changes in central banks' monetary policy could upset the markets. Assessments of the effects stricter monetary policy would have on capital markets are partly contradictory; success in the timing and scope of actions will, however, be crucial.

The private sector earnings-related pension system is on a stable financial footing, and it offers the insured consistent defined-benefit pensions. Varma aims to be a forerunner in earnings-related pensions as well as a reliable partner to its clients in earnings-related pension insurance. Varma highlights pension companies' responsibility for professionally handling investment risk management and supports the sector's efficiency and transparency and the prerequisites for competition. Earnings-related pension insurance companies must handle the task set out for them as efficiently as possible for current and future pension recipients.

# Income statement

1 Jan–31 Dec, € million	Notes	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
<b>Technical account</b>					
Premiums written	1	4,258.0	4,230.7	4,258.0	4,230.7
Investment income	3	3,815.6	3,435.7	3,780.0	3,404.2
Claims incurred					
Claims paid	2	-4,489.6	-4,222.4	-4,489.6	-4,222.4
Total change in provision for claims outstanding		-855.0	-630.1	-855.0	-630.1
		-5,344.6	-4,852.4	-5,344.6	-4,852.4
Change in provision for unearned premiums					
Total change		-777.5	-171.0	-777.5	-171.0
		-777.5	-171.0	-777.5	-171.0
Operating expenses	4	-75.6	-72.0	-75.6	-72.0
Investment expenses	3	-1,864.8	-2,562.2	-1,849.2	-2,553.0
<b>Balance on technical account</b>		<b>11.0</b>	<b>8.8</b>	<b>-9.0</b>	<b>-13.6</b>
<b>Non-technical account</b>					
Balance on technical account		11.0	8.8	-9.0	-13.6
Share of associated companies' profit				38.4	18.9
Income taxes on ordinary activities					
Taxes for the financial year		-5.8	-4.4	-5.8	-4.4
<b>Profit on ordinary activities after taxes</b>		<b>5.2</b>	<b>4.3</b>	<b>23.6</b>	<b>0.9</b>
Minority interest in the result for the financial year				0.0	0.0
<b>Profit for the financial year</b>		<b>5.2</b>	<b>4.3</b>	<b>23.6</b>	<b>0.9</b>

# Balance sheet

31 Dec, € million	Notes	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
<b>ASSETS</b>					
<b>Intangible assets</b>					
Other expenses with long-term effects	<u>17</u>	<b>22.1</b>	32.1	<b>22.1</b>	32.1
<b>Investments</b>					
Real-estate					
Real estate and real estate shares	<u>14</u>	<b>2,017.8</b>	2,126.1	<b>2,872.8</b>	3,065.2
Loans to Group companies	<u>14</u>	<b>949.3</b>	1,029.6		
		<b>2,967.1</b>	3,155.7	<b>2,872.8</b>	3,065.2
Investments in Group companies					
Shares and participations in Group companies	<u>12</u> <u>13</u>	<b>4.3</b>	4.3	<b>0.8</b>	0.7
Shares and participations in associates	<u>12</u> <u>13</u>	<b>248.5</b>	185.5	<b>301.1</b>	217.3
		<b>252.7</b>	189.7	<b>301.9</b>	218.0
Other investments					
Shares and participations	<u>16</u>	<b>15,374.6</b>	12,547.4	<b>15,390.7</b>	12,562.5
Money-market instruments		<b>9,911.5</b>	10,277.2	<b>9,911.5</b>	10,277.2
Loans guaranteed by mortgages		<b>362.6</b>	439.5	<b>362.6</b>	439.5
Other loan receivables	<u>18</u>	<b>1,599.7</b>	1,935.8	<b>1,599.7</b>	1,935.8
		<b>27,248.3</b>	25,199.9	<b>27,264.5</b>	25,214.9
		<b>30,468.2</b>	28,545.3	<b>30,439.1</b>	28,498.1
<b>Receivables</b>					
Direct insurance operations					
Policyholders		<b>179.6</b>	153.1	<b>179.6</b>	153.1
Other receivables					
Other receivables		<b>396.7</b>	630.5	<b>412.7</b>	632.9
		<b>576.3</b>	783.6	<b>592.3</b>	786.1
<b>Other assets</b>					
Tangible assets					
Equipment	<u>17</u>	<b>2.7</b>	3.4	<b>2.7</b>	3.4
Other tangible assets	<u>17</u>	<b>0.9</b>	0.9	<b>0.9</b>	0.9
		<b>3.6</b>	4.3	<b>3.6</b>	4.3
Cash at bank and in hand		<b>620.1</b>	717.9	<b>606.5</b>	717.9
		<b>623.7</b>	722.2	<b>610.1</b>	722.2
<b>Prepayments and accrued income</b>					
Accrued interest and rent		<b>140.4</b>	157.5	<b>141.4</b>	158.6
Other prepayments and accrued income		<b>20.7</b>	21.1	<b>20.9</b>	21.2
		<b>161.2</b>	178.5	<b>162.3</b>	179.8
<b>TOTAL ASSETS</b>		<b>31,851.4</b>	30,261.8	<b>31,825.9</b>	30,218.3

31 Dec, € million	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
<b>LIABILITIES</b>				
<b>Capital and reserves</b>				
Guarantee capital	11.9	11.9	11.9	11.9
Other reserves	84.5	80.8	84.5	80.8
Profit/loss brought forward	0.4	0.3	-53.7	-50.2
Profit for the financial year	5.2	4.3	23.6	0.9
	<u>26</u>	97.4	66.4	43.4
<b>Minority interest</b>			14.1	14.1
<b>Technical provisions</b>				
Provision for unearned premiums	<u>23</u>	16,250.5	17,028.0	16,250.5
Provision for claims outstanding	<u>23</u>	13,516.2	14,371.2	13,516.2
		29,766.6	31,399.1	29,766.6
<b>Liabilities</b>				
Direct insurance operations	9.9	8.3	9.9	8.3
Other liabilities	321.1	369.3	316.8	365.7
	331.0	377.6	326.7	374.0
<b>Accruals and deferred income</b>				
	19.3	20.1	19.5	20.2
<b>TOTAL LIABILITIES</b>	<b>31,851.4</b>	30,261.8	<b>31,825.9</b>	30,218.3

# Statement of source and application of funds

1 Jan–31 Dec, € million	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
<b>Cash flow from operations</b>				
Gain/loss on ordinary activities	11.0	8.8	-9.0	-13.6
Adjustments				
Changes in technical provisions	1,632.5	801.1	1,632.5	801.1
Impairments and revaluations on investments	309.1	163.6	254.1	158.5
Depreciation according to plan	27.3	28.2	158.9	119.2
Capital gain and loss	-930.3	-439.4	-932.2	-438.9
Cash flow before change in working capital	1,049.6	562.3	1,104.3	626.3
Change in working capital:				
Increase (-)/decrease (+) in non-interest-bearing short-term receivables	224.7	-259.6	211.3	-258.9
Increase (-)/decrease (+) in non-interest-bearing short-term debts	-47.5	175.6	-48.0	180.1
Cash flow from operations before taxes	1,226.8	478.3	1,267.6	547.5
Direct taxes paid	-5.8	-4.4	-5.8	-4.4
<b>Cash flow from operations</b>	<b>1,221.0</b>	<b>473.8</b>	<b>1,261.8</b>	<b>543.0</b>
<b>Cash flow from investments</b>				
Net investments and proceeds from asset sales	-1,319.8	-366.4	-1,374.2	-435.7
Investments and gains on intangible, tangible and other assets	1.6	0.6	1.6	0.6
<b>Cash flow from investments</b>	<b>-1,318.2</b>	<b>-365.8</b>	<b>-1,372.7</b>	<b>-435.1</b>
<b>Cash flow from financing</b>				
Interest paid on guarantee capital and other profit distribution	-0.6	-0.7	-0.6	-0.7
<b>Cash flow from financing</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.6</b>	<b>-0.7</b>
<b>Change in financial resources</b>	<b>-97.8</b>	<b>107.3</b>	<b>-111.5</b>	<b>107.2</b>
<b>Financial resources, 1 Jan.</b>	<b>717.9</b>	<b>610.6</b>	<b>717.9</b>	<b>610.7</b>
<b>Financial resources, 31 Dec.</b>	<b>620.1</b>	<b>717.9</b>	<b>606.5</b>	<b>717.9</b>

# Notes to the financial statements

## Accounting principles

The financial statements are prepared in accordance with the Finnish Accounting Act, Companies Act, Insurance Companies Act, Employee Pension Insurance Companies Act and the Act on calculating the solvency limit and covering technical provisions in pension institutions. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations and guidelines of the Financial Supervisory Authority are complied with.

## Consolidated Financial Statements

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

On the closing date, the parent company has 203 (224) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the Notes to the Annual Accounts.

The consolidated financial statements are compiled as combinations of the income statement, balance sheets and notes. When the Consolidated Financial Statements are compiled, intra-group income and charges, profit distribution, amounts due to or from Group companies and cross-shareholdings are eliminated. However, Tieto Esy Ltd, in which Varma has a 14.4% shareholding but holds over 50% of the votes from all the shares, is consolidated using the equity method. Subsidiaries acquired during the year are consolidated from the moment of acquisition. Subsidiaries divested during the year are consolidated until the moment of divestment. The minority interest in the result and in capital and reserves are shown under their own separate heading.

Intra-group cross-shareholdings are eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items proportional to their fair values, and depreciated in accordance with the depreciation plans of these asset items. Revaluations on Group companies' shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

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

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

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

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

## Book value of investments

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

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value.

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

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

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

## Premium receivables and other receivables

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

## Derivative contracts

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value is entered in the income statement for the hedged balance sheet item, no entry is recorded in the income statement for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. If a value readjustment is entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. Resulting income and expenses are entered as adjustments in value adjustments and readjustments.

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

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

## Depreciation according to plan

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

Residential, office and business premises, hotels	40–60 yrs
Industrial premises and warehouses	25–50 yrs
Components in buildings	10 yrs
Equipment	7–10 yrs
Computer hardware	3 yrs
Transport equipment	5 yrs
Other expenses with long-term effects	5–10 yrs

## Fair values of investments

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

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

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

The fair value of other shares and participations is the purchase price or the net realisable value or the net asset value.

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

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

## Fair values of derivative contracts, and related liabilities and guarantees

The method for determining the fair values of derivative contracts, the liabilities and the collateral received and given to cover the clearing of derivative transactions are presented in the notes to the financial statement under Contingent liabilities and liabilities not included in the balance sheet.

## Loaned securities

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

## Profit for the year, and capital and reserves

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

## Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. It comprises capital and reserves, accumulated appropriations, valuation differences and the provision for future bonuses.

Since the beginning of 2013 solvency capital also includes the equalisation provision. Solvency requirements were also amended.

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

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

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

## Taxes

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

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

## Foreign-currency-denominated investments

Foreign-currency-denominated investments are entered at the lower of rate on the date of transaction or rate at the balance sheet date, in such a way, however, that also the effect of the change on the investment's market price is taken into account in the valuation. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand and deposits and items that cannot be entered as adjustments to income and expenses are entered under investment income and charges. When calculating fair values, the European Central Bank average rates quoted on 31 December are used.

## Operating expenses and depreciation by function

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

## Pension plans and remuneration statement

Statutory pension coverage for personnel is arranged through TyEL insurance and supplemented by voluntary pension insurances. The pension plans of the President and CEO and his deputy are explained in the notes to the financial statements (Note 7). A salary and remuneration statement in accordance with the Financial Supervisory Authority's recommendation has been published on Varma's website and in the Annual Report.

## Balance sheet and income statement at fair values

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

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses and valuation differences of investments. The equalisation provision is also included in solvency capital. The provision for current bonuses reserved for the payment of client bonuses and equity-linked provision for current/future bonuses are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision. The company's operating expenses have been combined into one line in the income statement.

### Investments classified according to risk

The notes to the financial statements report investments and their returns classified according to risk. The stipulations of the Financial Supervisory Authority concerning the calculation of the financial key figures are also used in the calculation of the return percentages. The method is described in the section Key figures and analyses.

### Key figures and analyses

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

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

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

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

## Group companies 31 Dec. 2013

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

As Oy Kuokkalan Tahkonkartano  
As Oy Lahden Vilhon Vaakuna  
As. Oy Espoon Amiraali  
As. Oy Espoon Kyyhkysmäki 14  
As. Oy Näkinkuja 4  
Asunto Oy Helsingin Arabiankatu 2  
Asunto Oy Espoon Keijumäki  
Asunto Oy Espoon Kilonlemmikki  
Asunto Oy Espoon Lintuvaarantie 37-39  
Asunto Oy Espoon Pyölinpuisto  
Asunto Oy Haukikoto  
Asunto Oy Helsingin Haukilahdenkuja 13  
Asunto Oy Helsingin Hiihtäjätien Huippu  
Asunto Oy Helsingin Hiihtäjätien Kaarre  
Asunto Oy Helsingin Hiihtäjätien Laakso  
Asunto Oy Helsingin Kimmontie 3  
Asunto Oy Helsingin Klaneettitie  
Asunto Oy Helsingin Näyttelijäntie 22  
Asunto Oy Helsingin Päijänteentie 4-6  
Asunto Oy Helsingin Roihuvuorentie 20  
Asunto Oy Helsingin Roihuvuorentie 30  
Asunto Oy Helsingin Tyynenmerenkatu 5  
Asunto Oy Jyväskylän Kiramo 4  
Asunto Oy Järvenpään Bjarnenkuja 6  
Asunto Oy Kokkovuori  
Asunto Oy Korkeavuorenkatu 2 a  
Asunto Oy Lahden Kulmakatu 10  
Asunto Oy Lahden Kulmakatu 12  
Asunto Oy Lahden Lahdenkatu 39  
Asunto Oy Lahden Massinhovi  
Asunto Oy Lahden Massinpoiju  
Asunto Oy Merihauki  
Asunto Oy Neilikkatie  
Asunto Oy Oulun Lehmuskuja  
Asunto Oy Paatsamatie 3  
Asunto Oy Paratiisintie  
Asunto Oy Siltavoudintie 1  
Asunto Oy Tampereen Jankansampo  
Asunto Oy Tampereen Kultaköynnös  
Asunto Oy Tampereen Nahkakuja 13  
Asunto Oy Tampereen Nahkakuja 9  
Asunto Oy Tampereen Näsijärvenkatu 3  
Asunto Oy Tampereen Palatsinraitti 1  
Asunto Oy Tampereen Puuvillatehtaankatu 6  
Asunto Oy Tampereen Satakunnankatu 22  
Asunto Oy Tampereen Vihilahdenkontu  
Asunto Oy Tervahovinkatu 12  
Asunto Oy Turun Itäinen Rantakatu 64  
Asunto Oy Turun Itäinen Rantakatu 70  
Asunto Oy Turun Laivurinkatu 2  
Asunto Oy Turun Vilhonkatu 15

Asunto Oy Vantaan Käräjäkuja 1  
Asunto Oy Vantaan Vernissakatu 5  
Helsingin Kiinteistösisjoitus Oy  
Kiint. Oy Helsingin Tapulikaupungintie 13  
Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus  
Kiinteistö Oy Helsingin Lönnrotinkatu 18  
Kiinteistö Oy Ahertajantie 3  
Kiinteistö Oy Arabian Parkki  
Kiinteistö Oy Aspius  
Kiinteistö Oy Atomitalo  
Kiinteistö Oy Avia Prima  
Kiinteistö Oy Eerikinkatu 24  
Kiinteistö Oy Elocinkulma 3  
Kiinteistö Oy Espoon Kamreerintie 2  
Kiinteistö Oy Espoon Komentajan-Varma  
Kiinteistö Oy Espoon Niittyhaka  
Kiinteistö Oy Espoon Ruukinmestarintie 2  
Kiinteistö Oy Fredrikinkatu 42  
Kiinteistö Oy Gigahermia  
Kiinteistö Oy Haunistenniitty  
Kiinteistö Oy Heinolan Hevossaarentie 2  
Kiinteistö Oy Helsingin Hiilipiha  
Kiinteistö Oy Helsingin Hiiliranta  
Kiinteistö Oy Helsingin Itämerenkatu 11-13  
Kiinteistö Oy Helsingin Lemuntie 7  
Kiinteistö Oy Helsingin Malminkatu 28  
Kiinteistö Oy Helsingin Putkitie 3  
Kiinteistö Oy Helsingin Ratavartijankatu 5  
Kiinteistö Oy Helsingin Ristipellontie 16  
Kiinteistö Oy Helsingin Suolakivenkatu 1  
Kiinteistö Oy Helsingin Valimopolku 4  
Kiinteistö Oy Helsingin Valimotie 16  
Kiinteistö Oy Helsingin Valimotie 9-11  
Kiinteistö Oy Helsinki Niittyälänpolku 10  
Kiinteistö Oy Hotelli Levihovi  
Kiinteistö Oy Hotelli Torni  
Kiinteistö Oy Hyvinkään Hämeenkatu 9  
Kiinteistö Oy Hämeentie 135  
Kiinteistö Oy Ilmailunkatu 7  
Kiinteistö Oy Itäinen Rantakatu 60  
Kiinteistö Oy Itälahdenkatu 15-17  
Kiinteistö Oy Itälahdenkatu 22 A  
Kiinteistö Oy Joensuun Linjatie 2  
Kiinteistö Oy Joensuun Pilkontie 3  
Kiinteistö Oy John Stenberginranta 2  
Kiinteistö Oy Juhana Herttua 3  
Kiinteistö Oy Jyväskylän Kylmälahdentie 6  
Kiinteistö Oy Jyväskylän Mattilanniemi  
Kiinteistö Oy Jyväskylän Saarijärventie 50-52  
Kiinteistö Oy Jyväskylän Sorastajantie 1  
Kiinteistö Oy Jyväskylän Tourulantie 13  
Kiinteistö Oy Kaakkurinhovi  
Kiinteistö Oy Kaakkurinkulman Kauppakeskus  
Kiinteistö Oy Kaikukatu 7  
Kiinteistö Oy Keskustahotelli

Kiinteistö Oy Koirasaarentie 1  
Kiinteistö Oy Koroppa  
Kiinteistö Oy Koskikastanja  
Kiinteistö Oy Kotkan Jumalniementie 2  
Kiinteistö Oy Kotkan Jumalniementie 8  
Kiinteistö Oy Kouvolan Lehtikaari 3  
Kiinteistö Oy Kouvolan Tömmöläntie 18  
Kiinteistö Oy Kuntotalo  
Kiinteistö Oy Kuopion Lakkosalmenvuori  
Kiinteistö Oy Kuusankosken Puhjonrinne  
Kiinteistö Oy Lahden Jussilankatu 6  
Kiinteistö Oy Lahden Makasiininkatu 3  
Kiinteistö Oy Lahden Tupalankatu 3  
Kiinteistö Oy Lahden Virastotalo  
Kiinteistö Oy Lappeenrannan Kodinkeskus  
Kiinteistö Oy Lappeenrannan Korpikunnaankatu 1  
Kiinteistö Oy Lappeenrannan Patria  
Kiinteistö Oy Lassilanlinna  
Kiinteistö Oy Lohjan Sampo  
Kiinteistö Oy Lohjanharjun kauppapuisto 1  
Kiinteistö Oy Lohjanharjun kauppapuisto 2  
Kiinteistö Oy Lohjanharjun Kauppapuisto 3a  
Kiinteistö Oy Lohjanharjun kauppapuisto 4  
Kiinteistö Oy Lohjanharjun kauppapuisto 5  
Kiinteistö Oy Lönnrotinkatu 12  
Kiinteistö Oy Lönnrotinkatu 12 A  
Kiinteistö Oy Lönnrotinkatu 13  
Kiinteistö Oy Mannerheimintien Pysäköintilaitos  
Kiinteistö Oy Menotie 1  
Kiinteistö Oy Metsäpujokatu 1  
Kiinteistö Oy Nihtitorpankatu 4  
Kiinteistö Oy Nokian Nuijamiestentie 5  
Kiinteistö Oy Nummenvaara  
Kiinteistö Oy Oulun Aurora  
Kiinteistö Oy Oulun Kallisensuora 5  
Kiinteistö Oy Oulun Tyrnäväntie 6  
Kiinteistö Oy Oulun Uusikatu 72  
Kiinteistö Oy Oulunkyläntie 1  
Kiinteistö Oy Palokanvarma  
Kiinteistö Oy Partolan Kauppajätkä  
Kiinteistö Oy Pharma City  
Kiinteistö Oy Pirkkalan Myllyhaantie  
Kiinteistö Oy Pirkkalan Sorkkalantie 394  
Kiinteistö Oy Pirkkalan Vesalanportti  
Kiinteistö Oy Porin Eteläväylä 2  
Kiinteistö Oy Porin Itsenäisyydenkatu 5  
Kiinteistö Oy Porin Satakunnankatu 39  
Kiinteistö Oy Porvoon Ratsumestarinmäki 3  
Kiinteistö Oy Primulan Herkkupuisto  
Kiinteistö Oy Pyynikin Triko  
Kiinteistö Oy Quartetto Gongi  
Kiinteistö Oy Rajalla  
Kiinteistö Oy Rajasampaanranta 2  
Kiinteistö Oy Salmisaaren Liikuntakeskus  
Kiinteistö Oy Savonkatu 21

Kiinteistö Oy Seinäjoen Puskantie 13  
Kiinteistö Oy Seinäjoen Rengastie 4  
Kiinteistö Oy Sinihelmi  
Kiinteistö Oy Sipoon Kaskikylänkuja 2  
Kiinteistö Oy Sompasaaren Tukoeka  
Kiinteistö Oy Spektrin Trio  
Kiinteistö Oy Suometsänkaari 2  
Kiinteistö Oy Tampereen Kalevanpaasi  
Kiinteistö Oy Tampereen Harjuntausta 7  
Kiinteistö Oy Tampereen Hyllilänkatu 17  
Kiinteistö Oy Tampereen Sarankulmankatu 20 A  
Kiinteistö Oy Tarhaajantie 2  
Kiinteistö Oy Tavastkulla  
Kiinteistö Oy Teerivuorenkatu 28  
Kiinteistö Oy Teerivuorenpuisto  
Kiinteistö Oy Tekniikantie 4  
Kiinteistö Oy Teräslautelanrinne  
Kiinteistö Oy Tietotalo  
Kiinteistö Oy Tilkan Paletti  
Kiinteistö Oy Turun Aninkaistenkatu 13  
Kiinteistö Oy Vaasan Monopol Fastighets Ab  
Kiinteistö Oy Vaasan Producta I  
Kiinteistö Oy Vaasan Sampotalo  
Kiinteistö Oy Vallilan toimisto  
Kiinteistö Oy Vantaa Jokiniementie 31  
Kiinteistö Oy Vantaan Martintalo  
Kiinteistö Oy Vantaan Tasetie 8  
Kiinteistö Oy Varmantalo  
Kiinteistö Oy Vierumäen Portti  
Kiinteistöosakeyhtiö Iisalmen Lammenkaari 4  
Kiinteistöosakeyhtiö Mikkelin Karikontie 101  
Kiinteistöosakeyhtiö Varma  
Old Mill Oy  
Osakevarma Oy  
Oy Ässäkeskus Ab  
Pitäjänmäen Kiinteistöt Oy  
P-Turkuparkki Oy  
Saimaan Kylpyläkiinteistöt Oy  
Tampereen Kiinteistö Invest Oy  
Tieto Esy Oy  
Upper Limit Oy  
Vaasa Hitec Park Oy  
Valtamaat Osakeyhtiö  
Ässäparkki Oy

**The following 21 real estate companies exited the Group during the year under review:**

Asunto Oy Espoon Kiskottajankuja 4  
Asunto Oy Espoon Nihtitorpankuja 3  
Asunto Oy Espoon Nihtitorpankuja 5  
Asunto Oy Espoon Nihtitorpankuja 7  
Asunto Oy Helsingin Kaustisenpolku 1  
Asunto Oy Niittymaanpuisto  
Asunto Oy Raisio Tasantorni

Asunto Oy Rovaniemen Väilirakka  
Asunto Oy Taivalpolku  
Asunto Oy Vantaan Ruostekuja 3  
Kiinteistö Oy Arppentie 6 B  
Kiinteistö Oy Espoon Kattilantanhua 6  
Kiinteistö Oy Espoon Kiltakallionrinne 1  
Kiinteistö Oy Hämeenlinnan Katsastusmiehentie 6  
Kiinteistö Oy Hämeenlinnan Tiiriö  
Kiinteistö Oy Kuopion Koiravedenkatu 10  
Kiinteistö Oy Kuparitie 2  
Kiinteistö Oy Louhelan Hoivakodit  
Kiinteistö Oy Oulun Tulliväylä 3  
Kiinteistö Oy Pitkäniemen R15  
Kiinteistö Oy Vaasan Huvilatie 2

**In addition, the Group comprises the following 21 associates:**

Kamreerintien Pysäköintitalo Oy  
Kiinteistö Oy Elocinkulma 1  
Kiinteistö Oy Karkkilan Sähkökiinteistö  
Kiinteistö Oy Liikejalava  
Kiinteistö Oy Pyynikin Parkki  
Kiinteistö Oy Selloparkki  
Kiinteistö Oy Suursuon Ostoskeskus  
Martinparkki Oy  
NV Kiinteistösijoitus Oy  
Näkin Pihapuistikko II Oy  
Oulun Lehmusparkki Oy  
Poha-Pysäköinti Oy  
Realia Holding Oy  
Ruohoparkki Oy  
SATO Oyj  
Spektri Business Oy  
Spektri-Park Oy  
Technopolis Oyj  
Vaasan Toripysäköinti Oy  
Vakuutusosakeyhtiö Garantia  
VVT Kiinteistösijoitus Oy

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

Finnprotein Oy

## Notes to the income statement

### 1. Premiums written

1 Jan–31 Dec, € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
Direct business				
Basic insurance under TyEL				
Employer	<b>3,095.0</b>	3,072.1	<b>3,095.0</b>	3,072.1
Employee	<b>970.6</b>	962.7	<b>970.6</b>	962.7
	<b>4,065.6</b>	4,034.7	<b>4,065.6</b>	4,034.7
Supplementary pension insurance under TEL	<b>5.4</b>	6.3	<b>5.4</b>	6.3
Insurance under minimum YEL cover	<b>187.2</b>	189.7	<b>187.2</b>	189.7
	<b>4,258.1</b>	4,230.8	<b>4,258.1</b>	4,230.8
Reinsurance	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Premiums written before reinsurance	<b>4,258.1</b>	4,230.8	<b>4,258.1</b>	4,230.8
Reinsurance share	<b>-0.2</b>	-0.1	<b>-0.2</b>	-0.1
Premiums written <sup>1</sup>	<b>4,258.0</b>	4,230.7	<b>4,258.0</b>	4,230.7
Credit loss on premium receivables				
TyEL	<b>17.6</b>	14.6	<b>17.6</b>	14.6
YEL	<b>1.8</b>	1.8	<b>1.8</b>	1.8
	<b>19.4</b>	16.4	<b>19.4</b>	16.4

<sup>1</sup> Less credit loss

## 2. Claims paid

1 Jan–31 Dec, € million	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
Direct business				
Paid to pensioners				
Basic insurance under TyEL	4,441.6	4,168.1	4,441.6	4,168.1
Supplementary pension insurance under TEL	101.0	100.8	101.0	100.8
Insurance under minimum YEL cover	243.4	230.9	243.4	230.9
Supplementary pension insurance under YEL	0.7	0.6	0.7	0.6
	4,786.7	4,500.5	4,786.7	4,500.5
Clearing of PAYG pensions received <sup>1</sup>				
TyEL pensions	-115.4	-151.7	-115.4	-151.7
YEL pensions	-39.8	-33.7	-39.8	-33.7
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	-172.4	-141.7	-172.4	-141.7
YEL state share	-13.2	-5.7	-13.2	-5.7
VEKL state compensation	-0.2	-0.1	-0.2	-0.1
	-341.1	-332.9	-341.1	-332.9
Reinsurance	-0.0	0.0	-0.0	0.0
	4,445.6	4,167.6	4,445.6	4,167.6
Claims handling expenses	37.5	48.3	37.5	48.3
Maintenance of work capacity expenses <sup>2</sup>	6.5	6.5	6.5	6.5
Claims paid before reinsurance	4,489.7	4,222.5	4,489.7	4,222.5
Reinsurance share	-0.1	-0.1	-0.1	-0.1
Total claims paid	4,489.6	4,222.4	4,489.6	4,222.4

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

<sup>2</sup> Between 2000 and 2013 the administrative cost components of Varma's premium income totalled EUR 67 million, 98 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2013 the administrative cost components totalled EUR 5.4 million, and EUR 6.5 million were transferred to claims incurred.

### 3. Breakdown of net investment return

1 Jan–31 Dec, € million	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
<b>Investment return</b>				
Returns on investments in Group companies				
Dividend	0.4	0.4		
	0.4	0.4		
Returns on investments in associates				
Dividend	17.2	13.4		
	17.2	13.4		
Returns on investments in real estate				
Interest				
Group companies	47.1	42.1		
Other			0.9	0.7
Other returns	293.3	298.1	319.4	322.2
	340.4	340.1	320.3	322.9
Returns on other investments				
Dividend	384.9	421.8	385.1	421.9
Interest	391.4	365.2	391.4	365.2
Other returns	1,060.7	602.9	1,060.7	602.9
	1,837.1	1,389.9	1,837.2	1,390.0
	2,195.1	1,743.9	2,157.5	1,712.9
Reversed impairment	227.4	326.7	227.4	326.7
Sales proceeds	1,393.1	1,365.1	1,395.1	1,364.6
Total	3,815.6	3,435.7	3,780.0	3,404.2
<b>Investment expenses</b>				
On real estate	-182.1	-183.0	-89.9	-88.0
On other investments	-663.9	-943.6	-663.9	-943.6
Interest	-1.3	-0.7	-1.3	-0.7
	-847.4	-1,127.3	-755.1	-1,032.4
Impairment and depreciation				
Impairment	-536.4	-490.3	-481.4	-485.2
Planned depreciation on buildings	-18.2	-18.8	-149.8	-109.7
	-554.6	-509.1	-631.2	-594.9
Sales losses	-462.9	-925.7	-462.9	-925.7
Total	-1,864.8	-2,562.2	-1,849.2	-2,553.0
<b>Net investment return in the income statement</b>	<b>1,950.7</b>	<b>873.5</b>	<b>1,930.8</b>	<b>851.2</b>

## 4. Operating expenses in the income statement

1 Jan–31 Dec, € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
Insurance policy acquisition costs				
Direct business commissions	<b>1.5</b>	1.5	<b>1.5</b>	1.5
Other insurance policy acquisition costs	<b>9.8</b>	8.9	<b>9.8</b>	8.9
	<b>11.3</b>	10.3	<b>11.3</b>	10.3
Portfolio administration expenses	<b>37.3</b>	36.3	<b>37.3</b>	36.3
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	<b>10.1</b>	8.3	<b>10.1</b>	8.3
Judicial administration fee	<b>1.1</b>	1.1	<b>1.1</b>	1.1
Financial Supervisory Authority supervision fee	<b>0.6</b>	0.6	<b>0.6</b>	0.6
	<b>11.8</b>	10.0	<b>11.8</b>	10.0
Other administrative expenses	<b>15.3</b>	15.4	<b>15.3</b>	15.4
	<b>75.6</b>	72.0	<b>75.6</b>	72.0

## 5. Overall operating expenses by function

1 Jan–31 Dec, € million	Parent Company 2013	Parent Company 2012	Group 2013	Group 2012
Claims paid				
Claims handling expenses	37.5	48.3	37.5	48.3
Maintenance of work capacity expenses	6.5	6.5	6.5	6.5
	44.1	54.8	44.1	54.8
Operating expenses	75.6	72.0	75.6	72.0
Investment management charges				
Expenses on real estate	4.3	5.1	4.3	5.1
Expenses on other investments	18.7	16.7	18.7	16.7
	23.0	21.8	23.0	21.8
Total operating expenses	142.7	148.7	142.7	148.7

## 6. Personnel expenses

	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
1 Jan–31 Dec, € million				
Salaries and remunerations	<b>37.9</b>	37.0	<b>37.9</b>	37.0
Pension expenses	<b>6.7</b>	6.7	<b>6.7</b>	6.7
Other personnel-related expenses	<b>4.5</b>	4.6	<b>4.5</b>	4.6
Total	<b>49.1</b>	48.3	<b>49.1</b>	48.3

## 7. Management salaries and remunerations

1 Jan–31 Dec, € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
President and CEO and his deputy	<b>1.0</b>	1.1	<b>1.0</b>	1.1
Members and deputy members of the Board of Directors	<b>0.4</b>	0.3	<b>0.4</b>	0.3
Members and deputy members of the Supervisory Board	<b>0.1</b>	0.1	<b>0.1</b>	0.1
Total	<b>1.6</b>	1.5	<b>1.6</b>	1.5
Average number of personnel during the financial year	<b>565</b>	572	<b>565</b>	572

President and CEO Matti Vuoria was paid EUR 739,684 in salary and fringe benefits. The pension benefit under the voluntary supplementary pension insurance taken out for Vuoria is 60 per cent of the pensionable salary of the supplementary pension, which is based on the annual earnings of the two middle years of the last four years. The supplementary pension insurance has not accrued supplementary pension since 14 March 2011, when Vuoria turned 60.

Risto Murto, his deputy, was paid EUR 308,327 in salary and fringe benefits. The Board of Directors has appointed Murto as the President and CEO from 1 January 2014. Risto Murto's retirement age is 63 years and his pension will be 60 per cent of the calculated pensionable salary.

## 8. Auditors' fees

1 Jan–31 Dec, € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
KPMG Oy Ab				
Audit fees	<b>0.2</b>	0.2	<b>0.2</b>	0.2
Taxation advice	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Other fees	<b>0.1</b>	0.1	<b>0.1</b>	0.1
Other audit firms				
Taxation advice	<b>0.1</b>	0.0	<b>0.1</b>	0.0

## 9. Income taxes

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

## Notes to the balance sheet

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

	Remaining acquisition cost 2013	Book value 2013	Fair value 2013	Remaining acquisition cost 2012	Book value 2012	Fair value 2012
31 Dec, € million						
Real-estate investments						
Real estate	469.2	485.4	638.2	477.3	493.9	678.4
Shares in Group companies	1,505.6	1,505.6	2,125.8	1,604.3	1,604.3	2,226.9
Other real estate shares	26.8	26.8	30.6	27.9	27.9	31.0
Loans to Group companies	856.3	856.3	856.3	982.6	982.6	982.6
Loans to real estate companies	93.0	93.0	93.0	47.0	47.0	47.0
Investments in Group companies						
Shares and participations	4.3	4.3	4.3	4.3	4.3	4.3
Investments in associates						
Shares and participations	248.5	248.5	468.8	185.5	185.5	364.5
Other investments						
Shares and participations	15,374.6	15,374.6	20,581.3	12,547.4	12,547.4	15,968.4
Money-market instruments	9,911.5	9,911.5	10,258.2	10,277.2	10,277.2	11,156.9
Loans guaranteed by mortgages	362.6	362.6	362.6	439.5	439.5	439.5
Other loan receivables	1,599.7	1,599.7	1,600.2	1,935.8	1,935.8	1,937.3
	30,452.0	30,468.2	37,019.3	28,491.3	28,507.9	33,939.6
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-132.7			-161.4		
Book value includes						
Revaluations entered as income		16.2			16.6	
Valuation difference (difference between fair value and book value)			6,641.0			5,431.7

## 11. Investments at fair value and valuation differences, Group

	Remaining acquisition cost 2013	Book value 2013	Fair value 2013	Remaining acquisition cost 2012	Book value 2012	Fair value 2012
31 Dec, € million						
Real-estate investments						
Real estate	2,829.8	2,845.9	3,765.2	3,020.7	3,037.3	3,987.9
Other real estate shares	26.8	26.8	30.6	27.9	27.9	31.0
Loans to real estate companies						
Investments in Group companies						
Shares and participations	0.8	0.8	0.9	0.7	0.7	0.9
Investments in associates						
Shares and participations	301.1	301.1	468.8	217.3	217.3	364.5
Other investments						
Shares and participations	15,390.7	15,390.7	20,597.4	12,562.5	12,562.5	16,059.0
Money-market instruments	9,911.5	9,911.5	10,258.2	10,277.2	10,277.2	11,172.4
Loans guaranteed by mortgages	362.6	362.6	362.6	439.5	439.5	439.5
Other loan receivables	1,599.7	1,599.7	1,600.2	1,935.8	1,935.8	1,937.5
	30,423.0	30,439.1	37,084.0	28,481.5	28,498.1	33,992.6
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-132.7			-161.4		
Book value includes						
Revaluations entered as income		16.2			16.6	
Valuation difference (difference between fair value and book value)			6,644.9			5,494.5

## 12. Investments in Group companies and associates, Parent Company

31 Dec. 2013, € million

### Shares and participations in Group companies

Acquisition cost, 1 Jan.	4.3
Acquisition cost, 31 Dec.	4.3

### Shares and participations in associates

Acquisition cost, 1 Jan.	185.5
Increase	63.0
Acquisition cost, 31 Dec.	248.5

### Shares and participations in Group companies

31 Dec. 2013, € million	Domicile	Shares, %	Votes, %	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.9
Osakevarma Oy	Helsinki	100.0%	100.0%	3.3
				4.3
Housing associations and real estate companies				1,560.6

### Shares and participations in associates

31 Dec. 2013	Domicile	Shares, %	Votes, %	Book value € million
Finnprotein Oy	Uusikaupunki	33.0%	33.0%	0.0
NV Kiinteistösi joitus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	7.7
SATO Corporation	Helsinki	45.7%	45.7%	149.5
Technopolis Plc	Oulu	24.0%	24.0%	83.0
VVT Kiinteistösi joitus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	8.4
				248.5
Housing associations and real estate companies				11.4

## 13. Investments in Group companies and associates, Group

31 Dec. 2013, € million

### Shares and participations in Group companies

Acquisition cost, 1 Jan.	0.7
Increase	
Decrease	-0.3
Acquisition cost, 31 Dec.	0.8

### Shares and participations in associates

Acquisition cost, 1 Jan.	217.3
Increase	84.3
Decrease	-0.4
Acquisition cost, 31 Dec.	301.1

### Shares and participations in Group companies

31 Dec. 2013	Domicile	Shares, %	Votes, %	Book value € million
Tieto Esy Ltd	Helsinki	14.4%	50.1%	0.8
				0.8

### Shares and participations in associates

31 Dec. 2013	Domicile	Shares, %	Votes, %	Book value € million
Finnprotein Oy	Uusikaupunki	33.0%	33.0%	0.0
NV Kiinteistösi joitus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	5.7
SATO Corporation	Helsinki	45.7%	45.7%	202.8
Technopolis Plc	Oulu	24.9%	24.9%	83.2
VVT Kiinteistösi joitus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	9.4
				301.1
Housing associations and real estate companies				22.6

## 14. Changes in investments in real estate

	<b>Parent Company Real estate and real estate shares</b>	<b>Parent Company Loans to Group companies</b>	<b>Group Real estate and real estate shares</b>
31 Dec. 2013, € million			
Acquisition cost, 1 Jan.	<b>2,516.1</b>	<b>1,029.6</b>	<b>4,210.1</b>
Increase	<b>49.1</b>	<b>58.8</b>	<b>70.4</b>
Decrease	<b>-81.3</b>	<b>-139.1</b>	<b>-138.7</b>
Acquisition cost, 31 Dec.	<b>2,484.0</b>	<b>949.3</b>	<b>4,141.9</b>
Accumulated depreciation, 1 Jan.	<b>-193.8</b>		<b>-970.4</b>
Accumulated depreciation from items sold	<b>3.4</b>		<b>32.0</b>
Depreciation for the financial year	<b>-18.2</b>		<b>-96.4</b>
Accumulated depreciation, 31 Dec.	<b>-208.5</b>		<b>-1,034.8</b>
Impairments, 1 Jan.	<b>-212.8</b>		<b>-191.1</b>
Impairments on items sold	<b>3.6</b>		<b>3.7</b>
Impairments for the financial year	<b>-67.2</b>		<b>-63.1</b>
Reversed impairment	<b>2.5</b>		
Impairments, 31 Dec.	<b>-273.8</b>		<b>-250.5</b>
Revaluations, 1 Jan.	<b>16.6</b>		<b>16.6</b>
Revaluations of items sold	<b>-0.4</b>		<b>-0.4</b>
Revaluations, 31 Dec.	<b>16.2</b>		<b>16.2</b>
Book value, 31 Dec.	<b>2,017.8</b>	<b>949.3</b>	<b>2,872.8</b>

## 15. Real estate investments in own use

31 Dec. 2013, € million	Parent Company	Group
Remaining acquisition cost	84.4	84.4
Book value	84.4	84.4
Fair value	98.8	98.8

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

31 Dec. 2013	Shares %	Book value € million	Market value € million
<b>Listed equities</b>			
<b><i>Finnish equities</i></b>			
Affecto Plc	1.4	1.4	1.4
Ahlstrom Corporation	3.3	12.6	12.6
Aktia Bank Plc	4.0	15.3	21.6
Alma Media Corporation	7.1	15.9	15.9
Amer Sports Corporation	7.0	61.4	125.2
Aspo Plc	4.7	6.1	8.7
Atria Plc	1.9	4.0	4.0
CapMan Plc	4.3	4.2	4.2
Cargotec Corporation	4.7	73.5	81.7
Caverion Corporation	6.2	0.0	68.8
Componenta Corporation	8.1	3.9	3.9
Comptel Corporation	4.8	2.4	2.4
Cramo Plc	2.3	12.1	14.9
Digia Plc	3.6	2.9	2.9
Elisa Corporation	5.6	116.8	177.8
Etteplan Oyj	4.1	2.6	2.6
Finnair Plc	0.5	1.7	1.7
Fiskars Corporation	3.0	24.9	48.3
Fortum Corporation	0.6	82.1	82.6
F-Secure Corporation	8.6	25.5	25.5
Glaston Corporation	8.9	6.8	6.8
Honkarakenne Oyj	4.3	0.6	0.6
HKScan Corporation	6.8	14.1	14.1
Incap Corporation	7.0	0.8	0.8
Kemira Oyj	6.1	115.1	115.1
Kesko Corporation	1.1	16.7	30.3
Kesla Oyj	4.4	0.7	0.7
KONE Corporation	1.1	69.5	169.5
Konecranes Plc	1.9	21.5	30.8
Lassila & Tikanoja plc	1.5	6.7	9.1
Lemminkäinen Corporation	4.2	12.5	12.5
Marimekko Corporation	4.8	3.4	3.8
Metso Corporation	1.9	90.2	90.2
Metsä Board Corporation	4.9	49.9	49.9
Munksjö Oyj	3.0	6.2	7.9
Neste Oil Corporation	1.3	46.4	48.7
Nokia Corporation	2.3	315.0	496.6
Nokian Tyres plc	6.8	147.4	313.8
Okmetic Oyj	2.8	1.6	2.3
Olvi plc	2.0	7.4	11.8
Oriola-KD Corporation	4.2	15.5	16.2
Outokumpu Oyj	1.1	9.6	9.6
Outotec Oyj	4.4	43.4	61.2
PKC Group Plc	2.4	4.4	13.9
Pohjola Bank plc	0.1	2.5	4.2
Ponsse Plc	1.4	1.6	3.8
Pöyry PLC	4.7	11.3	11.3
Raisio plc	0.1	0.5	0.9
Ramirent Plc	6.2	61.7	61.7

Rautaruukki Corporation	2.5	23.7	23.7
Raute Corporation	1.3	0.4	0.4
Restamax Plc	1.9	1.2	1.2
Sampo plc	7.8	350.6	1,568.0
Sanitec Corporation	0.3	2.4	2.7
Sanoma Corporation	0.5	5.0	5.0
Sievi Capital Plc	1.0	0.6	0.6
Solteq Oyj	4.3	0.7	0.9
Sponda Plc	10.3	93.1	99.2
SRV Group Plc	1.2	1.7	1.7
Stockmann plc	3.1	24.6	24.6
Stora Enso Oyj	2.0	114.0	114.0
Suominen Corporation	9.1	10.1	10.6
Teleste Corporation	2.8	2.2	2.2
Tieto Corporation	2.1	25.4	25.4
Tikkurila Oyj	5.7	37.4	49.6
Tulikivi Corporation	4.7	0.9	0.9
UPM-Kymmene Corporation	2.2	137.8	142.1
Uponor Corporation	7.1	50.0	73.4
Vaisala Corporation	0.9	2.9	3.6
Wulff-Yhtiot Pcl	6.8	0.7	0.7
Wärtsilä Corporation	5.2	144.7	367.0
YIT Corporation	6.6	85.7	85.7
Other		0.7	1.5
<b>Finnish equities, total</b>		<b>2,668.8</b>	<b>4,909.7</b>

	Shares %	Book value € million	Fair value € million
31 Dec. 2013			
<b>Other countries</b>			
<b><i>Austria</i></b>			
Erste Group Bank AG	0.0	0.7	1.0
Scholler-Bleckmann Oilfiel Equipment AG	0.1	1.5	1.6
Telekom Austria AG	0.0	0.5	0.5
Verbund AG	0.0	0.9	0.9
Voestalpine AG	0.0	0.6	0.8
<b><i>Belgium</i></b>			
Ageas SA/NV	0.0	1.1	1.3
Anheuser-Busch InBev NV	0.0	6.6	7.6
Belgacom SA	0.0	0.7	0.7
Colruyt SA	0.0	1.1	1.1
Delhaize Group SA	0.0	1.4	1.6
Groupe Bruxelles Lambert SA	0.0	1.3	1.4
KBC Groep NV	0.0	1.0	1.0
Telenet Group Holding NV	0.0	0.2	0.2
UCB SA	0.0	2.0	2.3
<b><i>Bermuda</i></b>			
Atlantica Tender Drilling Ltd	1.4	3.6	3.6
Avance Gas Holding Ltd	1.0	2.8	3.6
Frontline Ltd/Bermuda	0.9	9.7	13.3
North Atlantic Drilling Ltd	0.5	8.0	8.1
Odfjell Drilling Ltd	0.9	8.2	8.2
Seadrill Ltd	0.1	19.2	19.2
<b><i>Canada</i></b>			

Africa Oil Corp	0.2	3.2	3.3
Questerre Energy Corp	2.3	5.3	5.3
Silver Wheaton Corp	0.0	1.8	1.8
<b>Cayman Islands</b>			
Polarcus Ltd	3.7	10.4	10.4
Siem Offshore Inc	1.7	7.4	7.6
<b>Cyprus</b>			
Ocean Rig UDW Inc	0.3	5.3	6.0
Prosafe SE	0.1	1.4	1.4
<b>Denmark</b>			
AP Moeller - Maersk A/S	0.0	5.7	6.7
Carlsberg A/S	0.0	3.2	3.4
Coloplast A/S	0.0	1.2	1.5
Danske Bank A/S	0.0	1.6	2.0
GN Store Nord A/S	0.0	1.0	1.3
Novo Nordisk A/S	0.0	9.8	10.2
Novozymes A/S	0.0	1.1	1.4
TDC A/S	0.0	1.2	1.4
<b>France</b>			
Alcatel-Lucent/France	0.0	1.8	2.2
Arkema SA	0.1	4.7	5.1
Atos Origin SA	0.0	1.3	1.4
AXA SA	0.0	6.2	7.8
BNP Paribas SA	0.0	5.0	7.0
Bourbon SA	0.3	5.1	5.1
Bouygues SA	0.0	1.1	1.4
Cap Gemini SA	0.0	1.8	1.9
Carrefour SA	0.0	3.5	4.5
Casino Guichard Perrachon SA	0.0	2.1	2.3
Christian Dior SA	0.0	1.7	1.8
Cie de St-Gobain	0.0	3.0	3.7
Cie Generale de Geophysique - Veritas	0.1	3.2	3.2
Cie Generale des Etablissements Michelin	0.0	2.9	2.9
Cie Generale d'Optique Essilor International SA	0.0	1.9	2.0
Danone	0.0	5.8	6.0
EDF SA	0.0	1.2	1.7
Etablissements Maurel et Prom	0.0	0.6	0.6
Eutelsat Communications SA	0.0	0.5	0.5
GDF Suez	0.0	5.8	5.9
Hermes International	0.0	0.6	0.7
Kering	0.0	2.9	2.9
Lafarge SA	0.0	1.7	2.0
Legrand SA	0.0	1.6	2.0
L'Oreal SA	0.0	8.9	10.4
LVMH Moet Hennessy Louis Vuitton SA	0.0	6.0	6.0
Orange	0.0	2.0	2.1
Pernod-Ricard SA	0.0	2.1	2.1
Peugeot SA	0.0	0.8	0.8
Publicis Groupe SA	0.0	1.8	2.5
Remy Cointreau SA	0.1	1.8	1.8
Renault SA	0.0	7.3	7.3
Rexel SA	0.0	1.8	1.9
Sanofi	0.0	17.7	18.6
Schneider Electric SA	0.0	5.5	5.9
Societe BIC SA	0.0	0.6	0.6

Societe Generale SA	0.0	2.5	3.8
Suez Environnement Co	0.0	0.6	0.8
Tarkett SA	0.2	2.8	2.8
Technip SA	0.0	1.3	1.4
Teleperformance SA	0.2	2.3	4.6
Total SA	0.0	8.9	9.7
Ubisoft Entertainment SA	0.2	1.4	2.0
Valeo SA	0.0	1.1	1.2
Wendel SA	0.0	0.7	1.0
Veolia Environnement SA	0.0	0.8	1.0
Vinci SA	0.0	4.0	5.1
Vivendi SA	0.0	3.8	4.4
<b>Germany</b>			
Adidas AG	0.0	5.1	6.8
Aixtron SE	0.3	3.1	3.1
Allianz SE	0.0	9.7	11.2
Alstria Office REIT-AG	1.5	10.9	11.1
BASF SE	0.0	13.8	15.5
Bayer AG	0.0	11.6	16.3
Bayerische Motoren Werke AG	0.0	5.1	5.4
Beiersdorf AG	0.0	1.6	1.9
Bilfinger Berger SE	0.1	2.1	2.4
Brenntag AG	0.1	5.3	6.7
Commerzbank AG	0.0	2.4	2.9
Continental AG	0.0	2.4	3.0
Daimler AG	0.0	11.2	12.4
Deutsche Annington Immobilien SE	0.3	9.5	10.3
Deutsche Bank AG	0.0	5.0	5.0
Deutsche Boerse AG	0.0	1.0	1.3
Deutsche Euroshop AG	0.1	1.5	1.6
Deutsche Post AG	0.0	6.2	8.0
Deutsche Telekom AG	0.0	5.3	7.6
E.ON AG	0.0	5.8	5.8
ElringKlinger AG	0.1	1.5	1.9
Fresenius Medical Care AG & Co KGaA	0.0	0.5	0.5
Fresenius SE & Co KGaA	0.0	1.5	1.8
GEA Group AG	0.0	2.4	2.9
Hannover Rueckversicherung AG	0.0	0.6	0.7
HeidelbergCement AG	0.0	1.3	1.6
Henkel AG & Co KGaA	0.0	3.7	4.8
Hugo Boss AG	0.0	0.5	0.7
Infineon Technologies AG	0.0	1.2	1.4
Linde AG	0.0	2.8	3.0
Merck KGaA	0.0	2.8	3.2
Metro AG	0.0	1.0	1.3
MTU Aero Engines Holding AG	0.1	2.5	2.5
Münchener Rückversicherungs AG	0.0	4.3	4.9
Osram Licht AG	0.0	0.9	1.6
Porsche Automobil Holding SE	0.0	1.6	1.9
RWE AG	0.0	2.9	2.9
Salzgitter AG	0.1	1.2	1.2
SAP AG	0.0	10.8	11.6
Siemens AG	0.0	17.8	20.1
Suedzucker AG	0.0	1.0	1.0
Symrise AG	0.1	3.3	3.5

Volkswagen AG	0.0	4.9	5.7
<b>Greece</b>			
Alpha Bank AE	0.1	4.6	4.6
National Bank of Greece SA	0.0	0.9	0.9
<b>Ireland</b>			
C&C Group plc	0.1	5.7	6.0
CRH plc	0.0	2.1	2.6
DCC plc	0.1	1.7	3.0
Experian PLC	0.0	1.9	2.0
Glanbia plc	0.0	1.0	1.1
Governor & Co of the Bank of Ireland	0.0	0.6	1.1
Smurfit Kappa Group plc	0.1	0.8	2.2
<b>Italy</b>			
Assicurazioni Generali SpA	0.0	3.8	4.3
Buzzi Unicem SpA	0.1	1.5	1.8
Enel SpA	0.0	4.1	4.4
ENI SpA	0.0	5.1	5.1
Fiat SpA	0.0	1.4	1.5
Hera SpA	0.1	1.2	1.7
Intesa Sanpaolo SpA	0.0	3.2	4.3
Italcementi SpA	0.1	0.6	0.8
Luxottica Group SpA	0.0	1.3	1.6
Prysmian SpA	0.1	3.2	4.3
Snam Rete Gas SpA	0.0	1.3	1.4
Telecom Italia SpA	0.0	1.4	1.5
Terna Rete Elettrica Nazionale SpA	0.0	0.9	1.1
UniCredit SpA	0.0	3.1	4.3
<b>Japan</b>			
Toyota Motor Corp	0.0	3.3	3.3
<b>Jersey C.I.</b>			
Glencore Xstrata PLC	0.0	10.1	10.2
Henderson Group PLC	0.0	0.7	1.0
Polymetal International PLC	0.0	0.2	0.2
Randgold Resources Ltd	0.0	2.0	2.0
Shire PLC	0.0	4.1	5.6
Wolseley PLC	0.0	3.8	4.0
WPP plc	0.0	3.1	4.5
<b>Liberia</b>			
Royal Caribbean Cruises Ltd	0.2	10.1	12.0
<b>Luxembourg</b>			
ArcelorMittal	0.0	4.8	5.2
Pacific Drilling SA	0.5	7.1	8.5
SES SA	0.0	1.5	1.6
Subsea 7 SA	0.7	33.2	33.2
Tenaris SA	0.0	1.5	1.5
<b>Netherlands</b>			
Aegon NV	0.0	1.8	2.3
ASML Holding NV	0.0	4.3	5.4
Gemalto NV	0.0	2.0	2.2
Heineken NV	0.0	2.9	2.9
ING Groep NV	0.0	5.8	7.3
Koninklijke Ahold NV	0.0	3.2	3.6
Koninklijke Boskalis Westminster NV	0.0	0.5	0.6
Koninklijke KPN NV	0.0	1.5	1.5
Koninklijke Philips NV	0.0	6.3	7.1

Koninklijke Vopak NV	0.0	0.6	0.6
Nutreco NV	0.1	2.0	2.5
QIAGEN NV	0.0	0.8	0.9
Randstad Holding NV	0.0	2.2	2.4
Reed Elsevier NV	0.0	1.7	2.4
Royal Dutch Shell PLC	0.0	15.9	16.5
Wolters Kluwer NV	0.0	0.8	1.1
Ziggo NV	0.0	0.9	1.0
<b>Norway</b>			
Aker Solutions ASA	0.4	14.1	14.1
Archer Ltd	0.8	2.9	2.9
Austevoll Seafood ASA	0.5	4.1	4.2
BW LPG Ltd	0.7	5.7	6.9
Det Norske Oljeselskap ASA	1.0	11.5	11.5
DNB ASA	0.4	70.6	80.3
Dolphin Group AS	8.2	15.6	15.6
Electromagnetic GeoService	0.8	1.6	1.6
Farstad Shipping ASA	2.0	12.0	12.2
Fred Olsen Energy ASA	0.2	3.2	3.2
Gjensidige Forsikring ASA	0.0	1.1	1.2
Hexagon Composites ASA	2.9	6.3	15.0
Kvaerner ASA	1.9	7.0	7.0
Marine Harvest ASA	1.0	28.7	35.7
Nordic American Offshore Ltd	0.0	8.1	8.1
Norsk Hydro ASA	1.2	74.9	77.4
Norwegian Air Shuttle AS	1.4	10.7	10.7
Opera Software ASA	0.8	8.9	9.9
Orkla ASA	0.0	2.5	2.5
Panoro Energy ASA	3.0	2.6	2.6
Petroleum Geo-Services ASA	2.2	40.9	40.9
Protector Forsikring AS	1.9	3.5	3.7
SpareBank 1 SR-Bank ASA	0.2	5.2	5.7
Statoil ASA	0.1	80.8	80.8
Storebrand ASA	2.8	49.3	56.7
Telenor ASA	0.2	43.5	44.0
TGS Nopec Geophysical Co ASA	0.4	7.1	7.1
Tomra Systems ASA	0.7	7.2	7.3
<b>Portugal</b>			
Banco Espirito Santo SA	0.1	3.2	3.6
EDP - Energias de Portugal SA	0.0	1.0	1.2
Galp Energia SGPS SA	0.0	0.6	0.6
Jeronimo Martins SGPS SA	0.0	1.1	1.1
<b>Russia</b>			
Seligdar OJSC	2.7	2.1	2.1
<b>Spain</b>			
ACS Actividades de Construcción y Servicios SA	0.0	0.7	0.9
Amadeus IT Holding SA	0.0	4.2	6.2
Banco Bilbao Vizcaya Argentaria SA	0.0	11.5	13.0
Banco Popular Espanol SA	0.1	9.0	9.9
Banco Santander SA	0.0	16.6	19.9
Bolsas y Mercados Espanoles SA	0.1	3.3	3.4
CaixaBank	0.0	4.0	4.8
Enagas SA	0.0	0.7	0.8
Ferrovial SA	0.0	1.0	1.2
Gas Natural SDG SA	0.0	1.5	2.0

Grifols SA	0.0	0.9	1.2
Iberdrola SA	0.0	4.3	4.9
Inditex SA	0.0	5.1	5.6
Red Electrica Corp SA	0.0	0.9	1.1
Tecnicas Reunidas SA	0.1	2.7	2.8
Telefonica SA	0.0	7.8	8.9
Viscofan SA	0.0	1.6	1.7
<b>Sweden</b>			
AarhusKarlshamn AB	0.3	3.4	5.9
AF AB	0.7	4.1	6.6
Assa Abloy AB	0.1	13.0	19.2
Atlas Copco AB	0.1	18.8	19.1
Atrium Ljungberg AB	5.4	67.1	70.4
Autoliv Inc	0.3	17.8	22.0
Axis Communications AB	0.3	3.6	4.9
Boliden AB	0.2	5.1	5.1
Electrolux AB	0.1	6.2	6.2
Elekta AB	0.1	3.9	4.5
Gefinge AB	0.1	4.9	5.1
Hennes & Mauritz AB	0.2	60.9	76.1
Hexagon AB	0.0	1.3	2.0
Hexpol AB	0.3	3.5	4.7
Hufvudstaden AB	0.6	10.0	12.4
Investor AB	0.1	12.4	15.0
Lundin Petroleum AB	0.2	8.1	8.1
Meda AB	0.2	5.8	6.8
Modern Times Group AB	0.3	5.9	6.9
Nobia AB	0.1	0.4	0.8
Nordea Bank AB	1.0	297.5	388.8
Peab AB	0.2	2.6	2.7
Sandvik AB	0.1	17.4	17.4
Scania AB	0.1	2.8	2.8
Securitas AB	0.2	3.9	4.6
Skandinaviska Enskilda Banken AB	0.2	21.3	31.3
SKF AB	0.1	11.7	12.4
Swedbank AB	0.2	28.3	36.8
Swedish Orphan Biovitrum AB	0.1	1.8	2.5
Svenska Cellulosa AB	0.1	10.2	14.3
Svenska Handelsbanken Ab	0.1	22.1	25.0
Tele2 AB	0.1	3.3	3.3
Telefonaktiebolaget LM Ericsson	0.2	41.4	44.3
TeliaSonera AB	0.2	37.2	39.9
Trelleborg AB	0.1	1.9	2.9
Volvo AB	0.1	20.6	20.6
<b>Switzerland</b>			
ABB Ltd	0.0	23.8	28.2
Actelion Ltd	0.0	1.0	1.6
Adecco SA	0.0	2.6	3.2
Barry Callebaut AG	0.0	0.9	1.1
Cie Financiere Richemont SA	0.0	4.7	4.7
Clariant AG	0.1	4.8	5.7
Credit Suisse Group AG	0.0	3.4	3.4
GAM Holding AG	0.0	0.9	1.0
Geberit AG	0.0	1.3	1.7
Givaudan SA	0.0	3.3	3.6

Holcim Ltd	0.0	2.5	2.5
Julius Baer Group Ltd	0.0	0.7	0.8
Kuehne + Nagel International AG	0.0	1.2	1.3
Logitech International SA	0.3	3.2	4.6
Nestle SA	0.0	33.6	35.4
Novartis AG	0.0	26.4	30.6
Partners Group Holding AG	0.0	0.7	0.7
Roche Holding AG	0.0	23.6	28.3
SGS SA	0.0	1.7	1.7
Sika AG	0.0	0.8	1.1
Sonova Holding AG	0.0	1.0	1.1
Swiss Life Holding AG	0.0	0.7	0.9
Swiss Re AG	0.0	3.7	4.3
Swisscom AG	0.0	1.6	1.9
Syngenta AG	0.0	6.9	6.9
The Swatch Group AG	0.0	2.4	2.4
UBS AG	0.0	5.1	5.7
Zurich Financial Services AG	0.0	5.7	5.9
<b>United Kingdom</b>			
3i Group PLC	0.0	1.0	1.4
Aberdeen Asset Management PLC	0.0	1.6	1.9
Admiral Group PLC	0.0	0.5	0.6
Afren PLC	0.1	0.9	1.3
Aggreko PLC	0.0	0.8	0.8
Anglo American PLC	0.0	9.3	9.3
Antofagasta PLC	0.0	3.5	3.6
ARM Holdings PLC	0.0	2.8	3.5
Ashmore Group PLC	0.0	0.5	0.6
AstraZeneca PLC	0.0	12.3	13.5
Aviva PLC	0.0	2.6	3.0
Barclays PLC	0.0	6.4	7.2
Barratt Developments PLC	0.0	0.7	1.0
Berkeley Group Holdings PLC	0.0	0.8	1.1
BG Group PLC	0.0	6.9	7.4
BHP Billiton PLC	0.0	10.2	10.2
BP PLC	0.0	12.4	13.4
British Land Co PLC	0.0	2.7	2.9
British Sky Broadcasting Group PLC	0.0	2.0	2.1
BT Group PLC	0.0	4.6	6.9
Burberry Group PLC	0.0	2.0	2.3
Centrica PLC	0.0	4.4	4.4
Croda International PLC	0.1	3.4	3.4
Debenhams PLC	0.2	2.0	2.0
Diageo PLC	0.0	9.9	11.5
Drax Group PLC	0.0	0.6	0.8
Fresnillo PLC	0.0	2.5	2.5
GKN PLC	0.0	0.9	1.0
GlaxoSmithKline PLC	0.0	14.8	16.5
Hays PLC	0.1	1.9	2.2
HSBC Holdings PLC	0.0	21.4	21.8
Icap PLC	0.0	0.8	1.1
IMI PLC	0.0	1.8	1.8
Inchcape PLC	0.1	2.3	2.8
Inmarsat PLC	0.0	0.7	0.8
Intermediate Capital Group PLC	0.0	0.4	0.5

Intertek Group PLC	0.0	1.4	1.5
Investec PLC	0.0	0.8	0.8
ITV PLC	0.0	1.0	1.8
J Sainsbury PLC	0.0	1.0	1.1
Kingfisher PLC	0.0	1.4	2.0
Legal & General Group PLC	0.0	2.5	3.0
Lloyds Banking Group PLC	0.0	2.4	4.2
London Stock Exchange Group PLC	0.0	0.5	0.8
Lonmin PLC	0.0	0.7	0.7
Man Group PLC	0.0	0.8	0.8
Meggitt PLC	0.0	1.3	1.4
Mondi PLC	0.0	0.7	1.0
National Grid PLC	0.0	7.0	7.7
Next PLC	0.0	1.2	1.6
Old Mutual PLC	0.0	2.0	2.1
Ophir Energy PLC	0.1	1.6	1.6
Pearson PLC	0.0	2.3	2.6
Pennon Group PLC	0.0	0.7	0.7
Persimmon PLC	0.0	0.8	1.2
Premier Oil PLC	0.0	0.9	0.9
Prudential PLC	0.0	6.2	7.7
Reckitt Benckiser Group PLC	0.0	13.1	15.3
Reed Elsevier PLC	0.0	2.1	2.9
Rolls-Royce Group PLC	0.0	2.2	3.2
Rotork PLC	0.1	2.0	2.6
RSA Insurance Group PLC	0.0	0.8	0.8
SABMiller PLC	0.0	7.4	7.4
Schroders PLC	0.0	1.3	1.7
Severn Trent PLC	0.0	0.8	0.9
Smith & Nephew PLC	0.0	0.8	1.0
Smiths Group PLC	0.0	0.7	0.9
SSE PLC	0.0	2.9	2.9
Standard Chartered PLC	0.0	3.1	3.1
Standard Life PLC	0.0	1.7	1.9
Tate & Lyle PLC	0.0	0.6	0.7
Taylor Wimpey PLC	0.0	0.7	1.1
Telecity Group PLC	0.0	1.3	1.3
Tesco PLC	0.0	8.4	8.4
The Weir Group PLC	0.0	1.0	1.1
Tullow Oil PLC	0.0	3.1	3.1
Unilever PLC	0.0	18.4	18.5
United Utilities Group PLC	0.0	1.4	1.4
WM Morrison Supermarkets PLC	0.0	1.4	1.4
Vodafone Group PLC	0.0	18.8	26.0
<b>United States</b>			
Cobalt International Energy Inc	0.0	0.6	0.6
Google Inc	0.0	0.8	1.2
Laredo Petroleum Inc	0.1	2.0	2.0
Nuance Communications Inc	0.1	3.9	3.9
Other		18.2	23.0
<b>Foreign equities, total</b>		<b>2,534.0</b>	<b>2,906.0</b>
<b>Listed equities, total</b>		<b>5,202.8</b>	<b>7,815.7</b>

31 Dec. 2013	Shares %	Book value € million	Fair value € million
<b>Unlisted equities</b>			
<b><i>Finnish</i></b>			
Ahlström Capital Oy	6.5	8.4	22.0
Arek Oy	19.9	2.8	2.8
Fingrid Oyj	12.2	13.6	73.0
Havator Group Oy	8.8	5.4	5.4
Holiday Club Resorts Oy	15.4	4.8	5.9
Kaleva Mutual Insurance Company	30.0	2.6	2.6
Kiitosimeon Oy	15.3	1.9	1.9
Lotta Holding I Oy	5.4	15.0	15.0
Mediverkko Yhtymä Oy	10.0	3.0	5.4
Mervento Ltd	19.6	3.8	3.8
Tornator Oy	13.1	10.5	62.6
Vaasa Engineering Oy	8.7	2.4	2.4
Staffpoint Holding Oy	16.3	2.1	2.1
VVO-group plc	17.0	42.4	200.1
Other		1.1	1.4
<b>Finnish equities, total</b>		<b>119.8</b>	<b>406.4</b>
<b>Other countries</b>			
<b><i>Cayman Islands</i></b>			
Fir Tree Special Opportunities SPC Ltd	0.0	12.7	12.7
<b><i>Luxembourg</i></b>			
Esperanto Infrastructure I S.A.	0.0	25.0	25.0
MX International S.á r.l.	0.0	6.2	19.5
<b><i>Netherlands</i></b>			
BenCo Insurance Holding B.V.	3.5	0.7	3.3
<b><i>Norway</i></b>			
Acona Invest AS	16.1	6.2	6.2
<b><i>South Korea</i></b>			
Dasan III, Inc.	15.8	18.1	18.1
<b><i>Sweden</i></b>			
Attendo Holding AB	3.0	8.8	8.8
<b><i>United States</i></b>			
OSYS Holdings, LLC	13.3	6.2	6.2
Scitor Corporation	9.0	0.9	1.0
Slap Shot Holdings Corporation	0.0	1.4	3.7
SunGard Capital Corporation	0.3	5.7	5.7
Other		0.6	0.6
<b>Foreign equities, total</b>		<b>92.4</b>	<b>110.7</b>
<b>Unlisted equities, total</b>		<b>212.1</b>	<b>517.1</b>

31 Dec. 2013	Book value € million	Fair value € million
<b>Hedge funds</b>		
1903 Offshore Debt Fund Ltd	59.2	94.7
Abaco Financials Fund Ltd	60.0	62.9
Bayview Opportunity Offshore II a L.P.	15.0	24.7

Bayview Opportunity Offshore III a L.P.	<b>130.6</b>	<b>150.2</b>
Bayview Opportunity Offshore L.P.	<b>8.8</b>	<b>22.2</b>
Benefit Street Credit Alpha Fund Ltd	<b>37.3</b>	<b>37.3</b>
Black River Commodity Multi-Strategy Fund Ltd	<b>2.5</b>	<b>2.5</b>
Blackstone First Avenue Offshore Fund Ltd	<b>92.4</b>	<b>110.6</b>
Blackstone Market Opportunities OffshoreFund SPC	<b>5.0</b>	<b>7.5</b>
Blackstone Select Opportunities Offshore Fund	<b>193.0</b>	<b>248.9</b>
Blackstone Strategic Equity Offshore Fund Ltd	<b>0.7</b>	<b>0.7</b>
Blackstone Strategic Opportunity Offshore Fund Ltd	<b>75.9</b>	<b>81.2</b>
Blackstone Value Recovery Offshore Fund Ltd A1	<b>13.3</b>	<b>24.2</b>
BlueMountain Equity Alternatives Fund Ltd	<b>68.1</b>	<b>94.4</b>
BlueTrend Fund Ltd	<b>55.3</b>	<b>70.4</b>
Boussard & Gavaudan Holding	<b>50.0</b>	<b>54.5</b>
Boussard & Gavaudan Plc BGF	<b>23.1</b>	<b>26.9</b>
BTG Pactual GEMM	<b>53.9</b>	<b>56.8</b>
Capula Global Relative Value Fund Ltd	<b>45.1</b>	<b>75.9</b>
Capula Tail Risk Fund Ltd	<b>60.6</b>	<b>60.6</b>
Carlson Black Diamond Thematic Ltd	<b>48.3</b>	<b>48.3</b>
CarVal Credit Value Fund B II L.P.	<b>85.3</b>	<b>90.2</b>
CarVal Global Value Fund L.P.	<b>64.4</b>	<b>119.0</b>
CS Iris V Fund Ltd	<b>59.4</b>	<b>71.6</b>
Dabroes Offshore Investment Fund Ltd	<b>52.9</b>	<b>65.3</b>
D.E.Shaw Composite International Fund	<b>2.3</b>	<b>3.1</b>
Dialectic Antithesis Offshore, Ltd	<b>40.1</b>	<b>40.1</b>
Dialectic Antithesis Opportunities Fund II L.P.	<b>21.0</b>	<b>21.0</b>
Double Black Diamond Ltd	<b>116.4</b>	<b>184.7</b>
EJF Debt Opportunities Offshore Fund Ltd	<b>194.5</b>	<b>221.4</b>
EJF Financial Services Offshore Fund Ltd	<b>25.6</b>	<b>25.6</b>
EJF Sidecar Fund, LLC - Series (D)	<b>7.5</b>	<b>8.8</b>
EJF Speciality Finance Opportunities Offshore Fund L.P.	<b>27.2</b>	<b>27.2</b>
Element Capital Feeder Fund Ltd	<b>47.0</b>	<b>128.2</b>
Elliot International Ltd	<b>122.3</b>	<b>214.3</b>
Fir Tree International Value Fund Ltd	<b>53.2</b>	<b>90.3</b>
Five Mile Capital Partners II L.P.	<b>27.6</b>	<b>27.6</b>
Five Mile Capital Partners LLC	<b>2.1</b>	<b>2.1</b>
Glenview Capital Partners Ltd	<b>56.5</b>	<b>82.6</b>
Golden Tree Credit Opportunities Ltd	<b>14.0</b>	<b>46.0</b>
Golden Tree Distressed Debt Fund Ltd	<b>68.8</b>	<b>92.1</b>
Golden Tree MultiStrategy, Ltd A Liquid	<b>1.9</b>	<b>2.1</b>
Golden Tree Offshore Fund II Ltd	<b>30.7</b>	<b>47.4</b>
Golden Tree Offshore Fund Ltd	<b>13.7</b>	<b>19.8</b>
GSO Special Situations Overseas Fund Ltd	<b>1.4</b>	<b>2.8</b>
H/2 Credit Partners Ltd	<b>71.4</b>	<b>82.7</b>
H/2 Special Opportunities II L.P.	<b>43.4</b>	<b>51.1</b>
H/2 Special Opportunities L.P.	<b>6.8</b>	<b>15.2</b>
H/2 Targeted Return Strategies I Ltd	<b>12.2</b>	<b>12.2</b>
HBK Offshore Fund II L.P.	<b>147.4</b>	<b>195.3</b>
Jana Nirvana Offshore Fund, Ltd	<b>68.5</b>	<b>71.2</b>
King Street Capital, Ltd	<b>43.4</b>	<b>71.6</b>
Kuttura Fund L.P.	<b>52.8</b>	<b>78.8</b>
Mortality Fund I	<b>23.4</b>	<b>28.7</b>
Newport Global Opportunities Fund L.P.	<b>28.6</b>	<b>35.0</b>
Oak	<b>30.5</b>	<b>44.4</b>
Ospraie Special Opportunities Ltd	<b>6.5</b>	<b>11.2</b>
OxAM Quant Fund Ltd	<b>50.0</b>	<b>54.6</b>

OZ Asia Overseas Fund Ltd	1.8	1.8
OZ Europe Oveaseas Fund II Ltd	3.6	3.6
OZ Oveaseas Fund Ltd	2.8	4.4
Pentwater Event Fund Ltd	52.7	53.6
Reservoir Capital Overseas Partners II L.P.	9.1	9.8
Scout Capital Fund Ltd	36.9	41.4
Scout Capital Long Term, Ltd	25.8	45.3
Selectinvest ARV MC Ltd	1.1	1.4
Seneca Capital International SLV Ltd	0.6	0.6
Sevetti Fund B, L.P.	222.7	222.7
Spinnaker Global Emerging Markets Fund Ltd	54.4	61.3
Spinnaker Global Opportunity Fund Ltd	49.9	57.0
SRM Global Fund Limited	0.5	0.5
The Canoyne Value Realization Fund Ltd	19.5	30.6
Third Point Offshore Fund Ltd	54.4	58.0
Tricadia Credit Strategies Ltd	38.1	38.8
Whippoorwill Distressed Opportunity Fund, Ltd	30.9	38.3
ZAIS Empiricus Fund	54.2	55.8
ZAIS Financial Copr REIT	2.9	2.9
Zais Opportunity Fund Ltd	29.4	60.5
ZAIS SerVertis Fund I Ltd	9.7	14.6
ZAIS Zephyr Offshore Feeder Fund A-2 Ltd	0.6	1.4
Other	244.0	278.2
<b>Hedge funds, total</b>	<b>3,764.7</b>	<b>4,823.9</b>
<b>Real estate funds</b>		
Alinda Infrastructure Parallel Fund II L.P.	51.9	53.2
Alinda Infrastructure Parallel Fund I L.P.	33.1	40.4
Ares European Real Estate Fund II Euro L.P.	8.9	8.9
Ares European Real Estate Fund III L.P.	38.7	38.7
Arcus European Infrastructure Fund 1 L.P.	60.5	60.5
AXA European Real Estate Opportunity Fund II L.P.	15.9	15.9
Blackstone Real Estate Partners Europe III L.P.	50.3	61.0
Blackstone Real Estate Partners International II L.P.	27.7	27.7
CapMan Hotels RE Ky	6.1	9.0
CapMan Real Estate I Ky	8.4	8.4
CapMan RE II Ky	1.8	2.9
Colony Investors VII, L.P.	4.7	4.7
Colony Parallel Investors VIII, L.P.	23.3	23.3
EPI Baltic I Oy	0.7	0.8
EPI Russia I Ky	23.6	23.6
EQT Infrastructure II No. 2 L.P.	12.4	12.4
EQT Infrastructure No. 1 L.P.	37.9	47.2
ICECAPITAL Housing Fund III Ky	2.5	2.7
ICECAPITAL Housing Fund II Ky	14.8	19.4
ICECAPITAL Housing Fund I Ky	17.9	37.7
ICECAPITAL Saint Petersburg Residential Fund I Ky	7.9	7.9
Macquarie European Infrastructure Fund III L.P.	144.3	214.6
Macquarie European Infrastructure Fund II L.P.	92.1	105.0
BlackRock Asia Property Fund III L.P.	24.4	27.0
Moorfield Real Estate Fund II B L.P.	35.0	37.9
NV Property Fund I Ky	108.5	113.7
Sponda Fund III Ky	20.5	21.5
Sponda Fund II Ky	23.3	23.8

The CIT Real Estate Limited Partnership	0.2	0.2
Trevian Care I Ky	30.7	31.4
VVT Property Fund I Ky	13.0	13.5
Other	0.3	3.5
<b>Real estate funds, total</b>	<b>941.4</b>	<b>1,098.5</b>
<b>Fixed-income funds</b>		
H/2 TRS II CDO Holdings LTD	62.2	144.6
Inari Fund LP.	234.9	241.4
iShares iBoxx Corporate ETF	62.7	62.7
iShares Markit Corporate ETF	17.8	17.8
Ivalo Fund, LP.	290.1	306.6
Mandatum Life Nordic High Yield ABS	20.0	20.4
Seveti Fund A, L.P.	332.4	332.4
<b>Fixed-income funds, total</b>	<b>1,020.0</b>	<b>1,125.8</b>
<b>Equity funds</b>		
Aberdeen Global China Equity Fund	51.0	51.0
Aberdeen Global Latin American Equity Fund	35.2	35.2
Amundi Latin America Equity I7C Fund	27.0	27.0
East Capital Bering Ukraine Fund Series R	1.6	1.6
East Capital Financials Investors AB	16.1	16.1
Estonia Timberland Fund	6.8	6.8
Fidelity Asian Special Situations Fund SS A ACC USD	32.3	33.1
Fidelity Emerging Asia Fund AS A ACC USD	20.1	20.1
FIM Brazil Fund	9.0	9.0
FTIF Templeton Asian Growth Fund I	61.5	61.5
FTIF Templeton Asian Smaller Companies Fund	35.6	36.6
GAM Star plc - China Equity Fund	21.6	25.5
GS US Blend Equity Portfolio fund	81.4	128.6
Henderson Horizon Pan European Smaller Companies Fund	35.0	53.2
ISHARES MSCI INDONESIA ETF	14.2	14.3
iShares Russell 2000 ETF	42.6	50.6
Montanaro European Smaller Companies Fund	20.0	23.3
Nordea North American All Cap Fund	51.2	52.2
Nordea Venäjän A kasvu	25.0	26.0
Open Door Capital Group China Healthcare Partnership Master	0.5	0.5
Powershares QQQ Nasdaq 100 ETF	156.0	181.2
SPDR EMERGING ASIA PACIFIC ETF	18.2	18.2
SPDR S&P 500 ETF TRUST	800.6	970.9
SSgA Enhanced Emerging Markets Equity Fund	263.0	263.0
Taaleritehdas Arvo Rein Osake A	15.1	18.6
Taaleritehdas Turkey Equity fund	8.4	10.7
Threadneedle Pan European Smaller Companies Fund	20.0	24.3
Turquoise Partners Limited Class D	6.5	6.5
UBS Global Emerging Markets Opportunity Fund Class I-B USD	44.2	44.2
UBS (Lux) Equity SICAV USA Growth	50.5	77.1
Vanguard Emerging Markets Stock Index Fund	305.3	305.3
Vanguard Institutional Index Fund Plus shares	341.5	617.8
Vanguard Japan Stock Index Fund	102.3	103.3
Vanguard Pacific ex Japan Index Fund	80.4	82.3
William Blair US Small Mid Cap Growth Fund	40.6	48.8
Other	0.0	0.0
<b>Equity funds, total</b>	<b>2,840.2</b>	<b>3,444.8</b>

**Private equity funds**

1903 Equity Fund L.P.	2.0	2.0
Abingworth Bioventures III B L.P.	0.7	0.7
Access Capital Fund L.P. II B	2.3	2.3
Access Capital Fund L.P. II C	1.0	6.7
AC Cleantech Growth Fund I KY	18.8	18.8
Alpha Private Equity Fund 5 - JABBAH CI L.P.	7.7	7.7
Amanda III Eastern Private Equity L.P.	2.2	2.6
Apollo Investment Fund VII Euro Holdings, L.P.	34.2	44.1
Apollo Overseas Partners (Delaware) VIII, L.P.	0.7	0.7
Armada Mezzanine Fund III Ky	3.9	5.5
Auda Asia II L.P.	13.4	13.4
Auda Secondary II Feeder Fund L.P.	10.0	10.0
Behrman Capital IV L.P.	12.3	17.8
Blackstone Capital Partners IV L.P.	15.0	16.3
Blackstone Capital Partners VI L.P.	29.4	30.9
Blackstone Capital Partners V L.P.	61.7	68.7
Blackstone Capital Partners V LP	10.2	18.3
Blackstone Mezzanine Partners II L.P.	4.4	4.4
BlueRun Ventures, L.P.	5.8	7.2
CapMan Buyout IX Fund A L.P.	46.1	57.2
CapMan Buyout VIII Fund A L.P.	16.6	16.6
CapMan Life Science IV Fund L.P.	9.2	9.2
CapMan Public Market Fund FCP-SIF	9.4	24.3
CapMan Russia Fund L.P.	6.9	6.9
CapMan Technology Fund 2007 L.P.	3.5	3.6
CapVest Equity Partners II L.P.	15.0	16.0
Crown Co-Investor LP	19.5	45.9
CVC European Equity Partners IV (C) L.P.	7.0	7.0
CV Partners Kansas II L.P.	10.0	12.6
Elbrus Capital Fund II LP.	9.0	9.0
Elbrus Capital Fund I L.P.	44.1	53.4
EQT III ISS LP	10.0	14.1
EQT III UK No. 1 Limited Partnership	4.5	4.5
EQT IV No. 1 Limited Partnership	23.7	23.7
EQT VI No 1 Limited Partnership	19.7	19.7
EQT V No 1 Limited Partnership	22.3	22.3
Green Equity Investors IV L.P.	5.5	11.0
Green Equity Investors V L.P.	27.9	28.6
Hamilton Lane Co-Investment Fund II L.P.	34.5	64.0
Hamilton Lane Co-Investment Fund L.P.	49.8	49.8
IK VII L.P.	9.9	9.9
Industri Kapital 1997 Limited Partnership I,IV	0.7	0.7
Industri Kapital 2000 Limited Partnership I, II, IV	2.3	2.3
Industri Kapital 2004 Limited Partnership I	12.1	12.1
Industri Kapital 2007 Limited Partnership III	38.6	41.1
Inveni Secondaries Fund II Follow-On Ky	0.6	0.6
Kelso Investment Associates VIII, L.P.	54.4	54.4
Kelso Investment Associates VII, L.P.	6.9	6.9
MB Equity Fund IV Ky	6.9	8.6
MBK Partners Fund III, L.P.	13.0	16.7
MBK Partners Fund II, L.P.	44.4	70.8
MBK Partners, L.P.	20.1	32.1
MCP (Moelis) Co Invest LP	8.5	8.6

Mezzanine Management Fund IV A L.P.	11.9	15.1
MML Capital Partners Fund V L.P.	11.0	11.0
Moelis Capital Partners Opportunity Fund I L.P.	51.6	61.9
Moelis & Company Holdings Feeder LP	9.6	11.4
Morgan Stanley Emerging Private Markets Fund I NL C.V.	0.6	0.8
Nokia Venture Partners II L.P.	2.1	2.1
Nordic Mezzanine Fund III L.P.	7.7	8.2
Nordic Mezzanine Fund II L.P.	1.3	3.0
Onex Partners III L.P.	55.9	63.3
Onex Partners II L.P.	12.6	17.3
Permira Europe III L.P.2	11.5	11.5
Permira Europe II L.P. 2	0.5	0.5
Permira Europe IV L.P.2	30.8	37.2
Platinum Equity Capital Partners III L.P.	6.0	12.2
Platinum Equity Capital Partners II, L.P.	28.1	49.3
Power Fund III Ky	1.2	1.2
Power Fund II Ky	6.5	6.5
Power Fund I Ky	1.9	3.8
Profita Fund III Ky	4.2	4.2
Quadrangle Offshore GB Investors II LP	7.3	11.4
Quadruga Capital Private Equity Fund III L.P.	17.1	17.1
Saw Mill Capital Partners, L.P.	11.6	11.8
Selected Mezzanine Funds I Ky	5.0	5.7
Selected Private Equity Funds I Ky	6.0	6.6
Sponsor Fund III Ky	21.5	25.9
TCW Crescent Mezzanine Partners IV B L.P.	13.2	13.2
TCW Crescent Mezzanine Partners V L.P.	32.6	36.2
The Fifth Cinven Fund (No. 1) LP.	9.7	9.7
The Fourth Cinven Fund LP.	36.0	43.2
Warburg Pincus Private Equity IX, L.P.	13.1	32.7
Warburg Pincus Private Equity VIII, L.P.	2.4	29.7
Warburg Pincus Private Equity XI LP.	26.1	26.1
Warburg Pincus Private Equity X, L.P.	66.4	89.2
VSS Communications Parallel Partners IV, L.P.	19.7	19.7
Other	2.5	14.2
<b>Private equity funds, total</b>	<b>1,393.5</b>	<b>1,755.5</b>
<b>Funds, total</b>	<b>9,959.7</b>	<b>12,248.4</b>
<b>Parent Company, total</b>	<b>15,374.6</b>	<b>20,581.3</b>

**The Group's shareholdint deviates from the Parent Company's as follows:**

Kaleva Mutual Insurance Company guarantee capital	3.3	3.3
Martinparkki Oy	3.3	3.3
Poha-Pysäköinti Oy	1.4	1.4
Ruohoparkki Oy	3.3	3.3
Vaasan Toripysäköinti Oy	2.3	2.3
Other	2.5	2.5
<b>Group, total</b>	<b>15,390.7</b>	<b>20,597.4</b>

## 17. Changes in tangible and intangible assets, Parent Company

	<b>Intangible assets Other expenses with long- term effects</b>	<b>Tangible assets Equipment</b>	<b>Tangible assets Other tangible assets</b>	<b>Total</b>
31 Dec. 2013, € million				
Acquisition cost, 1 Jan.	<b>53.6</b>	<b>7.4</b>	<b>0.9</b>	<b>61.9</b>
Completely depreciated in the previous year	<b>-0.3</b>	<b>-0.4</b>		<b>-0.7</b>
Increase	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.5</b>
Decrease	<b>-2.0</b>			<b>-2.0</b>
Acquisition cost, 31 Dec.	<b>51.5</b>	<b>7.2</b>	<b>0.9</b>	<b>59.6</b>
Accumulated depreciation, 1 Jan.	<b>-21.5</b>	<b>-4.0</b>		<b>-25.5</b>
Completely depreciated in the previous year	<b>0.3</b>	<b>0.4</b>		<b>0.7</b>
Depreciation for the financial year	<b>-8.2</b>	<b>-0.9</b>		<b>-9.2</b>
Accumulated depreciation, 31 Dec.	<b>-29.4</b>	<b>-4.5</b>		<b>-33.9</b>
Book value, 31 Dec. 2013	<b>22.1</b>	<b>2.7</b>	<b>0.9</b>	<b>25.7</b>
Book value, 31 Dec. 2012	32.1	3.4	0.9	36.4

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

## 18. Loan receivables itemised by guarantee

	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
31 Dec., € million				
Bank guarantee	<b>538.5</b>	841.7	<b>538.5</b>	841.7
Guarantee insurance	<b>312.4</b>	337.2	<b>312.4</b>	337.2
Other guarantee	<b>748.8</b>	756.9	<b>748.8</b>	756.9
Remaining acquisition cost, total	<b>1,599.7</b>	1,935.8	<b>1,599.7</b>	1,935.8

## 19. Total pension loan receivables itemised by balance sheet item

	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
31 Dec., € million				
Loans guaranteed by mortgages	<b>295.5</b>	364.2	<b>295.5</b>	364.2
Other loan receivables	<b>813.5</b>	1,157.0	<b>813.5</b>	1,157.0
Remaining acquisition cost, total	<b>1,109.0</b>	1,521.2	<b>1,109.0</b>	1,521.2

## 20. Loans to related parties

	<b>Parent Company 2013</b>	Parent Company 2012
31 Dec., € million		
Loans to Group companies	<b>856.3</b>	982.6

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

## 21. Derivatives

31 Dec., € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
Other receivables				
Advance payments for option contracts	<b>19.9</b>	45.1	<b>19.9</b>	45.1
Prepayments and accrued income				
Interest income from derivatives				
Other liabilities				
Advance payments for option contracts	<b>18.7</b>	6.5	<b>18.7</b>	6.5
Value adjustments of derivatives	<b>23.7</b>	37.4	<b>23.7</b>	37.4

## 22. Liabilities to Group companies

31 Dec., € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
Other liabilities	<b>0.6</b>	0.6	<b>0.6</b>	0.6

## 23. Technical provisions

31 Dec., € million	<b>Parent Company 2013</b>	Parent Company 2012	<b>Group 2013</b>	Group 2012
Provision for unearned premiums				
Future pensions	<b>14,901.1</b>	14,908.5	<b>14,901.1</b>	14,908.5
Provision for future bonuses	<b>1,301.2</b>	1,072.8	<b>1,301.2</b>	1,072.8
Provision for current bonuses	<b>105.9</b>	78.7	<b>105.9</b>	78.7
Equity-linked provision for current and future bonuses	<b>719.7</b>	190.4	<b>719.7</b>	190.4
Total provision for unearned premiums	<b>17,028.0</b>	16,250.5	<b>17,028.0</b>	16,250.5
Provision for claims outstanding				
Current pensions	<b>13,253.0</b>	12,408.6	<b>13,253.0</b>	12,408.6
Equalisation provision	<b>1,118.1</b>	1,107.6	<b>1,118.1</b>	1,107.6
Total provision for claims outstanding	<b>14,371.2</b>	13,516.2	<b>14,371.2</b>	13,516.2
Total technical provisions	<b>31,399.1</b>	29,766.6	<b>31,399.1</b>	29,766.6

## 24. Solvency capital, Parent Company

31 Dec., € million	2013	2012
Capital and reserves	<b>102.0</b>	97.4
Interest on guarantee capital proposed for distribution	<b>-0.6</b>	-0.6
Valuation difference between fair values on assets and book values of balance sheet items	<b>6,641.0</b>	5,431.7
Provision for future bonuses	<b>1,301.2</b>	1,072.8
Equalisation provision	<b>1,118.1</b>	
Intangible assets	<b>-22.1</b>	-32.1
Provision for pooled claims equated with solvency capital		1,147.0
	<b>9,139.7</b>	7,716.3
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17	<b>1,395.3</b>	550.6

## 25. Liabilities, Parent Company

31 Dec., € million	2013	2012
Guarantees given on own behalf		
Assets pledged as security for derivatives	13.7	0.7

Cash guarantees required for clarification of derivative contracts to the value of EUR 13.7 million are included in cash at bank and in hand balance sheet item.

## 26. Capital and reserves

	<b>Parent Company 2013</b>	<b>Group 2013</b>
31 Dec., € million		
Guarantee capital	<b>11.9</b>	<b>11.9</b>
Other reserves, 1 Jan.	<b>80.8</b>	<b>80.8</b>
Profit brought forward from 2012	<b>3.7</b>	<b>3.7</b>
Other reserves, 31 Dec.	<b>84.5</b>	<b>84.5</b>
Profit/loss brought forward	<b>4.7</b>	<b>-49.4</b>
Transfer to contingency fund	<b>-3.7</b>	<b>-3.7</b>
Distributed interest on guarantee capital	<b>-0.6</b>	<b>-0.6</b>
Transfer to the Board of Directors' expense account	<b>-0.1</b>	<b>-0.1</b>
	<b>0.4</b>	<b>-53.7</b>
Profit for the financial year	<b>5.2</b>	<b>23.6</b>
Total capital and reserves	<b>102.0</b>	<b>66.4</b>

## 27. Capital and reserves after proposed profit distribution

	<b>Parent Company 2013</b>
31 Dec., € million	
Holders of guarantee capital	
Guarantee capital	<b>11.9</b>
Proposed distribution to holders of guarantee capital	<b>0.6</b>
Policyholders	<b>89.5</b>
Total	<b>102.0</b>

## 28. Distributable profits

		<b>Parent Company 2013</b>
31 Dec., € million		
Profit for the financial year		<b>5.2</b>
Other capital and reserves		
Other reserves	<b>84.5</b>	
Profit brought forward	<b>0.4</b>	<b>84.9</b>
Total distributable profits		<b>90.1</b>

## 29. Guarantee capital

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

## 30. Guarantees and liabilities, Parent Company

31 Dec., € million	2013	2012
<b>Contingent liabilities and liabilities not included in the balance sheet</b>		
<b>Derivatives</b>		
<b>Derivatives for hedging purposes</b>		
<b>Currency derivatives</b>		
Forward contracts		
Underlying instrument, absolute value	3,137.5	805.3
Underlying instrument, risk-adjusted value	-2,953.6	-776.5
Fair value	-7.3	-5.2
Currency swap contracts		
Underlying instrument, absolute value	10,245.5	8,129.5
Underlying instrument, risk-adjusted value	-10,245.5	-7,982.9
Fair value	56.8	99.2
<b>Other derivatives</b>		
<b>Interest rate derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	818.2	19,409.5
Underlying instrument, risk-adjusted value	-896.7	-1,660.6
Fair value	1.5	-2.2
Option contracts		
Bought		
Underlying instrument, absolute value	25,000.0	16,126.7
Underlying instrument, risk-adjusted value	-6,849.9	-4,610.7
Fair value	-4.4	0.4
Sold		
Underlying instrument, absolute value	35,000.0	16,126.7
Underlying instrument, risk-adjusted value	5,695.8	3,532.5
Fair value	3.9	-0.2
Credit risk derivatives		
Underlying instrument, absolute value		753.4
Underlying instrument, risk-adjusted value		206.9
Fair value		0.9
<b>Interest rate swap contracts</b>		
Underlying instrument, absolute value	64.8	157.3
Underlying instrument, risk-adjusted value	64.8	157.3
Fair value	0.2	0.3
<b>Currency derivatives</b>		
Option contracts		
Bought		
Underlying instrument, absolute value	438.1	1,592.7
Underlying instrument, risk-adjusted value	260.2	-414.9
Fair value	-2.3	15.5
Sold		
Underlying instrument, absolute value	577.8	678.5
Underlying instrument, risk-adjusted value	-244.3	-59.3
Fair value	4.8	-19.5

Forward and futures contracts		
Underlying instrument, absolute value	<b>89.9</b>	
Underlying instrument, risk-adjusted value	<b>-22.4</b>	
Fair value	<b>0.6</b>	
Currency swap contracts		
Underlying instrument, absolute value	<b>87.1</b>	145.2
Underlying instrument, risk-adjusted value	<b>-87.1</b>	-99.7
Fair value	<b>3.0</b>	9.0
<b>Equity derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	<b>202.9</b>	127.4
Underlying instrument, risk-adjusted value	<b>202.9</b>	127.4
Fair value	<b>6.7</b>	-0.1
Option contracts		
Bought		
Underlying instrument, absolute value	<b>259.4</b>	534.7
Underlying instrument, risk-adjusted value	<b>24.0</b>	25.9
Fair value	<b>-4.8</b>	1.3
Sold		
Underlying instrument, absolute value	<b>639.0</b>	579.7
Underlying instrument, risk-adjusted value	<b>-24.9</b>	31.4
Fair value	<b>6.6</b>	0.2
<b>Other derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	<b>506.6</b>	757.6
Underlying instrument, risk-adjusted value	<b>-16.0</b>	285.2
Fair value	<b>-0.3</b>	2.7
Option contracts		
Bought		
Underlying instrument, absolute value	<b>15.4</b>	20.5
Underlying instrument, risk-adjusted value	<b>1.7</b>	3.5
Fair value	<b>-0.3</b>	-0.3
Sold		
Underlying instrument, absolute value	<b>15.4</b>	20.5
Underlying instrument, risk-adjusted value	<b>-4.5</b>	-9.0
Fair value	<b>1.0</b>	1.0
Commodity swaps		
Underlying instrument, absolute value	<b>217.5</b>	
Underlying instrument, risk-adjusted value	<b>217.5</b>	
Fair value	<b>0.6</b>	
<b>Total</b>	<b>Underlying instrument, absolute value</b>	<b>77,315.3</b> 65,965.2
	<b>Underlying instrument, risk-adjusted value</b>	<b>-14,878.1</b> -11,243.3
	<b>Fair value</b>	<b>66.2</b> 103.0

The fair values of quoted derivatives have been calculated using the price quoted on the stock exchange. The fair values of other derivatives are based on calculations of market quotes or on estimates of the fair values presented by outside parties.

## 31. Guarantees and liabilities, Parent Company

31 Dec., € million	2013	2012
<b>Investment commitments</b>		
Private equity funds	<b>3,421.9</b>	3,196.4
Other funds	<b>2,258.0</b>	1,216.0
<b>Pension liabilities</b>		
Pension commitments	<b>0.9</b>	1.0
<b>Leasing and renting liabilities</b>		
Expiring next year	<b>0.8</b>	0.9
Expiring later	<b>0.7</b>	1.1
<b>Other liabilities</b>		
Varma Mutual Pension Insurance Company belongs to a value-added tax liability group together with eFennia Oy, Veritas Pension Insurance, Fennia Asset Management Ltd., Mutual Insurance Company Pension Fennia, Mutual Insurance Company Fennia, Suomen Vahinkotarkastus SVT Oy, Tieto Esy Ltd and Fennia Life Insurance Company, and real estate companies owned by the aforementioned companies.		
Group members are collectively responsible for the value-added tax payable by the Group.	<b>7.2</b>	5.9
Obligation to verify VAT allowances of real estate investments	<b>149.7</b>	130.0
<b>Loaned securities</b>		
Bonds		
Nominal value	<b>1,387.0</b>	1,219.0
Remaining acquisition cost	<b>1,423.1</b>	1,277.3
Fair value	<b>1,427.1</b>	1,352.6

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

## Varma balance sheet and income statement at fair value

The financial statements of an earnings-related pension company are prepared in accordance with the Finnish Accounting Act, Companies Act, Insurance Companies Act, Employee Pension Insurance Companies Act and the Act on calculating the solvency limit and covering technical provisions in pension institutions. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations and guidelines of the Financial Supervisory Authority are complied with. IFRS standards do not concern earnings-related pension insurance companies.

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

Technical provisions also include a substantial provision for future bonuses, which provides a buffer against fluctuations in results and strengthens company solvency, a provision for current bonuses which is reserved for the payment of client bonuses, and an equity-linked provision for current and future bonuses, which provides protection against fluctuations in the value of pension companies' shares. The main components of the solvency capital, measuring the company's solvency, are the capital and reserves, provision for future bonuses, equalisation provision and valuation differences of investments.

The operating expenses of the company are listed under a number of entries in the income statement and key figures. The effect of fair values on the company's investments and their results are presented in the notes to the financial statements. Earnings-related pension companies need not present deferred tax liabilities as long as the calculation bases set by the Finnish Ministry of Social Affairs and Health that confirm the financial year's profit in the income statement are in force. As a result of this, an earnings-related pension insurance company cannot make full use of the tax-free component of the dividend income or earlier tax credits connected with dividends. In an earnings-related pension insurance company, the significance of the consolidated financial statements is mainly technical.

In the notes to the financial statements the investment returns at fair values are compared to the interest credited on technical provisions, and the operating expenses by function (excluding operating expenses related to investments, to maintenance of workability and statutory charges) are compared to the loading income included in insurance contributions. The combined result from investment operations, loading profit and insurance business, corresponds to the profit in the income statement at fair values.

The financial statements, drawn up in compliance with valid regulations, include a note to the balance sheet, which presents asset items at fair values, and a note to the income statement, which presents the items of the income statement summarised and re-grouped. The total result presented in the income statement drawn up at fair values substantially deviates from the result for the financial year in the income statement, drawn up in accordance with calculation bases confirmed in advance by the Finnish Ministry of Social Affairs and Health.

The total result of the parent company Varma for 2013 stood at EUR 1,558 (1,201) million and the balance sheet total was EUR 38,310 (35,651) million.

## Balance sheet at fair value, Parent Company

31 Dec., € million	2013	2012	2011
<b>Assets</b>			
Investments	<b>37,718</b>	34,406	31,852
Receivables	<b>566</b>	1,208	1,157
Equipment	<b>26</b>	36	46
	<b>38,310</b>	35,651	33,055
<b>Liabilities</b>			
Capital and reserves	<b>101</b>	97	93
Valuation differences	<b>6,619</b>	5,400	3,775
Equalisation provision	<b>1,118</b>		
Provision for pooled claims equated with solvency capital		1,147	1,096
Provision for future bonuses	<b>1,301</b>	1,073	1,556
Total solvency capital	<b>9,140</b>	7,716	6,520
Provision for current bonuses (for client bonuses)	<b>106</b>	79	74
Equity-linked provision for current and future bonuses	<b>720</b>	190	-180
Equalisation provision		1,108	1,120
Provision for pooled claims equated with solvency capital		-1,147	-1,096
Actual technical provision	<b>28,154</b>	27,317	26,395
Total	<b>28,874</b>	27,468	26,240
Other liabilities	<b>190</b>	388	221
	<b>38,310</b>	35,651	33,055

## Income statement at fair value, Parent Company

1 Jan–31 Dec, € million	2013	2012	2011
Premiums written	<b>4,258</b>	4,231	3,977
Claims paid	<b>-4,446</b>	-4,168	-3,925
Change in technical provisions	<b>-1,289</b>	-1,219	-596
Net investment income	<b>3,183</b>	2,510	-693
Total operating expenses	<b>-143</b>	-149	-136
Taxes	<b>-6</b>	-4	-5
<b>Total result <sup>1</sup></b>	<b>1,558</b>	1,201	-1,378

<sup>1</sup> Result at fair value before change in provision for current and future bonuses and equalisation provision.

## Key figures and analyses

### Summary

31 Dec., € million	2013	2012	2011	2010	2009
Premiums written, € million	<b>4,258.0</b>	4,230.7	3,976.6	3,735.2	3,399.7
Pensions paid and other payments made, € million	<b>4,445.5</b>	4,167.5	3,924.6	3,652.9	3,265.9
Net investment income at fair value, € million	<b>3,160.1</b>	2,492.4	-711.0	3,277.8	3,551.1
Return on invested capital, %	<b>9.0</b>	7.7	-2.1	11.0	14.1
Turnover, € million	<b>6,228.3</b>	5,120.7	3,942.9	4,888.1	5,883.4
Total operating expenses, € million	<b>142.7</b>	148.7	135.9	132.0	126.6
of turnover, %	<b>2.3</b>	2.9	3.4	2.7	2.2
Operating expenses covered by the expense loading included in insurance contributions	<b>101.3</b>	110.3	93.2	93.7	93.1
of TyEL and YEL payroll, %	<b>0.5</b>	0.6	0.5	0.5	0.6
Total result, € million	<b>1,558.5</b>	1,201.4	-1,377.7	2,054.4	2,185.3
Technical provisions, € million	<b>31,399.1</b>	29,766.6	28,965.6	29,088.8	27,789.3
Solvency capital, € million	<b>9,139.7</b>	7,716.3	6,520.4	7,912.9	6,017.1
of technical provision, %	<b>31.6</b>	28.0	24.8	30.8	24.9
in relation to solvency limit	<b>2.2</b>	2.4	2.5	2.3	2.8
Equalisation provision, € million	<b>1,118.1</b>	1,107.6	1,120.2	1,158.3	1,016.2
Pension assets, € million	<b>38,040.2</b>	35,198.4	32,782.3	33,570.1	30,126.8
Transfer to client bonuses of TyEL payroll, %	<b>0.59</b>	0.44	0.40	0.54	0.40
TyEL payroll, € million	<b>17,813.4</b>	17,706.1	17,324.6	16,495.3	15,152.7
YEL payroll, € million	<b>901.7</b>	909.9	880.0	749.4	732.6
TyEL policies	<b>26,900</b>	27,600	28,100	28,300	27,600
TyEL insured persons	<b>491,400</b>	498,500	498,400	488,300	474,800
YEL policies	<b>39,810</b>	41,280	41,940	38,400	38,300
Pensioners	<b>333,700</b>	331,400	330,000	326,900	322,900

## Performance analysis

31 Dec., € million	2013	2012	2011	2010	2009
<b>Sources of profit</b>					
Technical underwriting result	14.5	-9.2	-35.0	145.1	11.6
Investment surplus at fair value	1,511.9	1,189.4	-1,378.0	1,874.0	2,151.1
+ Net investment income at fair value	3,160.1	2,492.4	-711.0	3,277.8	3,551.1
- Return requirement on technical provisions	-1,648.3	-1,303.0	-667.1	-1,403.9	-1,400.1
Loading profit	32.0	21.2	35.3	35.4	22.7
Total result	1,558.5	1,201.4	-1,377.7	2,054.5	2,185.3
<b>Appropriation of profit</b>					
To increase solvency	1,453.5	1,123.4	-1,450.7	1,965.4	2,124.3
Equalisation provision	10.5	-12.6	-38.1	142.1	8.3
Change in provision for future bonuses	228.4	-483.4	-753.1	-324.9	1,038.7
Change in difference between fair value and book value	1,209.3	1,615.0	-664.6	2,143.9	1,073.9
Profit for the financial year	5.2	4.3	5.0	4.3	3.3
Transfer to client bonuses	105.0	78.0	73.0	89.0	61.0
Transfer to augment the provision for current bonuses	0.0	0.0	0.0	0.0	0.0
Total	1,558.5	1,201.4	-1,377.7	2,054.4	2,185.3

## Solvency

Solvency capital and limits (as a percentage of the technical provisions used in calculating the solvency limit)

	2013	2012	2011	2010	2009
Solvency limit	<b>14.5</b>	11.8	9.9	13.3	9.0
Maximum amount of solvency capital	<b>57.8</b>	47.1	39.6	53.2	36.1
Solvency capital	<b>27.7</b>				
Solvency capital (solvency ratio)	<b>31.6</b>	28.0	24.8	30.8	24.9

## Investment allocation at fair value

	Market value 2013 € mill.	%	Market value 2012 € mill.	%	Risk position 2013 € mill.	%	Risk position 2012 %	Risk position 2011 %	Risk position 2010 %	Risk position 2009 %
<b>Fixed-income investments</b>	<b>12,893.1</b>	<b>34.2</b>	<b>13,035.5</b>	<b>37.9</b>	<b>10,623.5</b>	<b>28.2</b>	<b>31.0</b>	<b>42.4</b>	<b>34.2</b>	<b>47.5</b>
Loan receivables	2,026.4	5.4	2,441.0	7.1	2,026.4	5.4	7.1	9.3	11.3	11.8
Public sector bonds	9,523.8	25.3	9,061.0	26.3	9,231.8	24.5	27.3	27.1	20.0	30.4
Other money-market instruments and deposits	1,342.9	3.6	1,533.5	4.5	-634.6	-1.7	-3.4	6.0	2.8	5.3
<b>Equity investments</b>	<b>14,565.1</b>	<b>38.6</b>	<b>11,554.1</b>	<b>33.6</b>	<b>14,755.6</b>	<b>39.1</b>	<b>34.1</b>	<b>30.5</b>	<b>40.1</b>	<b>27.5</b>
Listed equities	11,393.3	30.2	8,393.8	24.4	11,578.8	30.7	24.9	21.6	32.8	22.7
Private equities	2,174.7	5.8	2,394.3	7.0	2,174.7	5.8	7.0	6.6	5.4	3.2
Unlisted equities	997.1	2.6	766.1	2.2	1,002.2	2.7	2.2	2.3	1.8	1.5
<b>Real estate investments</b>	<b>4,304.2</b>	<b>11.4</b>	<b>4,463.5</b>	<b>13.0</b>	<b>4,304.2</b>	<b>11.4</b>	<b>13.0</b>	<b>14.0</b>	<b>13.0</b>	<b>15.1</b>
Direct real estates	3,738.9	9.9	3,960.6	11.5	3,738.9	9.9	11.5	12.5	11.9	13.1
Real estate funds	565.2	1.5	502.9	1.5	565.2	1.5	1.5	1.5	1.1	2.0
<b>Other investments</b>	<b>5,955.7</b>	<b>15.8</b>	<b>5,352.9</b>	<b>15.6</b>	<b>6,156.5</b>	<b>16.3</b>	<b>16.4</b>	<b>14.2</b>	<b>15.3</b>	<b>13.2</b>
Hedge funds	4,849.7	12.9	3,779.4	11.0	4,849.7	12.9	11.0	11.2	11.2	11.2
Commodities	0.3	0.0	2.5	0.0	201.0	0.5	0.8	0.4	3.1	1.9
Other investments	1,105.8	2.9	1,571.0	4.6	1,105.8	2.9	4.6	2.6	1.1	0.0
<b>Investments</b>	<b>37,718.1</b>	<b>100.0</b>	<b>34,406.0</b>	<b>100.0</b>	<b>35,839.8</b>	<b>95.0</b>	<b>94.4</b>	<b>101.1</b>	<b>102.6</b>	<b>103.2</b>
Impact of derivatives					1,878.3	5.0	5.6	-1.1	-2.6	-3.2
<b>Investment allocation at fair value</b>	<b>37,718.1</b>	<b>100.0</b>	<b>34,406.0</b>	<b>100.0</b>	<b>37,718.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Modified duration of the bond portfolio</b>	<b>4.1</b>									

## Net investment income at fair value

	Net investment income, market value 2013 € million	Invested capital 2013 € million	Return on invested capital 2013 %	Return on invested capital 2012 %	Return on invested capital 2011 %	Return on invested capital 2010 %	Return on invested capital 2009 %
Return €/ % on invested capital							
<b>Fixed-income investments</b>	<b>145.9</b>	<b>12,563.9</b>	<b>1.2</b>	<b>4.4</b>	<b>4.2</b>	<b>4.6</b>	<b>8.6</b>
Loan receivables	74.4	2,272.0	3.3	3.2	3.9	1.5	3.4
Public sector bonds	76.4	9,053.5	0.8	5.5	5.0	6.3	11.2
Other money-market instruments and deposits	-4.9	1,238.3	-0.4	0.7	1.0	2.1	4.7
<b>Equity investments</b>	<b>2,635.0</b>	<b>12,106.2</b>	<b>21.8</b>	<b>14.5</b>	<b>-13.0</b>	<b>19.8</b>	<b>33.3</b>
Listed equities	2,154.9	9,086.6	23.7	14.9	-18.9	18.9	46.4
Private equity	270.6	2,231.7	12.1	13.0	9.6	23.9	2.3
Unlisted equities	210.4	787.9	26.7	15.5	20.7	24.5	4.5
<b>Real estate investments</b>	<b>137.7</b>	<b>4,388.2</b>	<b>3.1</b>	<b>4.5</b>	<b>6.4</b>	<b>3.5</b>	<b>2.7</b>
Direct real investments	78.8	3,879.7	2.0	4.6	5.9	3.3	5.3
Real estate funds	58.9	508.5	11.6	3.1	11.2	4.8	-12.5
<b>Other investments</b>	<b>265.7</b>	<b>5,927.0</b>	<b>4.5</b>	<b>6.0</b>	<b>4.5</b>	<b>18.0</b>	<b>25.3</b>
Hedge funds	380.0	4,302.8	8.8	6.8	3.5	17.1	25.1
Commodities	-11.6	3.3	-357.1				28.6
Other investments	-102.7	1,620.9	-6.3	6.0	10.9	17.1	
<b>Investments</b>	<b>3,184.2</b>	<b>34,985.2</b>	<b>9.1</b>	<b>7.7</b>	<b>-2.1</b>	<b>11.0</b>	<b>14.1</b>
Unallocated income, costs and operating expenses from investment activities	-24.1	15.8					
<b>Net investment income at fair value</b>	<b>3,160.1</b>	<b>35,001.0</b>	<b>9.0</b>	<b>7.7</b>	<b>-2.1</b>	<b>11.0</b>	<b>14.1</b>

## Loading profit

€ million	2013	2012	2011	2010	2009
Expense loading components included in contributions	<b>126.6</b>	125.4	122.2	123.0	110.2
Components available to cover operating expenses arising from compensation decisions	<b>5.8</b>	5.8	5.5	4.9	4.6
Other income	<b>0.9</b>	0.4	0.8	1.2	1.0
Total loading income	<b>133.3</b>	131.5	128.5	129.0	115.8
Operating expenses covered by loading income <sup>1</sup>	<b>-101.3</b>	-110.3	-93.2	-93.7	-93.1
Total operating expenses	<b>-101.3</b>	-110.3	-93.2	-93.7	-93.1
Loading profit	<b>32.0</b>	21.2	35.3	35.4	22.7
Operating expenses in relation to loading income, %	<b>76</b>	84	73	73	80

<sup>1</sup> Excluding operating expenses related to investments and maintenance of working capacity and statutory charges.

## Maintenance of working capacity expenses

31.12., milj. €	2013	2012	2011	2010	2009
Premiums written; the administrative cost component of the disability risk	<b>5.4</b>	5.4	5.3	5.0	4.1
Claims incurred; maintenance of working capacity expenses	<b>6.5</b>	6.5	7.7	6.0	3.9
<b>Maintenance of working capacity expenses; The administrative cost component of the disability risk, %</b>	<b>121.0</b>	121.9	144.9	120.1	96.0

# Risk management

## Risk management as an element of internal control

Internal control is a process that aims to ensure:

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

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

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative targets for its core functions. Varma's risk management plan takes into account what the Board of Directors decides on the content and organisation of internal control, on implementation of the internal control sectors and principles and on the joint guidelines for the internal control of the Group.

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

## Risk management - organisation, responsibilities, supervision and reporting

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

The Board of Directors annually outlines a risk management plan and a contingency plan that cover all operations and assesses whether the company's internal control is appropriately arranged. The Board of Directors' Audit Committee supervises financial and other reporting and the status of internal control, e.g. by tracking the work in progress of internal and external auditing and by reviewing a variety of audit reports. The President and CEO monitors the company's risks in accordance with the principles laid down in the risk management, investment and contingency plans approved by the Board of Directors.

The Executive Group monitors the company's internal control and risk management processes and maintains and develops guidelines for risk management and contingency planning.

Risks are reported to the Board of Directors quarterly.

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

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

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

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

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

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

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

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

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

## Goals and general risk management principles

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

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

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

Varma also observes good insurance principles and treats all policyholders in a fair manner. All business transactions with policyholders are on market terms. Particular attention is paid to transactions covering the financing of a policyholder's operations, real estate and other transactions, and leases.

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

### Business risks

The company's main business functions are pension services, insurance services, client relationship management, and investment operations, including their support functions. Essential risks are related to investments, information technology, the networked operation of the pension system, and to adjusting the control system and operating models to changes in the operating environment and legislation.

Other major risks include costs related to the structure of the earnings-related pension system, risks related to the choice of technology, and the project and implementation stage of new projects, risks related to the management and development of outsourced IT processes, contractual and counterparty risks, as well as risks related to the functioning and financial success of the partnership network.

Varma's most important operational requirement is to manage all pension and insurance transactions correctly and on time.

Financially the most important risks are those concerning investment operations.

Other risks are those connected with management information, corporate image, functional shortcomings and/or incorrect use of information systems, incorrect handling of information, incorrect interpretation of

provisions and regulations, incorrect handling of investments, the company's physical operating environment, efficient use of resources, disturbance-free operation of the European payment and securities settlement system, and the underwriting business, which is the company's own responsibility.

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

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

## Insurance risks

The Finnish earnings-related pension system functions on a partially funded basis with respect to the Employees Pensions Act (TyEL). Around one fifth of the pensions paid each year is previously funded, while the remaining part is a pooled component, which is covered by annually collected insurance contributions. The funded parts of the pension are the responsibility of individual pension institutions, while the pooled components are the joint responsibility of all the pension institutions.

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

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

The level of earnings-related pension cover is based on a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liabilities for bankruptcy that applies to all earnings-related pension insurance institutions. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. Under the TyEL act, the technical bases must be secure and, should the base for technical provisions prove insufficient for all earnings-related pension insurance institutions, the technical provisions can be supplemented with a clearing system.

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

The equalisation provision, which contains a risk-theory-based lower and upper limit, helps the companies to prepare for fluctuations in their annual insurance business results. Varma's equalisation provision under TyEL was approximately EUR 1,075 million at the end of 2012, which is about 6.0 per cent of the total

payroll of the insured. The corresponding risk components included in TyEL contributions totalled approximately 4.0 per cent of the total payroll in 2013.

The greatest fluctuation in the insurance business relates to disability pensions. In terms of the disability and unemployment pension component, the amount of Varma's equalisation provision corresponds to the funded pension expenditure of more than three years.

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

According to the annual calculation, the structure of Varma's technical provisions on 31 December 2012 was as follows:

	€ million	%
<b>TyEL basic insurance</b>		
Provision for unearned premiums		
Future old-age pension liabilities	14,211	47.7
Future disability pension liabilities	434	1.5
Provision for future bonuses	1,073	3.6
Provision for current bonuses	79	0.3
Equity-linked provision for current and future bonuses	190	0.6
Total provision for unearned premiums	15,987	53.7
Provision for claims outstanding		
Current old-age pension liabilities	7,723	25.9
Current disability pension liabilities	1,519	5.1
Current unemployment pension liabilities	1	0.0
Provision for pooled claims	2,896	9.7
Equalisation provision	1,075	3.6
Total provision for claims outstanding	13,213	44.4
TyEL basic pension insurance, total	29,200	98.0
TEL compliant supplementary pension insurance, total	560	1.9
YEL basic pension insurance, total	19	0.1
YEL compliant supplementary pension insurance, total	3	0.0
<b>Total technical provisions</b>	<b>29,782</b>	<b>100.0</b>
	€ million	Of payroll, %
<b>TyEL equalisation provision, 31 Dec. 2012</b>		
Old-age pension component	40	0.2
Disability pension component	806	4.5
Unemployment pension component	50	0.3
Contribution loss component	179	1.0
<b>Total</b>	<b>1,075</b>	<b>6.0</b>
Lower limit for the equalisation provision	267	
Upper limit for the equalisation provision	1,352	

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

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

The risks involved in technical provisions and the assets covering technical provisions, i.e. insurance and investment risks, are provided for by the solvency capital, which includes the above-mentioned equalisation provision. The amount of solvency capital is monitored in relation to the technical provisions and to the solvency limit calculated on the basis of investment allocation. The calculation of the solvency limit also takes into account the insurance risk. Thus, solvency capital provides the company with a buffer especially for years in which the return on the assets covering the technical provisions is below the interest credited on technical provisions.

A part of the interest credited on technical provisions (10%) is determined retroactively and is based on the pension-insurance companies' actual equity returns. An equity-linked provision for current and future bonuses, which is between -10 per cent and +5 per cent of the technical provisions, helps the insurance companies to carry the risks involved. If a pension institution's equity returns differ from the average, it must employ its solvency capital to carry the risks that this involves. When the average equity return is calculated, the weight of the largest pension institutions is limited to 15 per cent.

The following table presents the allocation of investments and certain other items according to solvency group at year-end.

	€ million	%
Money-market instrument	1,289	3.4
Bonds and obligations	12,345	32.4
Real estate	6,009	15.8
Shares	16,016	42.0
Miscellaneous investments	2,478	6.5
	38,138	100.0

## Investment Risks

*Market risk* is the fluctuation of the value of investments. The greatest market risk is that involved in equities. Other market risks are the interest rate risk, foreign currency risk, and the value change risk of real estate objects. Interest rate risk can be realised as a price risk, and early repayment of capital as a reinvestment risk.

*Inflation risk* is the decrease of the real value or return of assets.

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

*Liquidity risk* is the realisation of cash flow at a different amount than expected. A risk is also constituted by investments that cannot be converted into cash at all or can only be converted at a major loss. In the management of liquidity, any guarantee engagements must also be taken into account. Liquidity disturbances in the banking system are also mirrored in Varma's liquidity.

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

Investment risk management makes use of calculation assumptions and the regulations governing technical provisions and solvency, among other things. Management of investment risks involves the determination of acceptable risk levels for different investment categories within the framework approved by the Board of Directors, continuous risk measurement using selected methods (different indicators used in risk management, market information and analyses, computer applications), comparison with acceptable levels, and reporting. Risk management also involves adaptation of the investment portfolio so that a correct risk/return ratio can be maintained. The nature of technical provisions and their return requirement are also taken into account when the time span and liquidity of investments are considered.

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

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

At least once a year, the Board of Directors assesses the status and outlook of Varma's operating environment, the investment risks in terms of changes in value, expected returns, security, and the foreign currency business, and the company's short-term and long-term risk-bearing capacity and the development of the company's solvency position.

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

Varma aims to maximise the yield expectation at the selected total risk level, which means that investments will have optimum profitability to the extent allowed by the company's risk-bearing capacity. Active risk targets have been laid down for different asset classes and items within which Varma is making active investment efforts to produce returns above the market index. The portfolio's realised market risks, active risks and returns generated by active investments are regularly monitored and reported in the Investment Operations.

Varma's investment portfolio's structure by asset class and returns by asset class for 2013 are presented in the Notes to the Financial Statements.

## Geographical allocation of investments in listed equities:

	<b>Risk distribution 31 Dec. 2013 € million</b>	<b>%</b>	<b>Risk distribution 31 Dec. 2012 € million</b>	<b>%</b>
American equities	<b>2,202</b>	<b>19.0</b>	1,265	14.8
European equities	<b>2,799</b>	<b>24.2</b>	1,881	22.0
Other areas	<b>1,243</b>	<b>10.7</b>	1,157	13.5
Finnish equities	<b>5,334</b>	<b>46.1</b>	4,264	49.8
Listed equities	<b>11,579</b>	<b>100.0</b>	8,567	100.0

## Direct investments in real estate according to purpose of use:

	<b>Risk distribution 31 Dec. 2013 € million</b>	<b>%</b>	<b>Risk distribution 31 Dec. 2012 € million</b>	<b>%</b>
Residential premises	<b>639</b>	<b>17.1</b>	685	17.3
Business premises	<b>907</b>	<b>24.3</b>	976	24.6
Other premises	<b>425</b>	<b>11.4</b>	442	11.2
Industrial and warehouse premises	<b>495</b>	<b>13.2</b>	528	13.3
Office premises	<b>1,272</b>	<b>34.0</b>	1,330	33.6
Direct real estate investments	<b>3,739</b>	<b>100.0</b>	3,961	100.0

The vacancy rate of business premises was 5.3 (6.2) per cent.

## Bonds according to credit rating:

	<b>Risk distribution 31 Dec. 2013 € million</b>	<b>%</b>	<b>Risk distribution 31 Dec. 2012 € million</b>	<b>%</b>
AAA	<b>3,420</b>	<b>37.0</b>	3,860	41.1
AA	<b>529</b>	<b>5.7</b>	784	8.3
A	<b>1,590</b>	<b>17.2</b>	2,209	23.5
BBB or worse	<b>1,715</b>	<b>18.6</b>	1,272	13.5
Not rated	<b>1,978</b>	<b>21.4</b>	1,481	15.8
Other items	<b>0</b>	<b>0.0</b>	-206	-2.2
	<b>9,232</b>	<b>100</b>	9,400	100

Loans by type of security are presented in the Notes to the Financial Statements under Loan receivables.

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

The market risk of investments, mainly equities, constitutes the biggest risk relating to the result and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at EUR 1,118 million (EUR 1,076 million) at year-end 2013. The figure indicates the greatest possible fall in the market value of the company's investment portfolio in ordinary market conditions over a period of one month at a probability of 97.5%. The CVaR (Conditional Value at Risk) figure refers to expected losses exceeding VaR, and this figure amounted to EUR 1,334 million.

The total risk relating to investments is adjusted to the company's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum risk level is measured such that even after a 25 per cent drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital (1/3 of the solvency limit) by at least the amount of the VaR and is, in any case, always at least at the solvency limit. The restrictions that apply to different investment categories are also taken into account when calculating the assets covering the technical provisions.

The different maximum limits of investments are presented as separate risk limits in the investment plan. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes.

Investment risks can be abated and eliminated, for example,

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

The risk limits and authorisations laid down in the investment plan are monitored by the Investment Operations both before and after assignments. In addition to analyses of investment markets, Varma monitors matters such as investment duration, classification and liquidity. In real estate investments, Varma pays special attention to technical and location risks, among others.

New investment instruments with return and risk profiles that are significantly different from the instruments contained in Varma's present portfolio are examined by the Investment Committee and are also presented to the Board of Directors before being applied. The realised risks of the investment instruments with return and risk profiles that differ from those normally used are examined regularly. Following the examination, the investment instruments are given a solvency classification that is in accordance with their actual risk.

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

	Value 31 Dec. 2013	Effect Share prices -30%	Effect Interest rates +1% pp	Effect Real estate value -10%
Solvency capital	9,140 mill. €	5,406 mill. €	8,725 mill. €	8 709 mill. €
% of technical provisions	31.6%	19.1%	30.1%	30.1%
in relation to solvency limit	2.2 times	1.5 times	2.1 times	2,1 times
Yield on investment, %	9.0%	-3.4%	7.8%	7.8%

The investment diversification requirement is a central part of the company's technical provisions and solvency regulations. When the solvency limit is calculated and the assets covering the technical provisions are listed, investments are categorised into solvency groups. Under the regulations, euro-denominated derivative authorisations and the permitted maximum loss must be determined, and derivative contracts must be classified in risk-lowering and other than risk-lowering contracts. Varma's largest individual corporate risk position is its equity ownership, which has a market value of EUR 1,594 million, in Sampo Plc.

The Board of Directors decides on the principles concerning the use of derivative contracts and the principles for the solvency classification of investments. Based on a proposal by the Chief Investment Officer, the CEO decides on the risk classification of investments and an independent investment risk management function will give an opinion on the proposals. Solvency classification is reviewed on a regular basis. The Board of Directors receives an independent monitoring report on the adherence to the classification criteria, and on the use of derivative contracts and the impact this has on the solvency limit.

## Operational risks

Operational risks entail

- a danger of loss,
- a threat to the continuity of operations, or
- a diminishing of trust in the company

caused either by the company's internal processes or by unanticipated external events.

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

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

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

functions that may involve substantial risks. The preparation of the plan is at the discretion of the line management.

## Other risks

The real economy is expected to show sluggish development in the coming years. Finland's exports recover after a delay, and we face considerable challenges in our business and trade structures and in our public finances.

The escalation of the Finnish structural challenges in the current economic situation increases the risk that the financing balance of the earnings-related pension system will weaken in the long term and medium term, especially if the pension reform of 2017 does not achieve the goals set for an economically and socially sustainable pension system. The current economic crisis also adds to the risk of cost-increasing regulation in the earnings-related pension sector.

In order to control the risks, Varma co-operates closely with its stakeholders and other players in the field and is developing its processes so that it can react to any changes in the earnings-related pension system on time.

## Varma's preparation for unsettled and exceptional circumstances

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

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

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

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

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

Significant risks in exceptional circumstances include

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

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

## Internal audit

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

## Control by authorities

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

# Distribution of profit

Distributable profits as presented in the notes to the financial statements 90,093,789.57 euros

The Board of Directors proposes that the profit for the year  
be distributed as follows: 5,235,243.99 euros

to be transferred to the contingency fund (optional reserve) 4,500,000.00 euros

to be paid as interest on guarantee capital 641,766.73 euros

to be transferred to the Board of Directors' expense account 60,000.00 euros

to be carried over on the Profit and Loss Account 33,477.26 euros

Helsinki, 13 February 2014

Kari Jordan, Chairman of the Board

Jari Paasikivi

Antti Palola

Riku Aalto

Mikael Aro

Johanna Ikäheimo

Ari Kaperi

Lasse Laatumen

Petri Niemisvirta

Karsten Slotte

Kai Telanne

Veli-Matti Töyrylä

Risto Murto, President and CEO

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's report

## To the Annual General Meeting of Varma Mutual Pension Insurance Company

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Varma Mutual Pension Insurance Company for the year ended 31 December, 2013. The financial statements comprise both the consolidated and the parent company's balance sheet, income statement and cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board and the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Insurance Companies Act or the Employee Pension Insurance Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

## Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### Other opinions

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

Helsinki, 27 February 2014

Raija-Leena Hankonen  
Authorized Public Accountant

Petri Kettunen  
Authorized Public Accountant

## View our online Annual Report.

Varma's entire online annual  
report is available at:  
[annualreport.varma.fi](http://annualreport.varma.fi)



**Varma Mutual Pension Insurance Company**

Telephone: +358 10 2440

Telefax: +358 10 244 4752

Postal address: P.O. Box 1, FI-00098 VARMA

Visiting address and domicile: Salmisaarenranta 11, Helsinki, Finland

# VARMA