

# Varma Annual Report 2012



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. Our customers are made up of approximately 70,000 entrepreneurs and employers, and we handle the earnings-related pension cover of more than 870,000 people.

We invest the assets collected as pension contributions profitably and securely for current and future pensions. With investments of EUR 34.4 billion, Varma is the largest private investor in Finland.

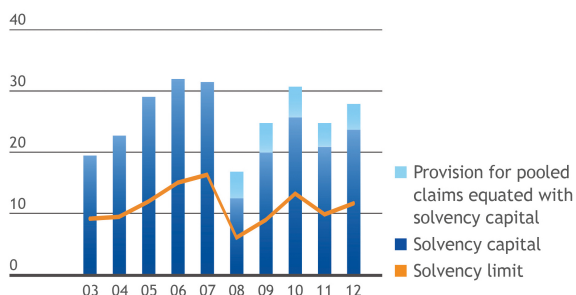
Varma's headquarters are located in Salmisaari, Helsinki, and our network of account managers covers nearly the whole country.

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# Year 2012 in brief

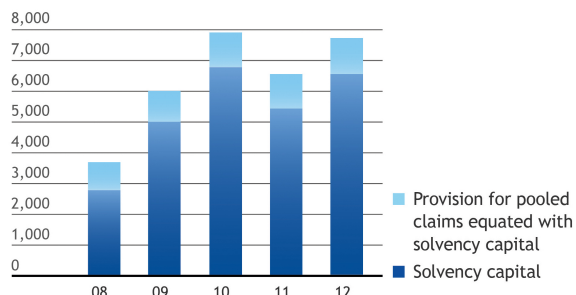
## Solvency 2003-2012

% of technical provisions



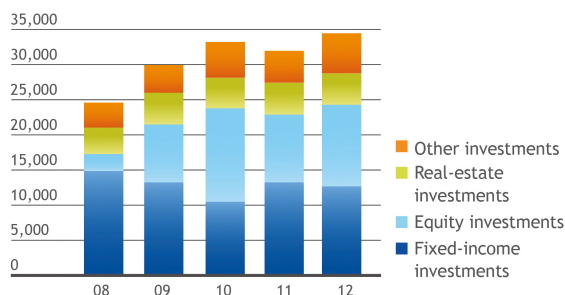
## Solvency capital

€ million



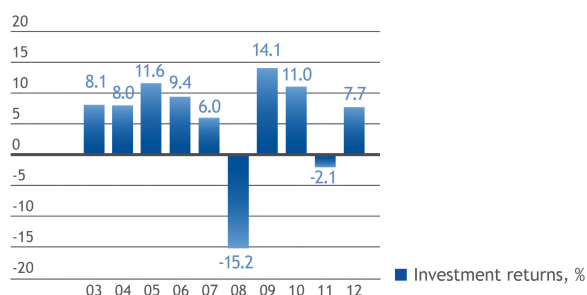
## Investment portfolio

€ million



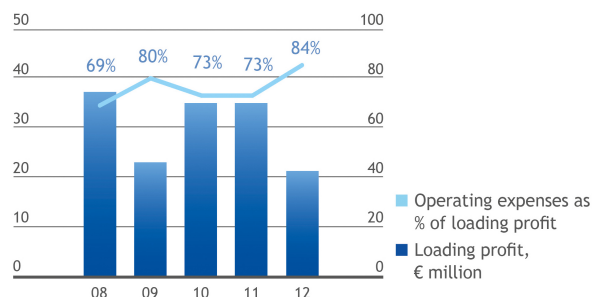
## Investment returns

%



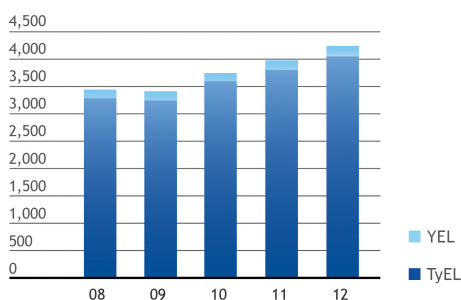
## Loading profit

€ million



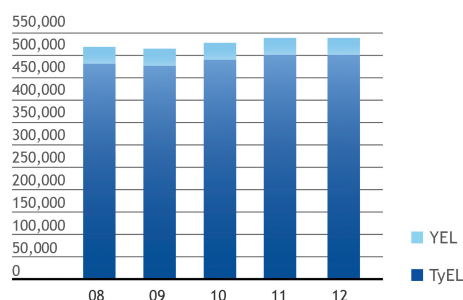
### Premiums written

€ million



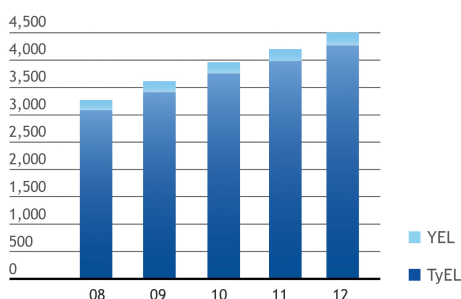
### Insured persons

Persons



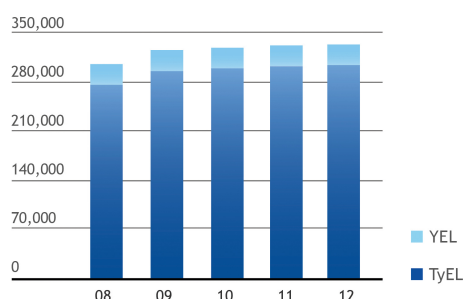
### Pensions paid

€ million



### Pensioners

Persons



**Varma's solvency strengthened clearly throughout the year and is the strongest in the earnings-related pensions sector. The overall return on investments was good, and Finnish equities in particular yielded strong returns.**

The acute economic crisis of early 2012 subsided later in the year. The central banks' measures boosted investors' confidence in the markets, and share prices strengthened. Interest rates were at a record low.

## We focussed on safeguarding our solvency

Varma focussed on successful investment activities in a challenging market environment, and pro-active risk management and the security of investments were highlighted. Our solvency strengthened consistently and was EUR 7.716 (6.520) million, or 28.0 (24.8) per cent of the technical provisions. The solvency capital was at a strong level: 2.4 (2.5) times higher than the solvency limit.

Varma's investment portfolio amounted to EUR 34.4 (31.9) billion. All asset classes achieved a positive return, 7.7 (-2.1) per cent overall. The share of fixed-income investments in the investment portfolio decreased, while the share of equities and other investments increased. Finnish equities yielded the highest returns. Varma is a major investor in Finland, and approximately EUR 12.8 billion of Varma's investments have been invested in different ways in Finnish society.

Read more about Varma's investments in the section Investment year 2012.

## Role of operational efficiency is emphasised

Varma's operating expense efficiency was at a good level. The considerable investments made to reform the pension application processing system raised Varma's operating expenses. Varma concentrates on operational efficiency, which benefits our customers by means of client bonuses. We reserved EUR 78 (73) million, or 0.4 (0.4) per cent, of the payroll of the insured for client bonuses.

Varma's premium income stood at EUR 4,230 (3,977) million. At year-end, Varma provided insurance for approximately 539,700 (540,300) people. Our pension payments stood at EUR 4,500 (4,194) million. The number of pension recipients increased, and at year-end, Varma was paying pensions to 331,400 (330,000) people.

Occupational rehabilitation is an alternative to disability pension, and the volume of rehabilitation work continued to increase. Our rehabilitation has proven to be successful, as nearly three quarters of those who received Varma's rehabilitation services continued in working life following their rehabilitation.

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# Key figures 2012

Varma handles its task of implementing pension cover efficiently. Good operational efficiency benefits our customers by means of client bonuses. In 2012, EUR 78 (73) million was transferred to the provision for current bonuses for client bonuses. The transfer represents roughly 0.4 (0.4) per cent of the estimated payroll of the insured.

The value of Varma's investments increased during the year, yielding a return of EUR 2.5 (-0.7) billion. The total return on investments was 7.7 (-2.1) per cent. Varma's premium income and pension payments increased.

## Key figures, Parent Company

	2012	2011
Premiums written, € million	<b>4,230.7</b>	3,976.6
Pension payments to pensioners, € million <sup>1</sup>	<b>4,500.5</b>	4,194.0
TyEL insured 31 December	<b>498,500</b>	498,400
YEL policies	<b>41,280</b>	41,940
Pensioners	<b>331,400</b>	330,000
Investments, € million	<b>34,406.0</b>	31,852.1
Investment income, € million	<b>2,492.3</b>	-711.0
Return on invested capital, %	<b>7.7</b>	-2.1
Total result, € million	<b>1,201.4</b>	-1,377.7
Loading profit, € million	<b>21.2</b>	35.3
Operating expenses as % of loading profit	<b>84</b>	73.0
Transfer to client bonuses, € million	<b>78.0</b>	73.0
% of TyEL payroll	<b>0.4</b>	0.4
Technical provisions, € million	<b>29,766.6</b>	28,965.5
Solvency capital, € million	<b>7,716.3</b>	6,520.4
Solvency capital/technical provisions, % <sup>2</sup>	<b>28.0</b>	24.8
Solvency capital/solvency limit	<b>2.4</b>	2.5
Parent company staff 31 December	<b>567</b>	580

<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's core function

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.

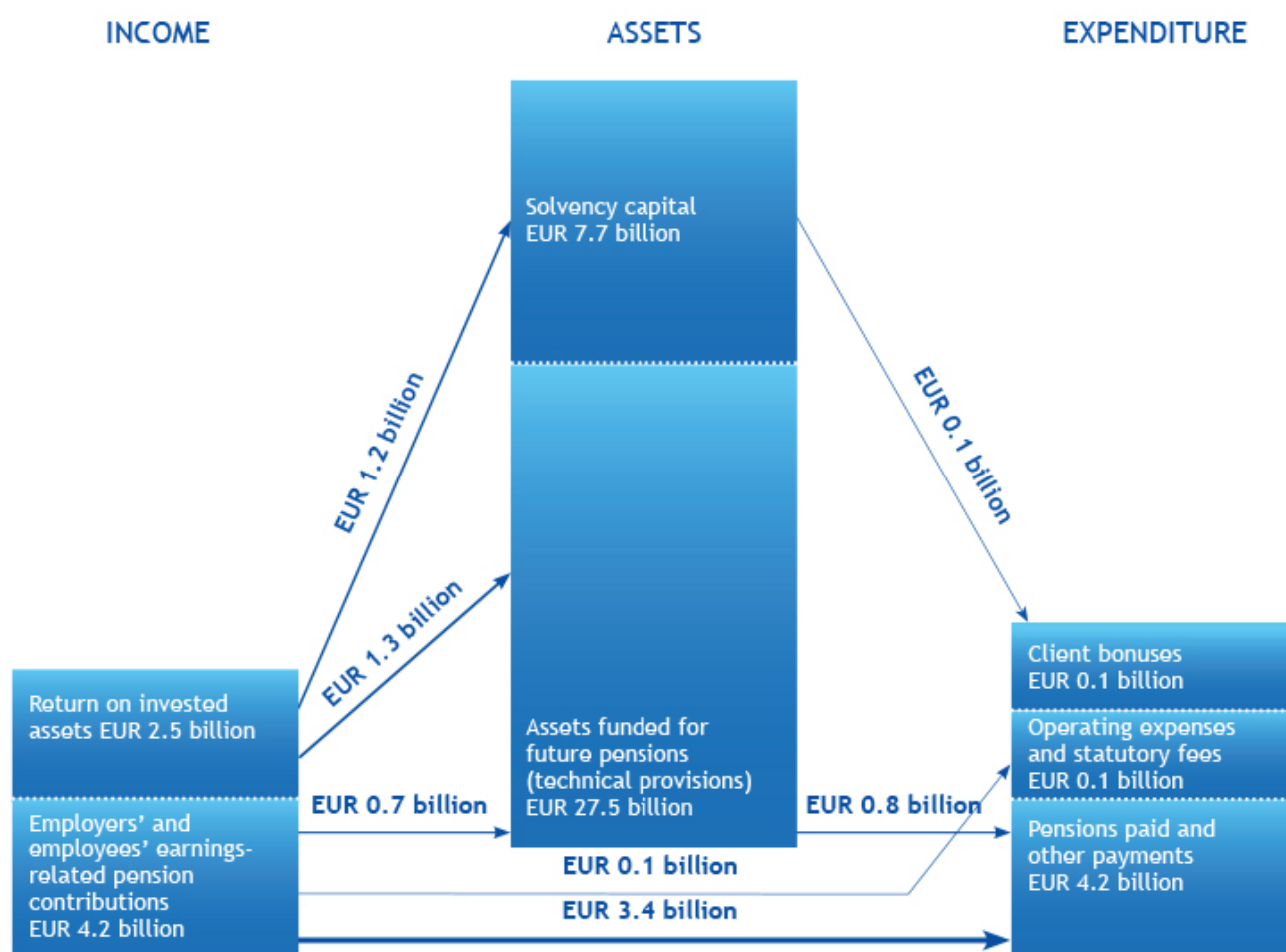


## Pension contributions pay pensions and a portion is set aside in funds for future pensions

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 earnings-related pension system, i.e. the pension companies and the Finnish Centre for Pensions, and statutory fees.

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





# Varma provides pension insurance for work carried out in Finland

Our operations are based on work carried out in Finland and on ensuring the sustainability of the earnings-related pension system. Our core function is to secure pensions.

Earnings-related pension is accrued through all work and self-employment. Pension is based on earned income 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.

We provide our customers with insurance and pension services relating to statutory pension provision and accumulate pension assets to cover current and future pensions. Approximately 70,000 companies and entrepreneurs have entrusted Varma with handling their pension coverage. We consider this an acknowledgement of our strong competence in insurance matters.

## Joint efforts for extending careers

Finland needs domestic work, successful and competitive companies and longer careers – they help to secure the funding of future earnings-related pensions.

Every year, Varma works with hundreds of client companies to prolong people's careers. Our services in workability management and rehabilitation promote working capacity and help those insured by Varma to cope longer in working life.

## A strong pension system offers security

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 economic turmoil.

The aging of the population and extending careers are challenges that concern businesses as well as individuals. Key issues in prolonging careers relate not only to the age of retirement but also to the employment rate, increasing productivity and preventing disability.

# We take care of our customers' earnings-related pension provision

Varma takes care of the earnings-related pension provision of entrepreneurs and private companies' employees efficiently and competitively.

Varma's operating expense efficiency and solvency have been the best in the sector for several years now. Our high cost efficiency and strong solvency capital lower our customers' pension contributions. For several years now our client companies have profited from the best client bonuses in the sector.

We co-operate closely with our client companies and follow up on the quality and effectiveness of our services. We continuously develop our operations to meet the needs and expectations of our customers, and we support our client companies in managing pension costs by improving working capacity management. Good co-operation brings cost savings.

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# We handle pensions correctly and on time and we promote well-being at work

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. In 2012, we achieved our target of paying new pensions within four days of a decision being issued with a 98 per cent success rate.

We provide reliable and useful information about pension insurance. Handling pensions at Varma is easy: in 2012, pension applicants gave our service a rating of 9.2 out of a possible ten.

## Striving for good working capacity

Successful management of working capacity helps Varma's client companies to take better care of their personnel and to save in pension costs. High productivity calls for good working capacity.

Varma's working capacity and rehabilitation services help employees to continue longer in working life, which in turn increases their pension accrual. Good working capacity, the opposite of incapacity to work, benefits the employees, companies and the entire national economy.

## Breaking the disability cycle

Statutory vocational rehabilitation gives employees and entrepreneurs the opportunity to continue in working life when their capacity to work is threatened.

In 2012 Varma's rehabilitation services helped 1,100 people in our client companies remain in working life. We ensure the effectiveness of rehabilitation through seamless co-operation with the employee, employer and occupational health care. Varma's well-being-at-work and rehabilitation professionals work in close co-operation in order to ensure the smoothest possible service chain for the customer.

# We invest pension assets profitably and securely

With EUR 34.4 (31.9) billion in investment assets, Varma is Finland's largest private investor. Responsibility for pensions extends long 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.

## Strong solvency provides security against market fluctuations

Economic uncertainty characterised the markets in 2012. In the challenging market situation, Varma continued to focus on broad diversification of investments and cautious risk management.

During uncertain periods, Varma's goal of maintaining strong solvency under all circumstances was more important than ever. We succeeded well in achieving this key goal: solvency strengthened clearly and is at a strong level. At the end of 2012, Varma's solvency capital was EUR 7,716 million (6,520), or 28.0 (24.8) per cent of the technical provisions.

## We promote work carried out in Finland

In accordance with our ownership policy, we promote work in Finland through active involvement in the investment markets. We are an active and prominent shareholder in Finnish companies. We participate in the financing of companies operating in Finland in many ways and are a significant investor in Finnish real estate.

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# President and CEO's Review

Varma's main objective in the challenging market environment of 2012 was to safeguard the company's strong solvency. We succeeded well in achieving this goal, and our solvency strengthened clearly.

In investment activities, our focus was on careful risk management, and on the security and broad diversification of investments. Varma's investments produced good returns, and all asset classes achieved a positive return.

In terms of operations, the management of insurance services and pensions also developed favourably. Varma's premiums written increased, and the share of self-employed persons' pensions has risen.

The number of both the insured and pension recipients grew during 2012. Due to the aging population and baby-boomers' retirement on old-age pension, Varma finds itself, for the first time ever, in a situation where the amount of pension payments equals contribution income. This means that we have to pay special attention to the development of investment activities.

The Finnish economy is much more dependent on demand from outside Europe than the rest of the European Union, which means that our export industry has to adapt not only to the challenging situation within Europe but also outside it.

Varma is able to support Finnish companies by taking care of its core function – managing pension cover and the execution of the pension scheme – as efficiently as possible. We can also help our client companies and their personnel to succeed in their efforts to promote workability management and rehabilitation, and in bolstering the prerequisites for longer careers. We aim at the lowest pension costs in the sector for our customers.

I would like to extend my thanks to Varma's customers, policyholders and insured, and to our personnel for their good work during 2012.



A handwritten signature in black ink, appearing to read 'M. Vuoria'.

**Matti Vuoria**  
President and CEO

# A strong earnings-related pension system creates stability

**Earnings-related pensions and the assets that are funded for them are well secured in the Finnish defined benefit pension scheme. A strong earnings-related pension system bolsters confidence during an economic crisis.**

The economic year 2012 ended in an uncertain atmosphere. Although the crisis that has weighing on Europe eased up towards the end of the year, the underlying problems have not been resolved. During the year, several assistance solutions were devised to help the countries in crisis, and efforts were made to renew the institutions that govern the economic structures.

Owing to the notable monetary policies implemented by the European Central Bank and other central banks, the situation in the financial market eased. Despite the uncertainties, 2012 was reasonably good in terms of investments. The central banks' measures have bought time for structural measures in the member countries. The financial markets may still react strongly should single economic risks be realised. In order to abate and solve the structural problems in the banking sector, the EU agreed on measures aimed at creating a new eurozone banking union.

The slowdown in global economic growth also affected export-dependent emerging countries, which are the very drivers of global economic growth. China's new leaders, which took office at the end of year, are expected to take actions to revive the country's economy. Following the presidential election in the U.S., minor progress was made concerning the problems in public finances, although no actual solution was reached. During the year, somewhat feeble economic recovery continued in the U.S., and the indicators for future direction were contrasted.

Towards the end of the year, the credit flow to certain troubled countries improved. The outlook for German industry also looked somewhat brighter later in the year. However, investments continue to flow to safe havens. The scope for recovery has been exhausted in most countries, and public finances will have to be tightened even in strong EU countries. Towards the end of the year, it became increasingly clear that new debt arrangements would have to be made in the eurozone countries in crisis. New debt arrangements will upset the markets, especially if the most heavily indebted countries become subject to the new arrangements.

## Varma emphasises strong solvency

Despite the uncertainties, 2012 was reasonably good in terms of investments, as the crisis was prevented from intensifying further. The uncertainty is expected to continue. Varma focussed on successful investment activities in a challenging market environment, and stresses strong solvency, pro-active investment risk management, and continuous improvement of the company's operations.

The Finnish financial system continues to stand on a solid foundation. Stricter regulations present profitability-related challenges in the banking sector, which could restrict lending and raise borrowing costs.

## The Finnish economy calls for structural measures

The Finnish economic growth came to a halt in 2012. The diminishing growth in the global economy strongly affected export volumes. Consumer confidence weakened, but demand in Finland remained reasonable. Unemployment, however, did not increase as much as the slowdown in economic growth would have suggested, due to the changing age structure of the population and the downward trend in the growth of available workforce.

The opportunities and threats facing the Finnish economy relate to its dependency on exports. Strong export competitiveness is essential to the growth of Finland's small and open national economy and crucial in terms of the possibility to finance national welfare on the whole. As business and trade structures shift, Finland needs new competitive advantages. Strengthening the dynamics of growth requires special attention, since the competitiveness of Finland's exports has weakened.

The structural challenges for the Finnish economy are the sharp growth in public spending caused by the ageing of the population, the dwindling workforce, and especially the declining industrial activity in our country. The prevailing financial crisis is speeding up the economic structural changes in a manner that is difficult to control. The muted growth in demand for exports and fading investments, together with the reduced availability of workforce are chipping away at potential economic growth.

Improving productivity in an increasingly services-based economy, especially in the area of public services, is markedly more difficult than in industrial operations. As business and trade structures change and development in new, highly productive sectors is slow, the financing of the benefits and services of a welfare state becomes increasingly challenging.

In addition to managing the eurozone crisis, the focus must be on building a policy of growth in Finland. Balancing the economy in the long term will require structural changes. The change in the population age structure will gain momentum and the age dependency ratio will weaken. The significance of the earnings-related pension system is highlighted in closing the sustainability gap in public finances, since earnings-related pension assets are considered a part of the national economic accounts and pension legislation is reflected in the supply of workforce.

## The financing of pensions will be sustainable for future generations

The Finnish private-sector earnings-related pension system is on a sustainable foundation. The sustainability of pension schemes can be estimated using several indicators. The issue ultimately boils down to social and economic sustainability, i.e. how well pensions will fulfil their role in securing the standard of living in Finland, and how strong the foundation for financing the pension commitments is. The third dimension is made up of the administrative effectiveness of the pension system. A strong earnings-related pension scheme creates stability for the economy and for society.

Responsibility for pensions extends long 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.

## Economic uncertainty continues

The euro crisis has entered a subdued phase, and the actual structural problems are yet to be resolved. We expect the uncertainty in the financial markets to continue in 2013.

The outlook for the Finnish economy looks bleak, and the economic problems are also affecting Varma's client companies. The goal of extending careers and companies' financial requirements do not always match. As the population ages, the supply of workforce diminishes. In addition to investment income, the level of employment and available workforce are vital for financing pensions.

Varma is a strong expert in handling earnings-related pensions and a preferred specialist partner in work capacity management. The ability to understand customers' needs becomes heightened in difficult periods. Varma's efficient pension insurance services have positive economic effects.

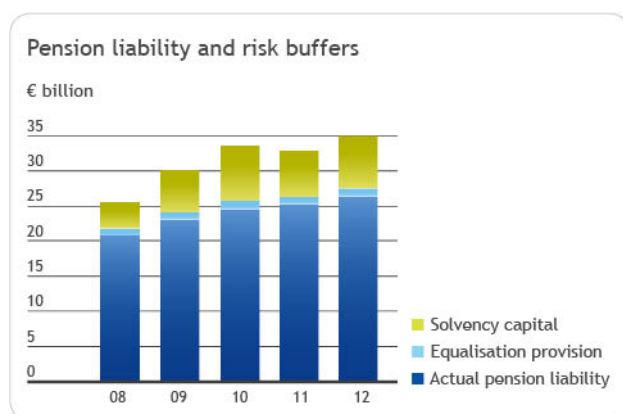
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# Solvency strengthened considerably

Varma's solvency strengthened clearly throughout the year and is at a strong level. The legislative amendment that took effect at the beginning of 2013 did not have any major effect on our solvency position.

Good investment years accumulate strong solvency capital, which protects us against volatility in the capital markets. Varma's solvency and return on investments developed consistently throughout 2012, despite the economic uncertainties. At the end of 2012, Varma's solvency capital was EUR 7,716 million (6,520), or 28.0 (24.8) per cent of the technical provisions.

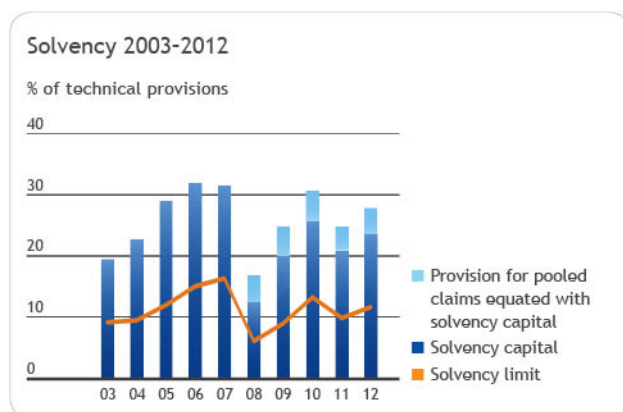


The broad diversification of our investment portfolio and a careful approach to risk management protected our solvency against market fluctuations. Solvency strengthened mainly due to the steady development in the investment markets.

Solvency capital acts as a risk buffer for investment activities, especially during an unstable economic situation. Good investment returns always necessitate risk taking, and the higher the returns we receive on earnings-related pension investments, the smaller the required increases in pension contributions will be in future. One percentage point more in investment returns in the long term means a two-percentage-point drop in pension contribution level.

## Strong solvency protects against market fluctuations

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.



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. Varma's solvency limit at the end of 2012 was 11.8 (9.9) per cent of the technical provisions, and the solvency capital's ratio to the solvency limit was 2.4 (2.5).

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, Varma has been paying the most competitive client bonuses in the sector for years.

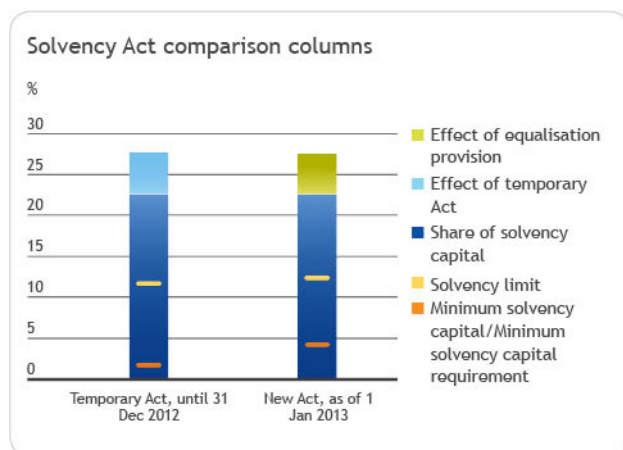
## Legislative amendment boosts investment and insurance risk management

At the onset of the financial crisis in the autumn of 2008, the Finnish Parliament amended the solvency regulations so that earnings-related pension companies did not have to sell their holdings in Finnish listed companies in an unfavourable market situation due to the inflexible regulations.

The amendment helped to increase solvency capital and eased the solvency requirements. The temporary Act was extended until the end of 2012, which has secured the operation of earnings-related pension companies during investment market fluctuations following the financial crisis.

Legislation on the solvency mechanism of earnings-related pension companies was amended as of the beginning of 2013 with the aim of boosting the use of risk buffers, among other things. The new law combines the old solvency capital and equalisation provision to form the new solvency capital. The calculation of the solvency limit will be adjusted to take into consideration both the investment risk and the insurance risk. So far, earnings-related pension companies' insurance risks and investment risks have been examined exclusive of one another, and have thus also had separate minimum requirements. As a result of the new regulation, together they form a more efficient risk buffer.

The legislative amendment does not substantially alter Varma's solvency position.



The working groups, set up by the Ministry of Social Affairs and Health, continue their work aimed at the overall reform of the regulation on assets covering the technical provisions and solvency. The reform can take effect at the beginning of 2016, at the earliest.

# Flexible expert services

Varma invests in continuously improving its customer service and the service skills of its personnel. We develop our clients' workability management in close co-operation with them to improve the occupational well-being of their employees. We aim for the lowest pension costs in the sector for our customers.

Despite the tightening competition in the earnings-related pension sector in 2012, Varma maintained its strong market position.

The private sector payroll in Finland rose about 4 per cent to EUR 59 billion in 2012. However, exceptionally extensive co-determination negotiations and layoffs continued, focussing especially on globally operating industrial companies.

Varma's customer base is traditionally rooted in Finnish basic industry, and the layoffs reverberated throughout our customer base. Despite the structural change in industry, Varma's TyEL payroll increased to EUR 17.7 (17.3) billion.

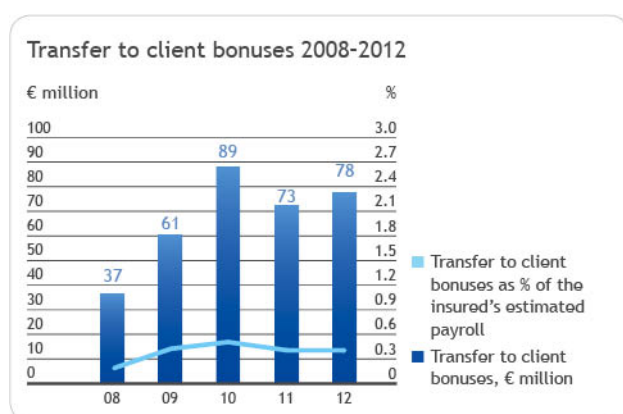
## Competitive bidding for earnings-related pension insurance on the rise

Competition in the pension sector has been getting stiffer during the past ten years. Increasing competition benefits both the earnings-related pensions system and customers. On the whole, Varma succeeded well in the contract transfer rounds: new customers were received especially in conjunction with corporate restructurings.

Varma's total premium income rose and stood at EUR 4,230 (3,977) million, of which TyEL policies accounted for EUR 4,041 (3,802) million and YEL policies for EUR 190 (175) million. At year-end, Varma provided insurance for 539,700 (540,300) people.

## Competitive client bonuses

Varma reserved EUR 78 (73) million, or 0.4 (0.4) per cent of the employers' TyEL contribution, from 2012 for client bonuses. The euro amount of the sum transferred increased over the previous years, due to the strengthened solvency capital.



For several years, Varma has given its clients the best bonuses in the sector, and in 2012 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-efficiency of operations.

## Managing pension costs brings savings

We provide our client companies with effective and proficient earnings-related pension insurance and workability management services that assist our clients in controlling pension costs. We aim for the lowest pension costs in the sector for our customers.

Varma develops its customer service by listening to the customers and charting their needs. In 2012, Varma concentrated on deepening the competencies of its customer service personnel and the processing of its customer data, which helps us to identify, together with our clients, trends that threaten the work capacity of their personnel.

Varma's online services have been growing considerably in popularity in recent years. In fact, online services are now preferred over using the phone as a means of contacting the company.

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, Tryg and Nordea Bank. In late 2012, If P&C Insurance Company Ltd bought the Finnish business of Tryg Forsikring A/S, which boosts Varma's efficient co-operation with Nordea and If.

Major employers continue to receive services from a dedicated service team, which channels Varma's entire expertise for the customer's benefit.

Outside the Helsinki region, our clients have the services of regional account managers at their disposal.

### Number of insured and insurance policies

	31 Dec. 2012	31 Dec. 2011	Change
Number of insured			
TyEL <sup>1</sup>	<b>498,460</b>	498,400	60
YEL	<b>41,280</b>	41,940	-660
Total	<b>539,740</b>	540,340	-600
<sup>1</sup> of which covered by TEL registered supplementary pension insurance	<b>5,545</b>	6,310	-765
Number of insurance policies			
TyEL	<b>27,620</b>	28,080	-460

# Workability management brings results

Our services in managing work capacity and rehabilitation help client companies to take better care of their personnel and to save in pension and sick leave costs. We aim at the lowest pension costs in the sector for our customers.

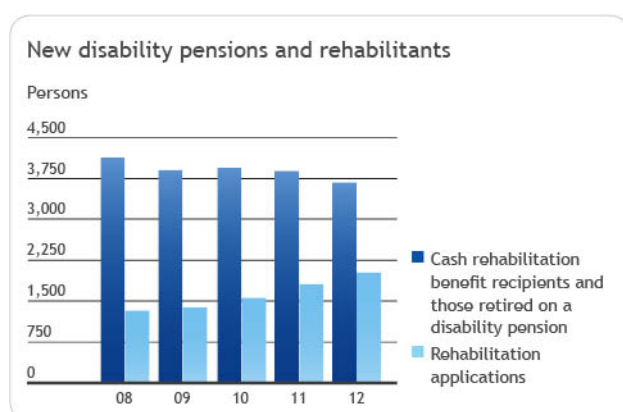
The development of workability management is based on the company's own knowledge of work capacity risks and operational strengths. Improving practices related to working capacity management clarifies supervisory work and improves the flow of work, working ability and the resolving of health issues. In 2012, we worked with 650 of our client companies to develop their workability management.

During the period under review, we renewed our entire training offering on workability management. *Workability management training* gave our clients the skills to evaluate the state of workability management, to set workability management targets and to put methods that support work capacity into practice. In 2012, approximately 200 representatives from our client companies of different sizes participated in the training and gave excellent feedback.

We surveyed the effectiveness of our services among our client companies that were, at the time, taking part in a well-being-at-work project supported by Varma. Our clients were primarily satisfied with the well-being-at-work services they had received and with the fact that through the co-operation work capacity management became part of the companies' daily operations. The projects have had a positive effect, as they have helped to clarify supervisory practices, implement a functional early-support model and gain measurable changes through workability management: work satisfaction has improved and the contribution category has been lowered.

## Rehabilitation programmes increased despite recession

In 2012, the number of rehabilitation applications received by Varma continued to grow, at a rate of 13.1 per cent. In spite of the economic recession, vocational rehabilitation programmes implemented at workplaces, i.e. work trials, job coaching and apprenticeships, increased 25 per cent over 2011. Rehabilitation continued to be successful: nearly 72 per cent of those who received Varma's rehabilitation continued in working life following their rehabilitation.



In 2012, a total of 3,662 persons transferred to the cash rehabilitation benefit or retired on a disability pension (new pensions, Varma as the main institution).

During the year under review, we looked into the situation of those who had finished their rehabilitation in 2008. In 2008, 65 per cent of them were in working life, and in 2011, 53 per cent still remained in working life. Those who participated in rehabilitation have to a great extent remained in working life for three years following the end of their rehabilitation.

Together with our client companies, we have analysed the reasons and processes that have led to retiring on disability pension in order to further improve our clients' work capacity processes and to give them tools for proactively dealing with issues that threaten the work capacity of their employees. We also launched a survey on the work capacity of the self-employed, due to be completed by 2013. The results will help us improve our services for the self-employed.

In addition, we entered into closer co-operation with regional service providers with the aim of being able to provide our rehabilitation customers with more efficient and successful rehabilitation plans.

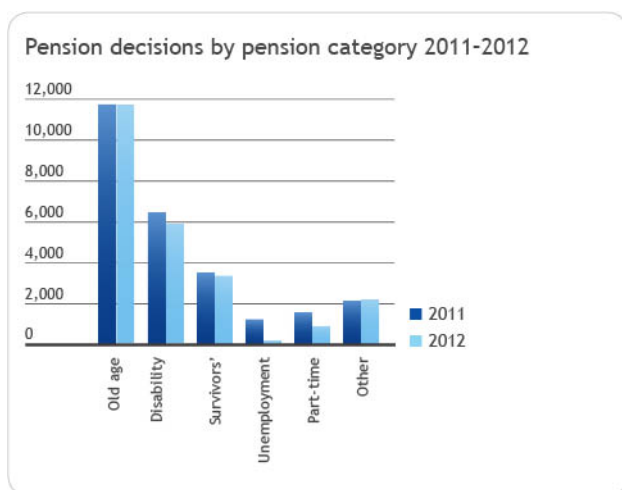
Our rehabilitation customers are active users of our online services. Currently, some 40 per cent of rehabilitation applications are submitted electronically to Varma. In 2012, we expanded our electronic service to make the handling of rehabilitation matters even smoother.

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# Professional pension services

Growth in the number of pension decisions came to a halt in 2012, and the number of pension decisions by Varma began to decline. A total of 24,180 new pension decisions were made in 2012, which is 9.3 per cent less than in the previous year. EUR 4.5 billion in pensions were paid to 331,400 recipients.

The number of old-age pensions somewhat decreased from 2011. The current level results from the fact that the number of employees and self-employed persons who have reached the age limit of 63 for receiving old-age pension has remained fairly constant among Varma's customers.

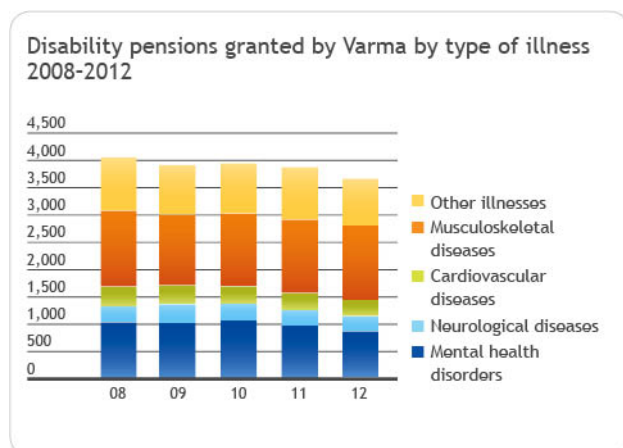


Eight per cent of the old-age pension decisions were granted based on working while collecting pension, which indicates that working while on a pension has become more common. Those insured by Varma retire on average at the age of 63.5.

Following a slight increase in 2011, the amount of disability pension decisions again headed into a clear decline of 8.9 per cent. The rejection rate for new disability pension applications by earnings-related pension companies has been on the rise in recent years. Surveys by the Finnish Centre for Pensions have not revealed any single reason for this. Varma's rejection rate is in line with the general development in the sector. In 2012, Varma rejected 29.6 per cent of new disability pension applications.

The proportion of partial disability pensions of all disability pensions has continued to rise, with the number of partial disability pension applications up by 1.5 per cent in 2012. Partial disability pension promotes continuing in working life: According to 2011 data, some 80.4 per cent of Varma's partial disability pension recipients (TyEL insurance) did part-time work.





Pensions paid totalled EUR 4.5 billion in 2012, i.e. 7 per cent more than in the previous year. The increase is 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. The euro amount of pensions granted also increased.

## Flexible online services for handling pensions

We develop our extensive online services based on customer needs. We provide services for those still in working life, and for pension applicants and pension recipients alike. In 2012, as the first pension company in Finland, we introduced online follow-up on pension and rehabilitation applications for our customers.

Increasing numbers of our customers are actively using the online services. In 2012, the use of online services for private customers increased 77 per cent. The most popular service is the application tracking, which was used by 18,540 pension applicants last year. Varma received 4,910 electronic pension applications in 2012, which accounts for 22.1 per cent of all new applications. The number of online pension estimates totalled 100,590, which equals as much as 87 per cent of all estimates. Our constantly improving online services help our customers take care of their business with us faster and more easily.

Using our new SMS service, we notify the customer when we have received their pension application. We also send text messages to remind our customers to check their pension record.

In 2012, we sent our customers for the first time pension records showing their complete earnings-related pension cover. In future, pension record will be sent by post once every three years. Our customers are increasingly opting for an electronic pension record, which can be checked at any time during the year.

# At Varma, we do good work

Varma's success is based on competent personnel efficiently handling our customers' pension cover. Our personnel's competence is constantly developed, and we also anticipate skills required in the future. Our strategy, which was updated in 2012, provides us with a clear direction when determining strategic competence.

## We carry out demanding expert work

Varma's personnel carry out demanding expert work that requires continuous competence development and renewal as well as knowledge of earnings-related pension legislation. Mentoring helps us share valuable experience-based knowledge both from senior employees to younger ones and experienced employees to new ones.

During 2012, we focussed on improving our experts' consultation skills and the competence of those working in phone and online services with the aim of providing our customers with even better service. In order to improve the efficiency of our operations and processes we make diverse use of online training and self-assessments.

## Good leadership aims at well-being at work

As an expert in workability management we also take care of the well-being of our own personnel. We have set clear and inspiring goals, the achievement of which is ensured through good management and leadership. We focus on the continuous development and assessment of leadership and managerial skills. A functional organisation, up-to-date tools and good work capacity create occupational well-being.

We monitor our personnel's work satisfaction through regular employee surveys, which are used to actively develop our operations. The results show that Varma's employees are genuinely interested in customer service and feel that their work is meaningful and of a high quality. In order to improve the internal flow of information, which has been considered challenging, we have established new discussion forums, among other things.

A good balance between work and other aspects of life improves occupational well-being. We offer our personnel flexibility in their work schedules and take different life situations into account.

Systematic personnel planning, attending to employees' competence, increasing e-services and the development of work and working methods have enabled improvements in our operational efficiency. These developments have led to a decline in the number of employees since 2006 through retirement.

The work carried out by Varma's employees is meaningful for society and affects the lives of many Finns. Our employees enjoy their work, which is demonstrated by their long careers with the company and the low turnover rate.

## 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

	2012	2011
Personnel 31 Dec.	<b>567</b>	580
Women/men	<b>74%/26%</b>	74%/26%
Average age	<b>48 y 1 m</b>	48 y
Average age of retirement on old-age pension	<b>63 y 5 m</b>	64 y 2 m
Average service period	<b>15 y 5 m</b>	15 y 1 m
Personnel turnover rate	<b>2%</b>	2%
Exit turnover rate	<b>6%</b>	5%
Sickness leave	<b>4%</b>	4%
Training days/employee	<b>4</b>	3.8

	2012	2011	2010	2009	2008
Average number of personnel					
Group	<b>572</b>	588	601	615	629
Parent Company	<b>572</b>	588	601	615	629
Salaries and remunerations, EUR million <sup>1</sup>					
Group	<b>37.0</b>	39.5	36.9	34.3	34.6
Parent Company	<b>37.0</b>	39.5	36.9	34.3	34.6

<sup>1</sup> Do not include the salaries paid by Tieto Esy 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 34.4 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

Approximately 37 per cent, or EUR 12.8 billion, of Varma's investments have 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 appointment 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 2012, investment charges amounted to 0.063 (2011: 0.069) per cent of invested assets. In the long term, cost efficiency is a major competitive factor in our investment operations.

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# 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 56 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 with 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

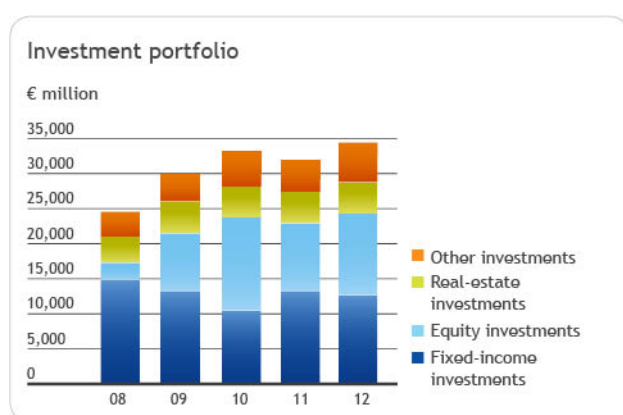
The investment portfolio is kept as liquid as possible. This has been beneficial for instance when the demand for TyEL loans has increased. The importance of liquidity is highlighted in a difficult market environment, for example, when the company must be able to adjust the share weighting quickly in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

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# Strong investment year in an uncertain economic environment

The investment year 2012 was marked by share prices rising, interest rates continuing to fall from an already exceptionally low level, and measures by the European and U.S. central banks aimed at stabilising the markets. Measures by the central banks calmed the markets and in terms of investments the year was good, although the general economic situation entails major uncertainties and increasing government budget deficits.

At year-end, the value of Varma's investments stood at EUR 34.4 (31.9) billion, and their return was 7.7 (-2.1) per cent. The investment result further improved Varma's already strong solvency, which creates a strong buffer in an uncertain economic situation.



The investment environment was extremely challenging throughout the year and was marked by uncertainty, especially in the euro area. Early in the year, share prices increased, but plummeted by the summer as the European debt crisis escalated and concerns over global economic growth grew.

In July, the European Central Bank lowered its key interest rate to a record low level, 0.75 per cent, and in August issued an unlimited bond purchase programme, provided that certain terms are met. The Federal Reserve of the United States announced a mortgage-backed securities purchase programme aimed at improving employment, and its goal of keeping interest rates at the zero level for a long time.

The central banks' measures boosted investors' risk appetite, and in the latter half of 2012, share prices rose sharply. The falling interest rate level and the narrowing risk margins on corporate bonds for their part improved returns on fixed-income investments.

The trend in the investment markets differed notably from the situation in the real economy. Finland and Europe sank into recession after two successive quarters of negative GDP growth, and the growth forecasts for 2013 were slashed. Finnish companies announced massive job cuts and temporary lay-offs during the year, and the investment level remained low. No sustainable structural solution was found for the European and U.S. budget deficits during the year.

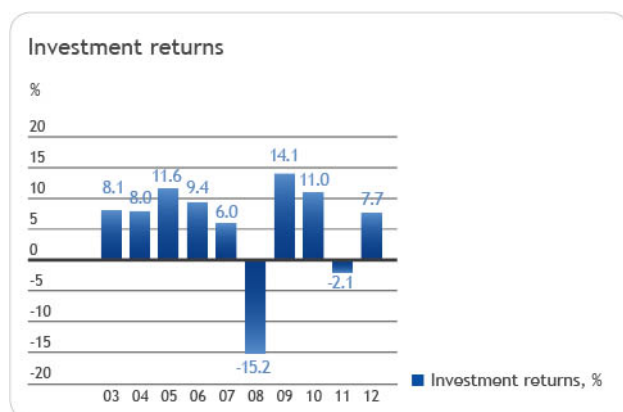
In 2012 the focus of Varma's investment activities remained on active risk management, and the security of investments was emphasised. The key target was to secure a strong solvency position in an uncertain market environment. During the year, Varma reduced the share of its fixed-income investments while increasing the share of equities and other investments in its portfolio.



Owing to the good return trend, Varma's solvency strengthened to 28.0 (24.8) per cent. Varma continued its strategy of consistent return accrual and broad diversification, which it has been following since the onset of the financial crisis. Because of this, the exceptionally strong development in the corporate bonds market was not fully reflected in Varma's investment result.

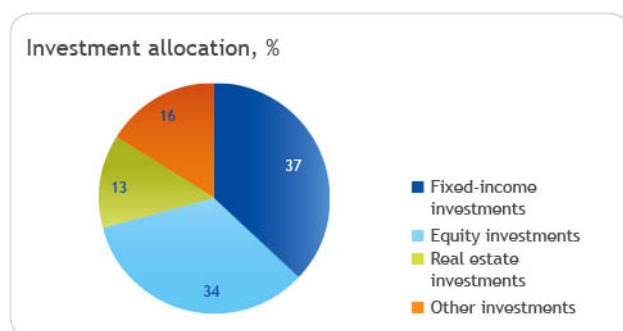
## Positive returns in all asset classes

The total return on Varma's investments was 7.7 (-2.1) per cent. Equities yielded the best return, as companies paid good dividends and share prices strengthened. Fixed-income investments, real estate and other investments also generated a clearly positive return.



The five-year average return on Varma's investments was 2.5 per cent, and the ten-year return 5.5 per cent.

Fixed-income investments accounted for 1.8, equity investments for 4.5, real estate for 0.6, and other investments for 0.8 per cent of the 7.7 per cent return on investments.



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 particularly in hedge funds, equities and private equity funds. Varma's policy is primarily to hedge against most of the exchange rate risks. A greater proportion of the currency position was unhedged due to the euro crisis. The exchange result is included in the investment returns of various asset classes.

# Investments classified according to risk

Varma's investment portfolio amounted to EUR 34.4 billion. All asset classes achieved a positive return, 7.7 per cent overall. The share of fixed-income investments in the investment portfolio decreased, while the share of equities and other investments increased.

## Investments classified according to risk 2012

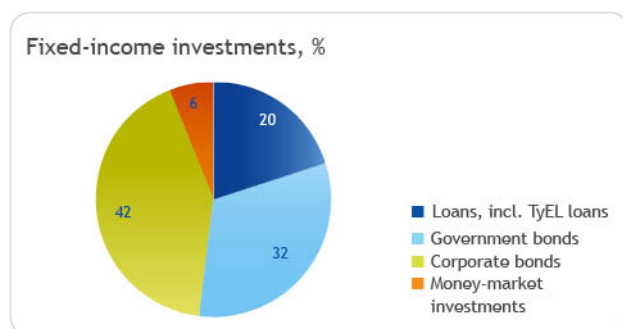
€ mill., fair value	Risk position 31 Dec. 2012	%	Risk position 31 Dec. 2011	%	Return % 31 Dec. 2012	Return % 31 Dec. 2011	24 m Vola- tility	Modified duration
<b>Fixed-income</b>								
<b>investments</b>	<b>12,575.8</b>	<b>36.6</b>	<b>13,151.4</b>	<b>41.3</b>	<b>4.4</b>	<b>4.2</b>		
Loans receivables	2,441.0	7.1	2,947.8	9.3	3.2	3.9		
OECD/EEA public sector bonds	4,052.2	11.8	5,593.1	17.6	3.6	5.1	2.8 <sup>1</sup>	4.3 <sup>2</sup>
Other bonds	5,347.4	15.5	3,030.9	9.5	8.1	4.9		
Other money-market instruments and deposits	735.2	2.1	1,579.5	5.0	0.7	1.0		
<b>Equity</b>								
<b>investments</b>	<b>11,726.9</b>	<b>34.1</b>	<b>9,728.0</b>	<b>30.5</b>	<b>14.5</b>	<b>-13.0</b>		
Listed equities	8,566.6	24.9	6,883.4	21.6	14.9	-18.9	17.1	
Private equity	2,394.3	7.0	2,099.1	6.6	13.0	9.6		
Unlisted equities	766.1	2.2	745.6	2.3	15.5	20.7		
<b>Real estate</b>								
<b>investments</b>	<b>4,463.5</b>	<b>13.0</b>	<b>4,447.2</b>	<b>14.0</b>	<b>4.5</b>	<b>6.4</b>		
Direct real estates	3,960.6	11.5	3,975.0	12.5	4.6	5.9		
Real estate funds	502.9	1.5	472.3	1.5	3.1	11.2		
<b>Other</b>								
<b>investments</b>	<b>5,640.0</b>	<b>16.4</b>	<b>4,525.5</b>	<b>14.2</b>	<b>6.0</b>	<b>4.5</b>		
Hedge funds	3,779.4	11.0	3,571.5	11.2	6.8	3.5	2.6	
Commodities	289.4	0.8	112.9	0.4				
Other investments	1,571.1	4.6	841.1	2.6	6.0	10.9		
	<b>34,406.1</b>	<b>100.0</b>	<b>31,852.1</b>	<b>100.0</b>	<b>7.7</b>	<b>-2.1</b>	<b>4.2</b>	

<sup>1</sup> Volatility was calculated for all bonds (not just public sector bonds)

<sup>2</sup> The modified duration for all bonds

# Interest rates continued to fall and the return on corporate bonds increased

At the end of the year, fixed-income investments accounted for 37 (41) per cent of Varma's investment portfolio, with a market value of EUR 12.6 billion. They consisted of government and corporate bonds, money-market instruments, and loans, mainly TyEL loans.



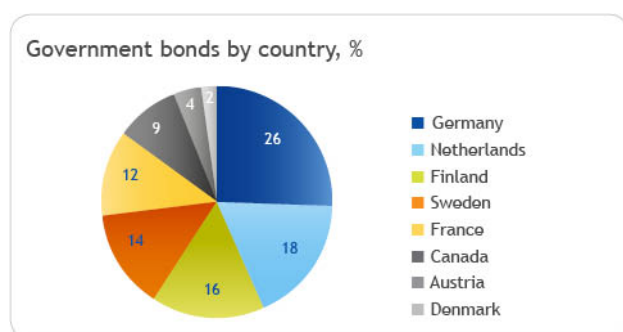
During the year, the central banks' measures lowered the general market interest rate level to a record low, which improved interest income. In addition, there was tremendous demand for corporate bonds, which experienced narrowing risk margins, and consequently generated high returns.

The eurozone crisis intensified midway through the year, but the European Central Bank's announcement of unlimited bond purchases eased the situation. The government bond interest rates of Spain and Italy decreased, but remained high in comparison with the general interest rate level. Bank regulation was generally tightened through solvency requirements and tax decisions, creating pressures for leaner balance sheets and increasing margins on business loans.

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

The return on fixed-income investments was 4.4 (4.2) per cent. As a precautionary measure, the portfolio's duration was kept relatively short, which slightly lowered the overall return on fixed-income investments.

In government bonds, Varma maintained its cautious risk policy, focussing investments on German, Dutch and Finnish bonds. The share of government bonds in the portfolio was reduced, accounting for 12 per cent of Varma's investments and yielding a return of 3.6 per cent.



Corporate bonds generated the best return of fixed-income investments, at 8.1 per cent, and their share of the portfolio was increased during the year to 16 per cent.

## The amount of TyEL loans decreased

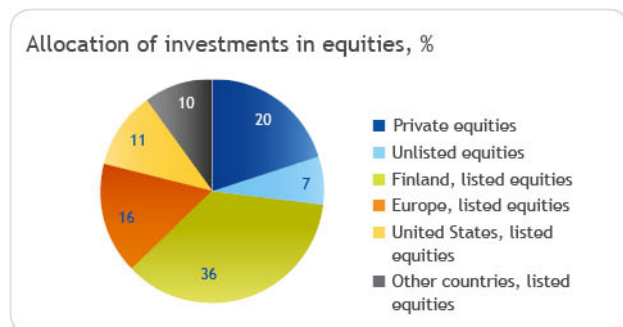
Loans consist mainly of TyEL loans granted to our customers. Their proportion of the total investments decreased during 2012 from 9 per cent to 7 per cent, as the demand for new loans decreased and old loans were repaid. The return on TyEL loans was 3.2 per cent.

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

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# Equity investments were the strongest asset class

Equity investments performed the best of all asset classes. They accounted for 34 (31) per cent of Varma's investment assets, yielding a return of 14.5 (-13.0) per cent. Equity investments consisted of listed equities (25 per cent), private equity (7 per cent) and unlisted equities (2 per cent).



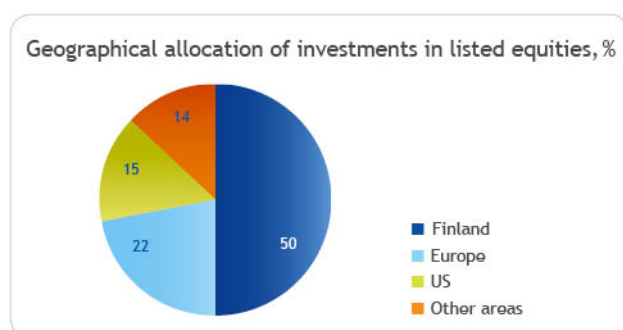
The return trend of listed equities was very good, as listed companies paid high dividends and with share prices rising during the year. The return on listed equities amounted to 14.9 (-18.9) per cent.

Share prices increased significantly on all the main markets. Finnish equities yielded the best return, at 21.3 (-22.2) per cent. The performance of Sampo Corporation, Varma's largest holding, was especially strong, with an annual return of 35 per cent.

Share prices fluctuated wildly during the year. By summer, prices in Finland and Europe fell to below the level of the early part of the year, but experienced a sharp upswing towards the end of the year, owing to the drastic stimulus measures implemented by the European and U.S. central banks. The share price trend was similar in the U.S., although the decline in the first half of the year was more modest.

From an economic perspective, the outlook for the equity markets is challenging. The low, near zero-level interest rates do improve the return potential on equities. Dividend income from solvent listed companies is attractive, considering the interest-rate level.

Finnish equities accounted for 50 per cent of Varma's listed equities at the end of the year. European equities accounted for 22 per cent, U.S. equities for 15 per cent and other areas for 13 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 13.0 (9.6) and unlisted equities 15.5 (20.7) 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. 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, which developed steadily due to dividends distributed and an increase in value.

Unlisted equities also include private equity co-investments, which yielded a good return. Examples of these are Ziggo N.V., which was listed in the Euronext Amsterdam in the Netherlands, and United Coffee, which was sold.

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

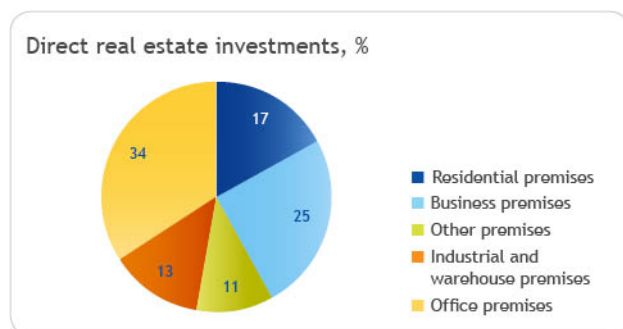
### 15 largest equity investments, holding

	€ mill.
Sampo plc	1,161
Wärtsilä Corporation	335
SATO Corporation	278
Nokian Tyres plc	270
Nordea Bank AB	220
Nokia Corporation	214
Elisa Corporation	154
YIT Corporation	148
Kemira Oyj	136
Fortum Corporation	108
Sponda Plc	105
KONE Corporation	97
Outotec Oyj	93
Metso Corporation	93
Amer Sports Corporation	93

## Stable return on prime real estate

In 2012, the economic uncertainty was apparent in all areas of the real estate market. Apart from a few major transactions during the year, the market remained rather quiet. The total volume of real estate transactions in Finland was approximately EUR 2.1 billion. Varma's new real estate investments stood at EUR 125 million.

The total return on real estate investments was 4.5 (6.4) per cent.



Investors' interest was focussed on low-risk properties with steady rental cash flow and good selling potential also during the slow market cycle. Funding was only available for investments with the smallest risks. The gap between good and poorer areas was further accentuated, and the value of properties located in Helsinki's city centre continued to increase.

Varma had a total of 450 new rental flats under construction in the Helsinki area in 2012. In terms of business premises, Varma shifted its focus from new construction to developing office premises and to maintenance construction and renovations.

In 2012, Varma divested 14 real estate properties, most of which are located outside the Helsinki area.

In 2012, the impact of fair valuation of real estate under Varma's direct ownership totalled EUR -33 million. At year-end, the market value of the real estate owned directly by Varma stood at EUR 4.0 billion. The return on capital employed in direct real estate investments was 4.6 (5.9) per cent. The value of and total return on the portfolio were influenced by fair valuations and the divestment of properties.

Varma made new investment commitments in three Finnish real-estate funds at a total value of EUR 100 million. At year-end, the value of real estate fund investments amounted to EUR 503 million and the return was 3.1 (11.2) per cent.

## Consistent return on other investments

Other investments accounted for 16 (14) per cent of Varma's portfolio. They consist of hedge funds (11 per cent), inflation-linked investments (5 per cent) and a relatively small commodities position. The return on other investments was 6.0 (4.5) per cent.

Varma's return on hedge-fund investments stood at 6.8 (3.5) per cent, which clearly surpassed the performance of hedge-fund indices. 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 8.1 per cent.

Inflation-linked investments include inflation-linked bonds issued by states with good creditworthiness. Their return was 6.0 (10.9) per cent. The return was affected by the decline in real interest rates, and by the inflation rate remaining at a higher level than the interest-rate level.

The asset class of other investments provided, on the whole, return and diversification benefits during the year at a low risk level.

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# We make responsible investments

Varma's ownership policy promotes the adoption of socially responsible values in the companies' operations. Our goal is to invest in companies that respect human dignity in their operations, are aware of their responsibilities relating to societal matters and working conditions, and take environmental perspectives into consideration.

These principles cover the investment assets in their entirety and are applied taking into account the specific characteristics of each asset class. In direct equity investments, for instance, we analyse how responsibility aspects are taken into account in the companies' operations, whereas in fund investments we focus on how responsibility principles are taken into account in the funds' investment policies and processes.

GES Investment Services of Sweden, a third party services provider, audits Varma's listed equity and corporate bonds portfolios regularly. The audit looks into whether the companies comply with local legislation and international norms and agreements. These international norms include, among others, the UN Global Compact initiative for corporate responsibility, ILO's fundamental labour rights and the OECD guidelines for multinational enterprises. If the investment target does not meet Varma's criteria, we will investigate the situation in more detail and either strive to influence the company's way of operating or realise the investment. In the latter case, we will invest the funds in a company operating in the same sector who bears their social responsibility well.

Varma has worked for a long time towards developing responsible investing practices in its investment operations. We have signed the UN Principles for Responsible Investment and are a member of FINSIF. Founded by a group of Finnish investors, asset managers and other investment professionals, FINSIF aims at promoting responsible investment in Finland.

# Environmental responsibility emphasised in real estate investments

Varma's principles of sustainable development are especially evident in its real estate investments; real estate plays a central role in the efforts to create a sustainable society of tomorrow. As a major operator in society we expect responsible operations and the prevention of adverse environmental impacts from both our partners and ourselves.

In our real estate investment operations, we strive to follow the principles of economic, environmental and social sustainability. Targets and measures supporting their achievement are defined for the different areas of operations, taking into account all three aspects of responsibility: economic, social and environmental.

## Life-cycle approach as a part of economic responsibility

Investing in real estate is a long-term operation, and success requires the introduction of the life-cycle approach in decision making. Through the life-cycle approach we can set realistic and measurable financial targets for the return on real estate also in the longer term and ensure, in addition to ecologically sustainable construction practices, a good return on the investment by controlling maintenance costs, ensuring the modifiability of the property and choosing the right location.

In our new-building and major renovation projects, efforts are being made to take into account environmental aspects throughout the building's life cycle, from planning and construction to use and, possibly, demolition. This facilitates responsible, long-term investment operations while reducing adverse environmental impacts.

As a key element in the life-cycle approach, the aim is that the buildings are designed and constructed in a way that ensures their energy efficiency and allows them to be flexibly altered later to correspond with the needs of new customers. Location also plays a vital role in the modifiability of properties. This helps us to meet the requirements of both present and future generations.

## Continuing development in energy efficiency

In 2011, Varma joined the Commercial Property Action Plan as part of the Finnish Energy Efficiency Agreement Scheme and committed to reducing the energy consumption of its properties by six per cent by 2016. The scheme aims to influence not only the energy usage of the property owner but also that of the tenants. By the end of 2012, the energy consumption of the properties included in the scheme had been reduced by about three per cent.

In 2012, Varma also launched, together with a partner, an initiative to draw up an eco-efficiency and energy-efficiency strategy for the different functions within real estate investments. Furthermore, a model for managing the carbon footprint of real estate will also be created. At the same time, we are internally developing the charting of environmental risks and liabilities. This process is backed by the UN Principles for Responsible Investment, signed by Varma, which help to conduct our operations in a systematic way.

## High quality rental flats at a reasonable price

Varma is a major housing investor and directly owns over 4,000 rental flats. We aim to respond to the increasing demand by offering high quality housing at reasonable prices. At the end of 2012, Varma had 265 flats under construction in the Helsinki region, and at the beginning of the year, 180 new rental flats were completed in Espoo and Järvenpää.

In the construction of new housing, we pay special attention to reducing the environmental load by using the life-cycle approach. Our renovations bring energy efficiency and comfortable living to old residential buildings, while at the same time respecting their history and surroundings.

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# Corporate governance

Varma's central executive bodies are the Annual General Meeting, the Supervisory Board, the Board of Directors and the President and CEO.

Varma's governance is based on the Finnish Act on Employment Pension Insurance Companies. Varma also complies with the applicable provisions of the Finnish Corporate Governance Code. The Finnish Corporate Governance Code is available on the Securities Market Association's website.

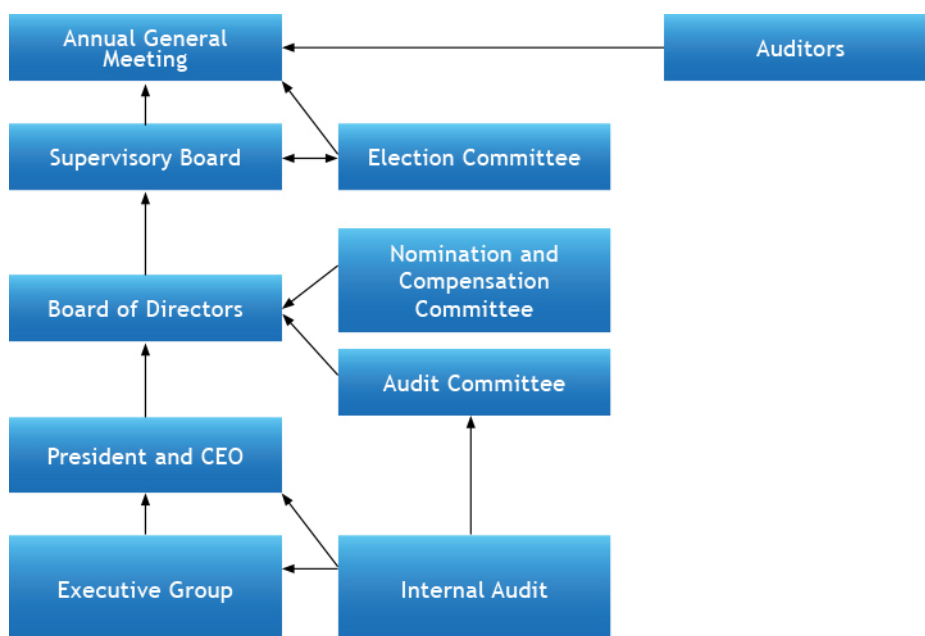
The starting point for Varma's corporate governance is the company's core task, that of securing pensions. The statutory earnings-related pension scheme was created by an agreement concluded between the government and labour market organisations, and the tripartite model still plays a key role in the development of the system. Labour market organisations also participate in the administration of earnings-related pension companies.

A key objective is to ensure the transparency of the company's operations and administration, which in turn will contribute to strengthening public confidence in the earnings-related pension scheme.

Read more about Varma's governance and management and about the company itself on our website.

The Finnish Corporate Governance Code is available on the Securities Market Association's website.

## Corporate governance structure



Read more about our corporate governance in the Corporate Governance Report.

# 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 2012. 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 on whether the internal control is appropriately organised. The contents of the financial reporting to the Board of Directors is laid down in the Board of Directors' working order and the investment plan.

All financial reporting to the Board of Directors, company management and the authorities is carried out in the 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, and 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 its 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 an 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 Central 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 22 March 2012, 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 2012. Authorised Public Accountant Paula Pasanen and Authorised Public Accountants KPMG Oy Ab serve as Deputy Auditors.

Remuneration paid to the Auditors for statutory auditing in 2012 amounted to EUR 234,697. Remuneration paid to KPMG Oy Ab for expert services other than those related to auditing totalled EUR 143,070 in 2012.

## 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, securing 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: Seven of the members and two of the deputy members of Varma's Board of Directors are 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.
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# Annual General Meeting

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

- the policyholders with a valid insurance contract with Varma pursuant to the legislation concerning employees' pensions;
- the 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 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.

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# 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 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 so 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.

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# 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 2013

### Kari Jordan

- Deputy Chairman
- b. 1956
- President and CEO, Metsä Group
- Term expires in 2015\*

## 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 2013

### 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 2013

### Ilkka Hallavo

- b. 1956
- Member of the Board, Danske Bank Plc
- Term expires in 2013

### Tauno Heinola

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

### Tapio Korpeinen

- b. 1963
- Chief Financial Officer, UPM-Kymmene Corporation
- Term expires in 2014

### Päivi Kärkkäinen

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

**Riitta Laitasalo**

- b. 1955
- Senior Vice President, Human Resources, Kesko Corporation
- 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

**Markus Rauramo**

- b. 1968
- Chief Financial Officer, Fortum Oyj
- Term expires in 2013

**Kari Sairo**

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

**Saana Siekkinen**

- b. 1972
- Development Director, Central Organisation of Finnish Trade Unions SAK
- Term expires in 2015

**Jorma J. Takanen**

- b. 1946
- Managing Director, Sievi Capital Oyj
- Chairman of the Board, Scanfil plc
- Term expires in 2015

**Olli Luukkainen**

- b. 1957
- President, Trade Union of Education in Finland, OAJ
- Term expires in 2013

**Jari Paasikivi**

- b. 1954
- President and CEO, Oras Invest Ltd
- Term expires in 2015

**Antti Piippo**

- b. 1947
- D.Sc. (Tech) h.c.
- Term expires in 2013

**Pertti Saarela**

- b. 1957
- Senior Vice-President, Corporate Services, VR Group Ltd
- Term expires in 2013

**Mika Seitovirta**

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

**Antti Sippola**

- b. 1955
- Executive Vice President, SOK 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 2013

Pekka Soini resigned from the Supervisory Board on 1 September 2012.

\* Term expired on 31 December 2012, Kari Jordan has been elected as a member of Varma's Board as of 1 January 2013.

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## Memberships that expired at the Annual General Meeting on 22 March 2012

**Matti Huutola**

- b. 1959

**Seppo Koskinen**

- b. 1946

**Leena Saarinen**

- b. 1960

**Pekka Tefke**

- b. 1950
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# Election Committee

The Supervisory Board appoints the Election Committee from among its members or 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, acts as the Chairman of the Election Committee. 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) represent the insured, while Chairman Tapio Kuula, Ole Johansson (Deputy Chairman of the Board of Directors) and Kari Jordan (Deputy Chairman of the Supervisory Board) represent 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 their remunerations and a similar proposal to the Supervisory Board concerning members of the Board of Directors. The Committee does not have other tasks.

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# 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 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 2012 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.

Varma's CEO Matti Vuoria serves as Vice Chairman of the Board of Sampo Plc. Members of the executive management of Sampo Plc serve on Varma's Board of Directors. This link establishes 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, term expires in 2013

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, the Registered Association Finnish-Russian Chamber of Commerce (FRCC), and the World Steel Association, and Vice President of EUROFER, the European Steel Association.\*



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## Ole Johansson

Deputy Chairman

b. 1951, B.Sc. (Econ.)

Member of the Varma Board of Directors since 2005

Chairman of the Boards of Outokumpu Oyj and eQ Plc, and member of the Boards of Svenska Handelsbanken AB and the Finnish Business and Policy Forum EVA. Term ended 31 December 2012.



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## Mikko Mäenpää

Deputy Chairman

b. 1954, LL.B.

President, Finnish Confederation of Professionals STTK, member of the Varma Board of Directors since 2000, term expires in 2015

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 a member of the Trade Union Advisory Committee to the OECD.





## 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, Vice Chairman of The Council of 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.



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## 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 Boards of VR Track Ltd, Avecra Oy, Corenet Oy and Finnkino Oy, and member of the Boards of Altia Finland and the Service Sector Employers PALTA.\*



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## 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 2013

Chairman of the Board of FEPI - Federation of the European Play Industry.\*



## Ari Kaperi

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

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

Vice Chairman of the Board of the Federation of Finnish Financial Services, member of the Supervisory Board of Luottokunta and member of the Supervisory Boards of the Central Chamber of Commerce, Turku University Foundation, the Finnish Business and Policy Forum EVA and the ETLA Research Institute of the Finnish Economy.\*



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## Lasse Laatonen

b. 1950, LL.B.

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.



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## Karsten Slotte

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

President, Oy Karl Fazer Ab, member of the Varma Board of Directors since 2009, term expires in 2014

Member of the Boards of Onninen Oy, Fiskars Corporation, Finnish Food and Drink Industries Federation ETL, the Finnish-Swedish Chamber of Commerce, the Confederation of Finnish Industries EK, the TT Foundation and the Registered Association Finnish-Russian Chamber of Commerce (FRCC).\*



## Kari Stadigh

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

Group CEO, Sampo Plc., member of the Varma Board of Directors since 2008, term expires in 2014

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



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## 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.\*



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## 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 2013

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.)

Chairman of the Board and Managing Director of TS Group, deputy member of the Varma Board of Directors since 1998, term expires in 2013

Chairman of the Boards of Priimus Group Oy, Hansaprint Oy, Salon Seudun Sanomat Oy and Polytypos 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 2013

Chairman of the Board of Asuntosäätiö, Internal Auditor for the International Trade Union Confederation (ITUC), and member of the International Solidarity 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 2013

Member of the Boards of Metsä Board Corporation, Rautaruukki Corporation, Elomatic Oy, the Confederation of Finnish Industries EK, 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 member as of 1 January 2013 (Supervisory Board's decision of 4 December 2012):

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

President and CEO, Metsä Group, CEO of Metsäliitto Cooperative, term expires in 2013.

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 and 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 2012, Sakari Tamminen (Chairman), Mikko Mäenpää, Karsten Slotte and Kai Telanne were members of the Audit Committee.

The Audit Committee convened two times in 2012, and the attendance rate was 100%.

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 2012, Sakari Tamminen (Chairman), Ole Johansson and Mikko Mäenpää were members of the Nomination and Compensation Committee. The Committee held seven meetings in 2012 (attendance rate 85.7 per cent).

Of the Committee members, Sakari Tamminen is a member of the executive management of Varma's client company 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 in the sphere of tasks laid down in legislation.

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

Hannu Tarvonen, Senior Vice President, Client Services until 31 August 2012, served as Deputy CEO until 31 December 2012.

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 in matters in which it, under the investment plan approved each year by the Board of Directors, is authorised to make decisions 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.SC. (Arts)

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

President and CEO since 2004



## Hannu Tarvonen

### Deputy CEO

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

Key work experience:

Senior Vice-President, Marketing, Sampo Pension 1996–1998

Member of the Boards of Kaleva Mutual Insurance Company, Suomen Urheiluopiston Kannatusosakeyhtiö and Vierumäki Country Club Oy

Member of the Executive Group since 1998. Hannu Tarvonen retired on 31 December 2012.



## Risto Murto

### Executive Vice-President, Investments

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

Key work experience:

Managing Director, Opstock Ltd 2000–2005; Director, Opstock Ltd 1997–2000

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

Member of the Executive Group since 2006





## 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

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, member of the Redemption Board of the Central Chamber of Commerce

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

Member of the Executive Group since 2012





## Ville-Veikko Laukkanen

### Senior Vice-President, Client Services

b. 1970, LL.B.

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 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 Executive Group since 2012



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## Pasi Mustonen

### Senior Vice-President, Actuaries

b. 1964, M.A., FASF

Key work experience:

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

Member of the representatives of the Finnish Centre for Pensions

Member of the Executive Group since 2004



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## Jouko Oksanen

### Senior Vice-President, Finance

b. 1951, M.Sc. (Econ.)

Key work experience:

Chief Financial Officer, Pension Varma 1990–1998

Member of the Boards of Ahlström Capital Oy, HYKSin kliniset palvelut Oy and If P&C Insurance Ltd (publ)

Member of the Executive Group since 1998. Jouko Oksanen retired on 1 September 2012.



## Irmeli Otava-Keskinen

### Senior Vice-President, IT

b. 1950, M.Sc.

Key work experience:

IT Director, Pension Varma 1996–1998

Chairman of the Board of Tieto Esy Ltd

Member of the Executive Group since 2007. Irmeli Otava-Keskinen retired on 31 December 2012.



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## 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

Member of the Executive Group since 2012



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## 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



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## Mari Laine

### Employee Representative

b. 1974, BBA

Key work experience:

TyEL contribution expert, Varma 2005–

Member of the Executive Group since 2010



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## 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



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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
  - 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.

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# 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
- Lasse Laatunen, Labour Market Director, Confederation of Finnish Industries EK
- Saana Siekkinen, Development Director, Central Organisation of Finnish Trade Unions, SAK
- Juhani Siira, Union Secretary, Finnish Paperworkers' Union
- Riitta Työläjärvi, 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.

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# 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.

- Chairman Venho Takkinen
  - Vice Chairman Antti Viinikka
  - Hemmo Auvinen
  - Kari Halme
  - Aulikki Kananoja, expert member
  - Pirkko Lahti
  - Marja Leppänen
  - Pekka Luoma
  - Heikki Malin
  - Pekka Merenheimo
  - Tarja Nyman
  - Maj-Len Remahl
  - Hannu Roine
  - Risto Siivola
  - Sakari Tola, expert member
  - Hilppa Vienonen
-

# 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 Oy
- Jouni Jaakkonen, Nordea Bank Finland Plc
- Sirpa Jukarainen, Suomen Lähikauppa Oy
- Marko Klapuri, Etteplan Design Center Oy, Vice Chairman
- Jyrki Laisi, Elisa Corporation
- Tuulia Nissinen, Elektrobit Oy

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

- Eero Holsti, Abloy Oy
- Jukka Hämäläinen, Jyväskylän Liikenne Oy
- Teuvo Kalso, Ovako Imatra Oy Ab
- Kai Kolho, DS Smith Packaging Finland Oy
- Sakari Ojala, VR Group Ltd
- Terhi Raatesalmi-Salonen, Suomen Lähikauppa Oy
- Merja Saarti, Savon Sanomat Oy
- Jouni Suomalainen, Sokotel Oy
- Ville Vatka, HK Ruokatalo Oy
- Simo Virolainen, Honkarakenne Oy
- Timo Virtanen, Metsä Tissue Oy
- Kari Ylikauppila, Fortum Power and Heat Oy

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

- Arja Fors, Wärtsilä Finland Oy
- Liisa Halme, If P&C Insurance Company Ltd
- Timo Jaakkola, NCC Rakennus Oy
- Juha Kivistö, Elisa Corporation
- Kimmo Koskivaara, TS-Yhtymä Oy
- Irma Kronlöf, Mehiläinen Oy
- Arja Lehtonen, Instru Optiikka Oy
- Kaija Roukala, Nordea Bank Finland Plc
- Osmo Salo, STX Finland Oy, Chairman
- 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 Timo Salli, Managing Director, Katsa Oy
- Vice Chairman Tuomo Aine, Managing Director, Harjavalta Oy
- Eila Annala, Managing Director, PlusTerveys Oy
- Matti Bergendahl, Managing Director, Mehiläinen Oy
- Harri Broman, Managing Director, Broman Group Oy
- Juha Hetemäki, Director, Skanska Oy
- Timo Hiltunen
- Jukka Hyryläinen, Managing Director, Katko Oy
- Matti Hyytiäinen, Managing Director, PKC Group Oyj
- Erkki Kaunisto, CEO, Sähkö-Kaunisto Oy
- Jari Kokkonen, chemist
- Pekka Kopra, Managing Director, Versowood Oy
- Terhi Kotkansalo, Managing Director, Servisole Cleaning Service
- Heikki Kovanen, Managing Director, Kovanen Yhtiöt Oy
- Eero Leskinen, Investment Director, Partner, Sentica Partners Oy
- Kalle Lähdesmäki, Managing Director, Minimani Yhtiöt Oy
- 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
- Hilka Nousiainen
- Jari Ollila, Chairman of the Board, Purso Oy
- Virpi Paasonen, Managing Director, CWT Kaleva Travel Oy
- Paul Paukku, Directors' Institute of Finland
- Matti Perkonoja
- Markku E. Rentto, Managing Director, Neo Industrial Plc
- Seppo Saarelainen, Managing Director, Betonimestarit Oy
- Risto Salo, Chairman of the Board, Hollming Oy
- Harri Savolainen, Managing Director, NCC Construction Ltd
- Jorma Siren, Managing Director, Abloy Oy
- Pekka Sivonen, Board member, Digia Plc
- 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 Erkki Rae, Raeventus Oy
- Vice Chairman Riitta Hämäläinen-Bister, Deviation Finland Oy
- Aulis Asikainen, Insinööritoimisto Comatec Oy
- Pia Backman, Suomen Uusyrityskeskukset ry
- Michael Casagrande, Cleanside Oy
- 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
- Terhi Nyman, Tmi Terhi Nyman
- Heikki Palin, Palin-Granit Oy
- Paula Palmroth, Turun Kansallinen Kirjakauppa Oy
- Leena Rekola-Nieminen, Rantalainen & Rekola-Nieminen Oy
- Kari Sorjonen, Tasowheel Group Oy
- Niina Stolt, Studio Onni
- Pekka Tsupari, Yleinen Teollisuusliitto YTL

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# Salary and remuneration statement

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. This report describes the situation on 31 December 2012. This report can also be viewed at [www.varma.fi](http://www.varma.fi).

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# 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 2012, the Committee consisted of the Chairman of the Board of Directors Sakari Tamminen and Deputy Chairmen Ole Johansson and Mikko Mäenpää. The decisions on remuneration are made by the Board of Directors.

## The content 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 results 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 covers the years 2010–2012 (37 persons), the second incentive period covers the years 2011–2013 (37 persons) and the third covers the years 2012–2014 (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 and 2012–2014 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 2012 covers, in addition to the Senior Vice-President, Investments, a maximum of 54 key persons in Investment Operations.

Personal maximum remuneration is based on the last salaried month of the previous calendar year and in the 2012 scheme corresponds 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 after three years.

## Annual bonus scheme

All Varma employees are 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 2012, the criteria for getting the bonus are based on customer account performance, the investment result and cost control.

The base for the maximum annual bonus is determined by the person's position and monthly salary. The maximum bonuses of the President and CEO and the members of the Executive Group (not including the Senior Vice-President, Investments, 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 2012, 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.

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# Remuneration of Supervisory Board members

The Supervisory Board convened three times in 2012. The average attendance rate was 75.9 per cent. The table below contains information on each member for 2012.

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 Article 8 of the Employees Pensions Act TyEL, and a TyEL contribution is paid on the meeting fee.

## Varma's Supervisory Board 2012 – attendance and remunerations

Name	Supervisory Board meetings, attendance	Election Committee	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
<b>Chairman</b>					
Tapio Kuula	3/3	2/2	5,000	1,500	6,500
<b>Deputy Chairmen</b>					
Martti Alakoski	3/3	2/2	3,800	1,500	5,300
Kari Jordan	3/3	1/2	3,800	1,200	5,000
<b>Members</b>					
Juri Aaltonen	3/3		2,500	900	3,400
Berndt Brunow	0/3		2,500		2,500
Erkki Etola	2/3		2,500	600	3,100
Stig Gustavson	2/3		2,500	600	3,100
Ilkka Hallavo	1/3		2,500	300	2,800
Tauno Heinola	3/3		2,500	900	3,400
Matti Huutola	0/1		625		625
Tapio Korpeinen	3/3		2,500	900	3,400
Seppo Koskinen	0/1		625		625
Päivi Kärkkäinen	1/3		2,500	300	2,800
Riitta Laitasalo	2/2		1,875	600	2,475
Olli Luukkainen	2/3		2,500	600	3,100
Ilkka Nokelainen	2/2		1,875	600	2,475
Jari Paasikivi	2/2		1,875	600	2,475
Hannu Penttilä	2/3		2,500	600	3,100
Antti Piippo	0/3		2,500		2,500
Markus Rauramo	3/3		2,500	900	3,400
Pertti Saarela	2/3		2,500	600	3,100
Leena Saarinen	1/1		625	300	925
Kari Sairo	3/3		2,500	900	3,400
Mika Seitovirta	2/3		2,500	600	3,100
Saana Siekkinen	2/2		1,875	600	2,475
Antti Sippola	3/3		2,500	900	3,400
Pekka Soini	2/2		1,670	600	2,270
Jorma J. Takanen	3/3		2,500	900	3,400

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Pekka Tefke	1/1	625	300	925
Kari Virta	2/3	2,500	600	3,100
Anssi Vuorio	3/3	2,500	900	3,400
Göran Åberg	2/3	2,500	600	3,100



# Remuneration of the Board of Directors' members

The Board of Directors convened nine times in 2012. The average attendance rate (including deputy members) was 82.2 per cent. The table below contains information on each member for 2012.

Remuneration of Varma's Board of Directors is decided by the Supervisory Board. In 2012, the remuneration of the Board of Directors' members were as follows:

Annual remuneration 2012:

- Chairman EUR 40,000
- Deputy Chairman EUR 28,000
- member EUR 16,000
- deputy member EUR 12,000

The meeting fee paid to the Chairman, Deputy Chairmen, members and deputy members was EUR 500 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.

The Supervisory Board decided on 4 December 2012 to raise the fees for 2013 as follows:

- the annual remuneration for the Chairman will be EUR 45,000, for the Deputy Chairman EUR 32,000, for members EUR 18,000 and for deputy members EUR 13,000;
- the meeting fee will be EUR 600.

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

## Varma's Board of Directors 2012 – attendance and remunerations

Name	Board of Directors' meetings, attendance	Nomination and Compensation Committee	Audit Committee	Election Committee	Supervisory Board	Annual remuneration, €	Meeting and Committee remunerations, €	Total, €
<b>Chairman</b>								
Sakari Tamminen	9/9	7/7	2/2		3/3	40,000	10,500	50,500
<b>Deputy Chairmen</b>								
Ole Johansson	6/9	4/7		2/2		28,000	5,600	33,600
Mikko Mäenpää	8/9	7/7	2/2	2/2	2/3	28,000	10,100	38,100
<b>Members</b>								
Riku Aalto	5/6					12,000	2,500	14,500
Mikael Aro	8/9					16,000	4,000	20,000
Johanna Ikäheimo	7/9				2/3	16,000	4,500	20,500
Ari Kaperi	7/9					16,000	3,500	19,500
Lasse Laatumen	8/9				2/3	16,000	5,000	21,000
Karsten Slotte	8/9		2/2			16,000	5,000	21,000
Kari Stadigh	8/9				2/3	16,000	5,000	21,000
Kai Telanne	8/9		2/2			16,000	5,000	21,000
Veli-Matti Töyrylä	8/9			2/2	3/3	16,000	6,100	22,100

**Deputy members**

Mikko Ketonen	6/9		12,000	3,000	15,000
Arto Kuusiola	9/9		12,000	4,500	16,500
Liisa Leino	6/9	2/3	12,000	4,000	16,000

# 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 2012 totalled EUR 757,517.10 of which EUR 219,409.20 is the bonus, or performance pay, for 2011.

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 2011 determined for Mr Vuoria by the Board of Directors was a sum corresponding to the monthly salary of 9 months. Of that sum, the bonus paid to Mr. Vuoria in 2012 corresponded to the percentage of achieved targets.

The President and CEO is included in the long-term incentive scheme described above in Decision-making procedure and remuneration principles, the maximum remuneration of which corresponds to his monthly salary of 4 months during the incentive periods of both 2010–2012 and 2011–2013. In the annual bonus scheme, the maximum remuneration for the President and CEO for 2012 corresponds to the sum of 10 months' monthly salary, taking into consideration the incentive coefficient, which is based on the investment result. Any annual bonus for 2012 will be paid in 2013 and any remunerations from the long-term incentive scheme in 2013 and 2014.

It has been agreed that President and CEO Vuoria will continue in his position until the end of 2013 and 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. The supplementary pension insurance will not accrue supplementary pension after the President and CEO has turned 60.

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.

## 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 2012, the salaries and fringe benefits of the members of the Executive Group, excluding the President and CEO, were EUR 2,120,005.35 and performance pay EUR 193,820.30 (for 2011), in total EUR 2,313,825.65.

The remuneration and fringe benefits of Executive Vice-President Hannu Tarvonen, who acted as the Deputy CEO, totalled EUR 298,702.03 in 2012, which includes performance pay of EUR 34,279.20 for 2011.

Executive Vice-President Tarvonen was set to retire at the age of 60 and his pension amounts to 66 per cent of the calculated pensionable salary. Other members of the Executive Group are set to retire at the age of 60, 62 or 63 and their pension will amount to 60 per cent of the calculated pensionable salary. Mr. Tarvonen retired on old-age pension on 31 December 2012. The lower retirement age has been made possible by taking out supplementary pension insurance with a life insurance company.

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

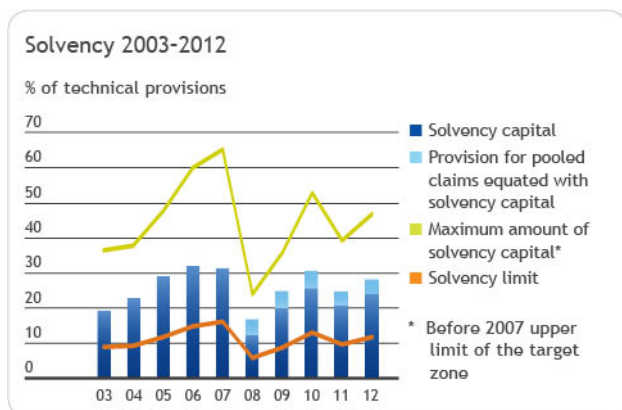
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# Report of the Board of Directors 2012

- The total result was EUR 1,201 (-1,378) million, and the balance sheet total at fair value was EUR 35.7 (33.1) billion.
- Solvency remained the strongest in the sector, at EUR 7,716 (6,520) million or 28.0 (24.8) per cent of the technical provisions.
- The return on investment was 7.7 (-2.1) per cent, and the market value of investments stood at EUR 34.4 (31.9) billion.
- The loading profit was EUR 21.2 (35.3) million.



# Economic operating environment

The crisis that afflicted the euro area and the financial markets entered a subdued phase in 2012. The situation was eased as a consequence of the notable monetary policies implemented by the European Central Bank and other central banks. Towards the end of the year, the credit flow to certain troubled countries improved. The euro-area financial system remains fragile, and efforts to create a "roadmap" to a banking union have been started in order to avert future structural problems in the banking sector.

Within the euro area, however, there continues to be a wide gap between the weak and strong member states. The central banks' measures have bought time for structural renewal in the member countries. The scope for recovery has been exhausted in most countries, and public finances will have to be tightened even in strong EU countries. In order to secure a sustainable base for economic growth and to use that growth to remedy the debt burdens of troubled countries, it is clear that the financial system needs to be in a healthy state. The most important engine of growth for the global economy remains the emerging economies. They, too, have experienced a slowdown in economic growth due to their dependency on exports. The positive global economic risks relate to the pick-up in economic activity in the US and China.

The trend in the investment markets and the situation in the real economy were notably different. The central banks' measures boosted investors' risk appetite, and share prices strengthened towards the end of the year. The falling interest rate level and the narrowing risk margins on corporate bonds for their part improved returns on fixed-income investments. Stricter regulations present profitability-related challenges in the banking sector, which could restrict lending and raise borrowing costs.

Varma focussed on successful investment activities in a challenging market environment, and stresses strong solvency, pro-active investment risk management, and continuous improvement of the company's operations.

The real economy suffered a setback in Finland and in the euro area, and diminishing demand in the global economy strongly affected export volumes. Investments directed at Finland and Finnish investments in companies' production capacity were at a modest level. Consumer confidence weakened, but demand in Finland remained reasonable. Finnish companies announced massive job cuts and temporary lay-offs during the year. Unemployment, however, did not increase as much as the slowdown in economic growth would have suggested. This can be attributed to the changing age structure of the population and the downward trend in workforce numbers.

The opportunities and threats facing the Finnish economy relate to its dependency on exports. Strong export competitiveness is essential to the growth of Finland's small and open national economy and crucial in terms of the possibility to finance national welfare on the whole. As business and trade structures shift, Finland must secure new competitive advantages. The price competitiveness of Finland's exports has weakened. What is notable is the extent to which it has weakened in relation to its significant competitor countries, Germany and Sweden. Finland has also lost its share in the export markets.

The structural challenges for the Finnish economy are the sharp growth in public spending caused by the ageing of the population, the dwindling workforce, and especially the declining industrial activity in our country. The prevailing financial crisis is speeding up the economic structural changes in a manner that is difficult to control. The muted growth in demand for exports and fading investments, together with the reduced availability of workforce are chipping away at potential economic growth. Finland's competitiveness and economic growth require an improvement in productivity, especially in the area of public services.

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# Earnings-related pension system

A reliable pension system is built on sufficient pension benefits and sustainable financing. The significance of the earnings-related pension system is highlighted when assessing how to close the sustainability gap in public finances for the long term. Earnings-related pension funds and their returns as well as the length of careers are decisive factors in terms of seeking ways to meet the challenges the economy faces as a result of the ageing of the population. In March of 2012, the labour market organisations concluded an agreement on the extension of careers, according to which the Government proposed in August changes to part-time pensions and early old-age pensions. These amendments are expected to raise the projected retirement age by 0.1 years. The legislative amendments entered into force at the start of 2013.

Every year until 2012, a pension record has been sent to those with private-sector earnings-related pension insurance. Starting this year, the pension record will only be sent out once every three years. The insured can still verify their pension accrual online every year through Varma's eServices.

As part of the 2012 career-extension agreement, the labour market organisations have committed to engage in negotiations on pension reform that will be enacted by 2017 at the latest. The agreed-on goal of the reform is to achieve a financially and socially equitable pension system. An assessment of the impacts of the 2005 pension reform and the need for additional measures was carried out in order to clarify the targets. In addition, at the request of the Finnish Centre for Pensions, two experts have carried out an international assessment of the Finnish earnings-related pension scheme.

The Ministry of Social Affairs and Health is moving forward with preparations for changes in earnings-related pension legislation intended to promote competition as part of a tripartite set-up in accordance with the Government Programme. At the end of September, an agreement was reached in the tripartite negotiations concerning the implementation of the company-specific expense loading and its conditions. The company-specific expense loading encourages individual earnings-related pension companies to boost the efficiency of their activities and increase competition. Negotiations on regulating the well-being-at-work services offered by earnings-related pension companies continued during the year. The reform of administrative regulations concerning earnings-related pension institutions is also under preparation. The Ministry of Social Affairs and Health has set up a working group to develop an insurance physician system. These development projects did not result in new legislation in 2012.

The development of the private sector pension insurance system's solvency regulations continued under the auspices of the Ministry of Social Affairs and Health. A new law came into effect in January 2013 which will bolster the risk-bearing capacity of private sector pension institutions by combining the solvency margin and the equalisation provision to form solvency capital. Additionally, the calculation of the solvency limit will be adjusted and will take into consideration both the investment risk and the insurance risk. The new law will enable nearly the same risk level on the investment activities of earnings-related pension institutions, and thus also the same return opportunities, as the temporary regulation that was laid down in connection with the 2008 financial market crisis and which expired at the end of 2012. The work to develop solvency regulations continues.

In 2012, the average TyEL contribution was 22.8 (22.4) per cent of the salaries and wages. Employees below the age of 53 contributed 5.15 (4.7) per cent of their pay, while the rate for employees aged 53 and over was 6.50 (6.0) per cent. The YEL contribution was 22.50 (21.6) per cent of the confirmed earnings for those below the age of 53, and 23.85 (22.9) 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. In 2013, the average contribution will be lowered by 0.4 percentage points in order to clear the accumulated equalisation provision.

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 0.34 per cent on average in 2012. The return on equity component in 2012 was 15.10 per cent. The technical interest rate, used to determine the interest rate of the oldest premium loans, insurance contributions and other items, was 3.25 per cent until the end of June, and 4.0 thereafter.

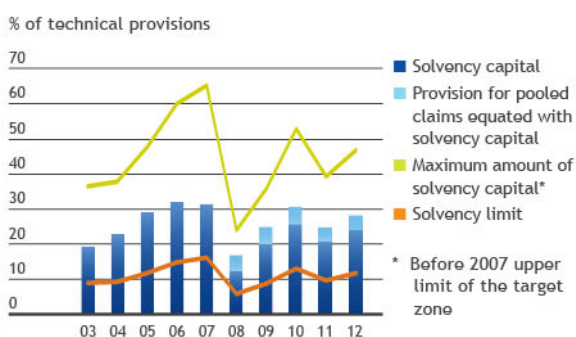
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# Varma's financial trends

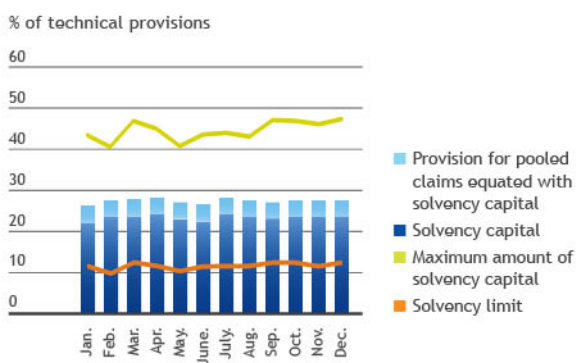
Varma's total result at fair value stood at EUR 1,201 (-1,378) million. The total quarterly result varied during the financial year, such that the first quarter result was the strongest and the second quarter result the weakest. Varma's financial performance in the second half of the year was stable.

Varma's solvency strengthened during 2012 by EUR 1,196 million, and at the end of the year solvency capital amounted to EUR 7,716 (6,520) million. Varma's solvency ratio, i.e. solvency capital in relation to technical provisions, is the highest in the earnings-related pension insurance sector, at 28.0 (24.8) per cent. The solvency capital was at a strong level: 2.4 (2.5) 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 boost the company's solvency through stable returns and operational efficiency.

Solvency 2003-2012



Solvency 2012



In accordance with the temporary legislation that was in effect until the end of 2012, the share of the provision for pooled claims included in the solvency capital was EUR 1,147 (1,096) million. Excluding the temporary provision for pooled claims equated with the solvency capital, the solvency capital would have been EUR 6,569 (5,424) million, and its ratio to the technical provisions 22.9 (19.8) per cent and to the solvency limit 1.9 (2.0). The minimum level of the solvency capital was EUR 551 million at year-end, whereas without the temporary legislation it would have been EUR 2,250 million. The change in the equalisation provision covering the risks of net claims was EUR -12 (-38) million, and the equalisation provision was EUR 1,108 (1,120) million.

On 31 December 2012, Varma's solvency capital, calculated according to the Act that took effect on 1 January 2013, was roughly EUR 7,677 million, which corresponds to 27.8 per cent of the technical provisions according to the new Act. The ratio of the solvency capital to the solvency limit, calculated according to the new Act, is around 2.2.

The return on investments was EUR 2,492 (-711) million at fair value, which was 7.7 (-2.1) per cent of the invested capital. The interest credited on the technical provisions was EUR 1,303 (667) million. Thus, the investment result for 2012 totalled EUR 1,189 (-1,378) million. The average annual nominal return on Varma's investments over five years was 2.5 per cent, and over ten years 5.5 per cent. Operating expenses were 16 (27) per cent lower than the administrative costs included in insurance premiums, and the loading profit stood at EUR 21 (35) million. The underwriting result was EUR -9 (-35) million.

At the end of 2012, EUR 78 (73) million was transferred to the provision for current bonuses for client bonuses. The transfer represents roughly 0.4 (0.4) per cent of the estimated payroll of the insured.

The TyEL payroll of those insured by Varma totalled about EUR 17.7 (17.3) billion in 2012. The payroll is estimated to have increased about 1.5 per cent, compared with the actual 2011 figure. Varma's premiums written totalled EUR 4,230 (3,977), of which TyEL insurance accounted for EUR 4,041 (3,802) million and YEL insurance for EUR 190 (175) million.

At the end of the year, 539,740 (540,340) individuals were insured by Varma, which was 600 less than a year earlier. The number of valid insurance policies totalled 68,900 (70,040), covering 41,280 (41,940) self-employed persons and 498,460 (498,400) employees.

During the year, a total of 3,881 (4,026) new TyEL insurance policies and 5,782 (9,105) YEL insurance policies came into force at Varma. The volume of YEL insurance policies was boosted in 2011 by a legislative amendment that expanded the number of shareholders and individuals working in a managerial position covered by YEL.

Earnings and employment notifications received during the year totalled 1,476,812 (1,267,563), of which 90 (88) 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 2012, a total of EUR 4,500 (4,194) million in pensions were paid out. The number of pension recipients increased, and at year-end, Varma was paying TyEL and YEL pensions to 331,383 (330,038) people.

A total of 24,179 (26,644) new pension decisions were made during the year. The number of new pension decisions increased 9.3 per cent and the total number of all pension decisions was 7.5 per cent lower than in 2011. Old-age pension decisions numbered 11,515 (11,739), and 5,888 (6,466) disability pension decisions were made. The decline in numbers primarily concerned part-time pension, unemployment pension, and disability pension.

Due to the raised retirement age limit, part-time pension decisions were down and stood at 901 (1,561). As a result of a legislative amendment, no individuals were eligible to begin collecting unemployment pension in 2012. Continuation decisions on temporary pensions totalled 5,736 (5,500), and other decisions numbered 14,186 (16,331). These were decisions required as a consequence of the changes in pension rights.

Of all customer contacts concerning pension services, 69 per cent took place online.

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 nearly three quarters of those who received Varma's rehabilitation continued in working life following their rehabilitation. Varma has for years been a forerunner in vocational rehabilitation. Throughout 2012, 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' well-being-at-work projects in accordance with jointly agreed and often multi-year plans and contracts.

	31 Dec. 2012	31 Dec. 2011	Change
<b>Number of insured</b>			
TyEL <sup>1</sup>	498,460	498,400	60
YEL	41,280	41,940	-660
Total	539,740	540,340	-600
<sup>1</sup> of which covered by TEL registered supplementary pension insurance	5,545	6,310	-765
<b>Number of insurance policies</b>			
TyEL	27,620	28,080	-460
<b>Number of pensioners</b>			
Part-time pension	3,986	4,848	-862
Survivors' pension	51,487	51,773	-286
Disability pension	36,195	38,787	-2,592
Unemployment pension	408	3,501	-3,093
Old-age pension	223,999	215,863	8,136
Early old-age pension	15,308	15,266	42
Total <sup>2</sup>	331,383	330,038	1,345
<sup>2</sup> Those receiving YEL pension	28,969	29,065	-96
Those receiving TEL/YEL supplementary pension	41,432	41,124	308

Varma's customer service has seen a considerable increase in the use of the company's online services. Pension recipients are able to update their address and account number information themselves by logging in using their 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.

Varma sent out 574,149 (722,000) earnings-related pension records to its insured in 2012. The record shows information on earnings that apply to pension as well as the pension that has accrued until the end of the preceding year. The pension record is also available via Varma's eServices. As of 2013, the print version of the pension record will be sent to the insured every three years, but they can check their pension record annually online.

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# Technical provisions

Varma's technical provisions grew by 2.7 (-0.4) per cent to EUR 29,767 (28,966) million. They contain a provision of EUR 79 (74) million for current bonuses reserved for client bonuses, a provision of EUR 1,073 (1,556) million for future bonuses contained in the solvency capital, and EUR 190 (-180) 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 1,108 (1,120) million.

At the end of the year, the assets covering the technical provisions were 118 (113) per cent of the technical provisions.

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# Investments

At the end of 2012, the value of Varma's investments totalled EUR 34,406 (31,852) million and the return at fair value was EUR 2,492 (-711) million or 7.7 (-2.1) per cent. All asset classes yielded a positive return. The average nominal return over the last five years was 2.5 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 in an uncertain market environment. 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 investments stood at EUR 12,576 million (13,151 million) at the balance sheet date and were distributed as follows:

- loan receivables EUR 2,441 (2,948) million
- public-sector bonds EUR 4,052 (5,593) million
- other corporate bonds EUR 5,347 (3,031) million
- other money-market instruments EUR 735 (1,580) million.

The return on fixed-income investments was 4.4 (4.2) per cent. The return on the loan portfolio was 3.2 (3.9), on public-sector bonds 3.6 (5.1), other corporate bonds 8.1 (4.9) and other money-market instruments 0.7 (1.0) per cent.

In a low interest rate environment, the return on Varma's fixed-income investments was good. During the year, the central banks' measures lowered the general market interest rate level to a record low. In addition, there was tremendous demand for corporate bonds, which experienced narrowing risk margins, and consequently generated very high returns. As a precautionary measure, the duration on Varma's fixed-income portfolio was kept quite short, which slightly lowered their overall return.

At the balance sheet date, the value of Varma's equities was EUR 11,727 (9,728) million. Listed equities stood at EUR 8,567 (6,883), private equities at 2,394 (2,099) and unlisted equities at EUR 766 (746) million. The return on Varma's equity investments was 14.5 (-13.0) per cent. Listed equities yielded a return of 14.9 (-18.9) per cent, private equities 13.0 (9.6) per cent, and unlisted equities 15.5 (20.7) 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 in the second half of the year. Finnish equities had the highest returns in Varma's portfolio.

Private equity investments 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 4,463 (4,447) million at the balance sheet date. Direct real estate investments accounted for EUR 3,961 (3,975) and real estate investment funds for EUR 503 (472) million.



The return on real estate investments was 4.5 (6.4) per cent. Direct real-estate investments yielded a return of 4.6 (5.9) per cent and real-estate investment funds 3.1 (11.2) per cent.

The shaky economic situation was evident in all segments of the real-estate markets, which were very muted all year. Varma's new real estate investments stood at EUR 125 million. Varma had 450 new rental flats under construction in the Helsinki area in 2012. 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 -33 million.

Other investments amounted to EUR 5,640 (4,526) million. These consisted of hedge funds EUR 3,779 (3,572), commodities EUR 289 (113), and other investments EUR 1,571 (841) million. The return on other investments was 6.0 (4.5) per cent.

Varma's return on hedge-fund investments clearly surpassed the performance of hedge-fund indices; the investments performed consistently throughout the year, with only minor fluctuations. The return on inflation-linked investments was affected by the decline in real interest rates, and by the inflation rate remaining at a higher level than the interest-rate level. The asset class of other investments provided, on the whole, return and diversification benefits during the year at a low risk level.

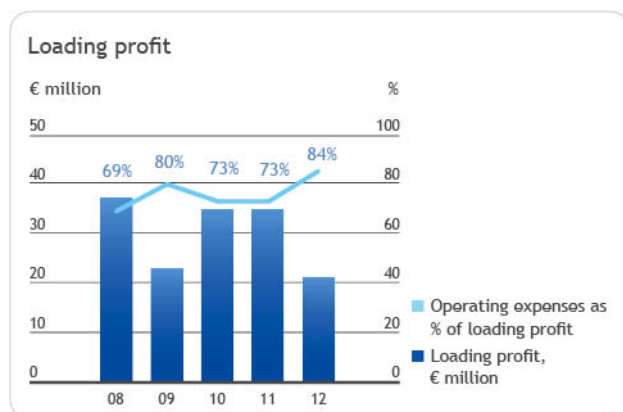
The market risk of investments constitutes the greatest risk affecting the company's result and solvency. Equities constituted by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 1,076 (1,551) million. The figure represents the 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 2012, Varma actively participated in the Annual General Meetings of the domestic companies in which it owned shares and in the work of the companies' shareholders' Nomination Committees.

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# Operating expenses

Varma used 84 (73) per cent of the expense loading, included in the insurance contributions, to cover operating expenses. The considerable investments made in the project to reform the pension application processing system weakened 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 increased on the previous year, totalling EUR 149 (136) million. Varma has adjusted the amortization of its major IT systems.

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.

		<b>2012</b>	2011	2010	2009	2008
Average number of personnel	Parent					
	Company	<b>572</b>	588	601	615	629
Salaries and remunerations, EUR million	Parent					
	Company	<b>37.0</b>	39.5	36.9	34.3	34.6

Tieto Esys, which is included in the Consolidated Financial Statements using the equity method, had an average of 101 employees in 2012.

At the end of the year, the personnel were distributed as follows: pension insurance and customer service departments 65 per cent, investment operations 13 per cent and other functions 22 per cent.

# Group companies and associates

At the end of 2012, the Varma Group comprised 226 (225) subsidiaries and 22 (22) 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 (39.9 per cent), Technopolis Plc (24.1 per cent) and NV Kiinteistösi joitus Oy (45 per cent). The Varma Group also owns 50 per cent of the guarantee capital of the Kaleva Mutual Insurance Company. Most of the subsidiaries and associate companies are real estate companies.

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# 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 22 March 2012 elected Riitta Laitasalo, Ilkka Nokelainen, Jari Paasikivi and Saana Siekkinen as new members of Varma's Supervisory Board. Continuing as Supervisory Board members were: Juri Aaltonen, Martti Alakoski, Berndt Brunow, Erkki Etola, Stig Gustavson, Ilkka Hallavo, Tauno Heinola, Kari Jordan, Tapio Korpeinen, Tapio Kuula, Päivi Kärkkäinen, Olli Luukkainen, Hannu Penttilä, Antti Piippo, Markus Rauramo, Pertti Saarela, Kari Sairo, Mika Seitovirta, Antti Sippola, Pekka Soini, Jorma J. Takanen, Kari Virta, Anssi Vuorio and Göran Åberg.

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

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 4 December 2012, the Supervisory Board re-elected to the Board of Directors the following members, whose terms were expiring: Mikael Aro, Ari Kaperi, Lasse Laatunen and Mikko Mäenpää. Kari Jordan was elected as a new member to replace Ole Johansson for the term 1 January–31 December 2013. The Board of Directors was chaired by Sakari Tamminen, with Ole Johansson and Mikko Mäenpää acting as Deputy Chairmen.

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.

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# 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 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.

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# Outlook

The unbalanced state of affairs, uncertainty and risks that are overshadowing the global economy are still extremely severe, which makes forecasting difficult in terms of both the capital markets and the Finnish economy. The situation in the financial markets appears more hopeful this year, but new market disturbances certainly cannot be ruled out. The financial system continues to be sensitive to single events, and the strength of global economic recovery remains uncertain. As a consequence of the financial crises in the euro area, the requirements set for public finances and for the growing debt levels are highlighted. The impacts of the measures implemented in the euro area to rectify and stabilise the situation have not yet been entirely realised. The development of the Finnish capital markets is also important for earnings-related pension investors.

The ageing of the population will reduce the supply of workforce and economic growth potential in the long term. The Finnish pension system rests on a reliable and sound foundation. Issues related to extending people's time employed and trends in the contribution level, however, remain unresolved. Prolonging careers is important in terms of economic growth conditions and to finance the increase in public spending caused by ageing.

Varma's solvency strengthened in 2012, in both absolute terms and in relation to the solvency limit. Since pension costs exceed premium income, new investments also require the realisation of current investments. 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.

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# Income statement

1 Jan–31 Dec, € million	Notes	Parent Company 2012	Parent Company 2011	Group 2012	Group 2011
<b>Technical account</b>					
Premiums written	<u>1</u>	<b>4,230.7</b>	3,976.6	<b>4,230.7</b>	3,976.6
Investment income	<u>3</u>	<b>3,435.7</b>	4,076.3	<b>3,404.2</b>	4,059.3
Claims incurred					
Claims paid	<u>2</u>	<b>-4,222.4</b>	-3,966.5	<b>-4,222.4</b>	-3,966.5
Total change in provision for claims outstanding		<b>-630.1</b>	-1,080.7	<b>-630.1</b>	-1,080.7
Portfolio transfer			-0.2		-0.2
		<b>-4,852.4</b>	-5,047.4	<b>-4,852.4</b>	-5,047.4
Change in provision for unearned premiums					
Total change		<b>-171.0</b>	1,204.0	<b>-171.0</b>	1,204.0
Portfolio transfer			-0.5		-0.5
		<b>-171.0</b>	1,203.4	<b>-171.0</b>	1,203.4
Operating expenses	<u>4</u>	<b>-72.0</b>	-72.1	<b>-72.0</b>	-72.1
Investment expenses	<u>3</u>	<b>-2,562.2</b>	-4,126.6	<b>-2,553.0</b>	-4,113.5
<b>Balance on technical account</b>		<b>8.8</b>	10.2	<b>-13.6</b>	6.4
<b>Non-technical account</b>					
Balance on technical account		<b>8.8</b>	10.2	<b>-13.6</b>	6.4
Share of associated companies' profit				<b>18.9</b>	19.5
Income taxes on ordinary activities					
Taxes for the financial year		<b>-4.4</b>	-5.2	<b>-4.4</b>	-5.2
<b>Profit on ordinary activities after taxes</b>		<b>4.3</b>	5.0	<b>0.9</b>	20.7
Minority interest in the result for the financial year				<b>0.0</b>	0.0
<b>Profit for the financial year</b>		<b>4.3</b>	5.0	<b>0.9</b>	20.7

# Balance sheet

31 Dec, € million	Notes	Parent Company 2012	Parent Company 2011	Group 2012	Group 2011
<b>ASSETS</b>					
<b>Intangible assets</b>					
Other expenses with long-term effects	<u>17</u>	<b>32.1</b>	41.4	<b>32.1</b>	41.4
<b>Investments</b>					
Real estate					
Real estate and real estate shares	<u>14</u>	<b>2,126.1</b>	2,038.9	<b>3,065.2</b>	3,149.4
Loans to Group companies	<u>14</u>	<b>1,029.6</b>	1,202.3		
		<b>3,155.7</b>	3,241.1	<b>3,065.2</b>	3,149.4
Investments in Group companies					
Shares and participations in Group companies	<u>12</u> <u>13</u>	<b>4.3</b>	4.3	<b>0.7</b>	0.8
Shares and participations in associates	<u>12</u> <u>13</u>	<b>185.5</b>	175.5	<b>217.3</b>	206.7
		<b>189.7</b>	179.8	<b>218.0</b>	207.5
Other investments					
Shares and participations	<u>16</u>	<b>12,547.4</b>	11,091.0	<b>12,562.5</b>	11,106.0
Money-market instruments		<b>10,277.2</b>	10,484.5	<b>10,277.2</b>	10,484.5
Loans guaranteed by mortgages		<b>439.5</b>	611.5	<b>439.5</b>	611.5
Other loan receivables	<u>18</u>	<b>1,935.8</b>	2,249.0	<b>1,935.8</b>	2,249.0
Deposits			65.0		65.0
		<b>25,199.9</b>	24,501.0	<b>25,214.9</b>	24,516.0
		<b>28,545.3</b>	27,921.9	<b>28,498.1</b>	27,872.9
<b>Receivables</b>					
Direct insurance operations					
Policyholders		<b>153.1</b>	194.8	<b>153.1</b>	194.8
Other receivables					
Other receivables		<b>630.5</b>	335.9	<b>632.9</b>	339.4
		<b>783.6</b>	530.6	<b>786.1</b>	534.2
<b>Other assets</b>					
Tangible assets					
Equipment	<u>17</u>	<b>3.4</b>	4.3	<b>3.4</b>	4.3
Other tangible assets	<u>17</u>	<b>0.9</b>	0.8	<b>0.9</b>	0.8
		<b>4.3</b>	5.1	<b>4.3</b>	5.1
Cash at bank and in hand		<b>717.9</b>	610.6	<b>717.9</b>	610.7
		<b>722.2</b>	615.7	<b>722.2</b>	615.8

**Prepayments and accrued income**

Accrued interest and rent	<b>157.5</b>	165.6	<b>158.6</b>	166.4
Other prepayments and accrued income	<b>21.1</b>	6.3	<b>21.2</b>	6.4
	<b>178.5</b>	171.9	<b>179.8</b>	172.8

<b>TOTAL ASSETS</b>	<b>30,261.8</b>	29,281.5	<b>30,218.3</b>	29,237.1
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	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec, € million				

**LIABILITIES****Capital and reserves**

Guarantee capital	<b>11.9</b>	11.9	<b>11.9</b>	11.9
Other reserves	<b>80.8</b>	76.5	<b>80.8</b>	76.5
Profit/loss brought forward	<b>0.3</b>	0.3	<b>-50.2</b>	-66.0
Profit for the financial year	<b>4.3</b>	5.0	<b>0.9</b>	20.7
	<u>26</u>	93.8	<b>43.4</b>	43.2

**Minority interest****14.1** 14.1**Technical provisions**

Provision for unearned premiums	<u>23</u>	<b>16,250.5</b>	16,079.5	<b>16,250.5</b>	16,079.5
Provision for claims outstanding	<u>23</u>	<b>13,516.2</b>	12,886.1	<b>13,516.2</b>	12,886.1
		<b>29,766.6</b>	28,965.6	<b>29,766.6</b>	28,965.6

**Liabilities**

Direct insurance operations	<b>8.3</b>	7.2	<b>8.3</b>	7.2
Other liabilities	<b>369.3</b>	145.4	<b>365.7</b>	137.3
	<b>377.6</b>	152.5	<b>374.0</b>	144.4

**Accruals and deferred income**

	<b>20.1</b>	69.6	<b>20.2</b>	69.7
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<b>TOTAL LIABILITIES</b>	<b>30,261.8</b>	29,281.5	<b>30,218.3</b>	29,237.1
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# Statement of source and application of funds

1 Jan–31 Dec, € million	Parent Company 2012	Parent Company 2011	Group 2012	Group 2011
<b>Cash flow from operations</b>				
Gain/loss on ordinary activities	8.8	10.2	-13.6	6.4
Adjustments				
Changes in technical provisions	801.1	-123.2	801.1	-123.2
Impairments and revaluations on investments	163.6	751.4	158.5	741.4
Depreciation according to plan	28.2	23.1	119.2	111.8
Capital gain and loss	-439.4	358.6	-438.9	350.1
Cash flow before change in working capital	562.3	1,020.0	626.3	1,086.5
Change in working capital:				
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	-259.6	132.5	-258.9	147.1
Increase (-) / decrease (+) in non-interest-bearing short-term debts	175.6	-414.5	180.1	-411.5
Cash flow from operations before taxes	478.3	738.1	547.5	822.1
Direct taxes paid	-4.4	-5.2	-4.4	-5.2
<b>Cash flow from operations</b>	<b>473.8</b>	<b>732.9</b>	<b>543.0</b>	<b>816.9</b>
<b>Cash flow from investments</b>				
Net investments and proceeds from asset sales	-366.4	-421.9	-435.7	-505.9
Investments and gains on intangible, tangible and other assets	0.6	-6.5	0.6	-6.5
<b>Cash flow from investments</b>	<b>-365.8</b>	<b>-428.4</b>	<b>-435.1</b>	<b>-512.4</b>
<b>Cash flow from financing</b>				
Interest paid on guarantee capital and other profit distribution	-0.7	-0.7	-0.7	-0.7
<b>Cash flow from financing</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>
<b>Change in financial resources</b>	<b>107.3</b>	<b>303.8</b>	<b>107.2</b>	<b>303.8</b>
<b>Financial resources, 1 Jan.</b>	<b>610.6</b>	<b>306.8</b>	<b>610.7</b>	<b>306.9</b>
<b>Financial resources, 31 Dec.</b>	<b>717.9</b>	<b>610.6</b>	<b>717.9</b>	<b>610.7</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 have been 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.

The parent company has 224 (223) 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 intended for long-term holding 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 has been 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 amortization of the expenses relating to the renewal project of the pension applications processing system, listed under other long-term expenses in the balance sheet, have been adjusted to match the technical development time of the system. 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, the valuation difference and the provision for future bonuses.

According to temporary legislation, which was in force until the end of 2012, in solvency calculations, a portion, which in accordance with a decree of the Ministry of Social Affairs and Health is four per cent of the technical provisions used in the calculation of the solvency limit, is regarded as solvency capital and subtracted from the provision for pooled claims in the technical provisions.

The minimum limit of the solvency capital is two-thirds of the solvency limit, however, under the temporary legislation valid until the end of 2012 the minimum limit is two per cent of the technical provisions. 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 solvency capital's ratio to the solvency limit. The solvency ratio is the solvency capital's ratio 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.

From the beginning of 2013, solvency is measured using solvency capital that includes equalisation provision. Solvency requirements are also being amended.

## 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 working



capacity 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

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). Varma has published a salary and remuneration statement in accordance with the Financial Supervisory Authority's recommendation on its 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. Due to the temporary legislation valid until the end of 2012 a share of the provision for pooled claims is equated with the solvency capital. The provision for current bonuses reserved for the payment of client bonuses, equity-linked provision for current/future bonuses and the equalisation provision 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. 2012

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

Asunto Oy Helsingin Arabiankatu 2  
Kiinteistö Oy Kotkan Jumal尼ementie 8  
Kiinteistö Oy Lappeenrannan Korpikunnaankatu 1  
Kiinteistö Oy Lohjanharjun Kauppapuisto 3a  
Kiinteistö Oy Oulun Uusikatu 72  
Kiinteistö Oy Sipoon Kaskikylänkuja 2  
Kiinteistö Oy Vallilan toimisto

### In addition, the Group comprises the following 219 subsidiaries:

As. Oy Espoon Amiraali  
Asunto Oy Espoon Keijumäki  
Asunto Oy Espoon Kilonlemmikki  
Asunto Oy Espoon Kiskottajankuja 4  
As. Oy Espoon Kyyhkysmäki 14  
Asunto Oy Espoon Lintuvaarantie 37-39  
Asunto Oy Espoon Nihtitorpankuja 3  
Asunto Oy Espoon Nihtitorpankuja 5  
Asunto Oy Espoon Nihtitorpankuja 7  
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 Kaustisenpolku 1  
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  
As Oy Kuokkalan Tahkonkartano  
Asunto Oy Lahden Kulmakatu 10  
Asunto Oy Lahden Kulmakatu 12  
Asunto Oy Lahden Lahdenkatu 39  
Asunto Oy Lahden Massinhovi  
Asunto Oy Lahden Massinpoiju  
As Oy Lahden Vilhon Vaakuna  
Asunto Oy Merihauki  
Asunto Oy Neilikkatie  
Asunto Oy Niittymaanpuisto  
As. Oy Näkinkuja 4  
Asunto Oy Oulun Lehmuskuja  
Asunto Oy Paatsamatie 3  
Asunto Oy Paratiisintie

Asunto Oy Raisio Tasantorni  
Asunto Oy Rovaniemen Väilirakka  
Asunto Oy Siltavoudintie 1  
Asunto Oy Taivalpolku  
Asunto Oy Tampereen Jankansampo  
Asunto Oy Tampereen Kultaköynnös  
Asunto Oy Tampereen Nahkakuja 9  
Asunto Oy Tampereen Nahkakuja 13  
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 Kaivoslähde  
Asunto Oy Vantaan Käräjäkuja 1  
Asunto Oy Vantaan Vernissakatu 5  
Helsingin Kiinteistösisjoitus Oy  
Kiinteistöosakeyhtiö Iisalmen Lammenkaari 4  
Kiinteistöosakeyhtiö Mikkelin Karikontie 101  
Kiinteistöosakeyhtiö Varma  
Kiinteistö Oy Ahertajantie 3  
Kiinteistö Oy Arabian Parkki  
Kiinteistö Oy Arppentie 6 B  
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 Kiltakallionrinne  
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 Lönnrotinkatu 18  
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 Tapulikaupungintie 13  
Kiinteistö Oy Helsingin Valimopolku 4  
Kiinteistö Oy Helsingin Valimotie 9-11

Kiinteistö Oy Helsingin Valimotie 16  
Kiinteistö Oy Helsinki Niittylänpolku 10  
Kiinteistö Oy Hiihtäjätie 1  
Kiinteistö Oy Hotelli Levihoivi  
Kiinteistö Oy Hotelli Torni  
Kiinteistö Oy Hyvinkään Hämeenkatu 9  
Kiinteistö Oy Hämeenlinnan Katsastusmiehentie 6  
Kiinteistö Oy Hämeenlinnan Tiiriö  
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  
Kiint. Oy Jyväskylän maalaiskunnan Kotikeskus  
Kiinteistö Oy Jyväskylän Mattilanniemi  
Kiinteistö Oy Jyväskylän Saarijärventie 50-52  
Kiinteistö Oy Jyväskylän Sorastajantie 1  
Kiinteistö Oy Jyväskylän Tourulantie 13  
Kiinteistö Oy Espoon Kattilantanhua 6  
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 Kouvolan Lehtikaari 3  
Kiinteistö Oy Kouvolan Tommolankatu 18  
Kiinteistö Oy Kuntotalo  
Kiinteistö Oy Kuopion Koiravedenkatu 10  
Kiinteistö Oy Kuopion Lukkosalmenportti  
Kiinteistö Oy Kuparitie 2  
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 Patria  
Kiinteistö Oy Lassilanlinna  
Kiinteistö Oy Lohjanharjun kauppapuisto 1  
Kiinteistö Oy Lohjanharjun kauppapuisto 2  
Kiinteistö Oy Lohjanharjun kauppapuisto 4  
Kiinteistö Oy Lohjanharjun kauppapuisto 5  
Kiinteistö Oy Lohjan Sampotalo  
Kiinteistö Oy Lönnrotinkatu 12  
Kiinteistö Oy Lönnrotinkatu 12 A  
Kiinteistö Oy Lönnrotinkatu 13  
Kiinteistö Oy Mannerheimintien Pysäköintilaitos

Kiinteistö Oy Menotie 1  
Kiinteistö Oy Metsäpojankuja 1  
Kiinteistö Oy Myyrkumpu  
Kiinteistö Oy Nihtitorpankuja 4  
Kiinteistö Oy Nokian Nuijamiestentie 5  
Kiinteistö Oy Nummenvaara  
Kiinteistö Oy Oulun Aurora  
Kiinteistö Oy Oulun Kallisensuora 5  
Kiinteistö Oy Oulunkyläntori 1  
Kiinteistö Oy Oulun Tulliväylä 3  
Kiinteistö Oy Oulun Tyrnäväntie 6  
Kiinteistö Oy Palokanvarma  
Kiinteistö Oy Partolan Kauppajätti  
Kiinteistö Oy Pharma City  
Kiinteistö Oy Pirkkalan Myllyhaantie  
Kiinteistö Oy Pirkkalan Sorkkalantie 394  
Kiinteistö Oy Pirkkalan Vesalanportti  
Kiinteistö Oy Pitkäniemen R15  
Kiinteistö Oy Porin Itsenäisyydenkatu 5  
Kiinteistö Oy Porin Eteläväylä 2  
Kiinteistö Oy Porin Satakunnankatu 39  
Kiinteistö Oy Porvoon Ratsumestarinkatu 3  
Kiinteistö Oy Primulan Herkkupaja  
Kiinteistö Oy Pyykin 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 Sompasaaren Tukoeka  
Kiinteistö Oy Spektrin Trio  
Kiinteistö Oy Suometsänkaari 2  
Kiinteistö Oy Tampereen Harjuntausta 7  
Kiinteistö Oy Tampereen Hyllilänkatu 17  
Kiinteistö Oy Tampereen Kalevanpaasi  
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 Huvilatie 2  
Kiinteistö Oy Vaasan Monopol Fastighets Ab  
Kiinteistö Oy Vaasan Producta I  
Kiinteistö Oy Vaasan Sampotalo  
Kiinteistö Oy Vantaa Jokiniementie 31  
Kiinteistö Oy Vantaan Martintalo  
Kiinteistö Oy Vantaan Tasetie 8  
Kiinteistö Oy Varmantalo

Kiinteistö Oy Vierumäen Portti  
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 six real estate companies exited the Group during the year under review:**

Hakunilan Kiinteistöt Oy  
Kiinteistö Oy Järvenpään Asponkatu 2  
Kiinteistö Oy Kolmisopentie 3  
Kiinteistö Oy Scanaine  
Kiinteistö Oy Seinäjoen Jalostajantie 3  
Kiinteistö Oy Vääksyntie 4

**In addition, the Group comprises the following 20 associates:**

Kamreerintien Pysäköintitalo Oy  
Kiinteistö Oy Elocinkulma 1  
Kiinteistö Oy Karkkilan Sähkökiinteistö  
Kiinteistö Oy Liikejalava  
Kiinteistö Oy Pynikin 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 Corporation  
Spektri Business Oy  
Spektri-Park Oy  
Technopolis Plc  
Garantia Insurance Company Ltd  
Vaasan Toripysäköinti Oy

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

VVT Kiinteistösijoitus Oy

**The following associate exited the Group during the year under review:**

Silta Oy

## Notes to the income statement

### 1. Premiums written

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
Direct business				
Basic insurance under TyEL				
Employer	<b>3,072.1</b>	2,938.1	<b>3,072.1</b>	2,938.1
Employee	<b>962.7</b>	857.2	<b>962.7</b>	857.2
	<b>4,034.7</b>	3,795.2	<b>4,034.7</b>	3,795.2
Supplementary pension insurance under TEL	<b>6.3</b>	6.7	<b>6.3</b>	6.7
Insurance under minimum YEL cover	<b>189.7</b>	174.9	<b>189.7</b>	174.9
	<b>4,230.8</b>	3,976.8	<b>4,230.8</b>	3,976.8
Reinsurance	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Premiums written before reinsurance	<b>4,230.8</b>	3,976.9	<b>4,230.8</b>	3,976.9
Reinsurance share	<b>-0.1</b>	-0.2	<b>-0.1</b>	-0.2
Premiums written <sup>1</sup>	<b>4,230.7</b>	3,976.6	<b>4,230.7</b>	3,976.6
Credit loss on premium receivables				
TyEL	<b>14.6</b>	14.8	<b>14.6</b>	14.8
YEL	<b>1.8</b>	1.6	<b>1.8</b>	1.6
	<b>16.4</b>	16.4	<b>16.4</b>	16.4

<sup>1</sup> Less credit loss.

## 2. Claims paid

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
Direct business				
Paid to pensioners				
Basic insurance under TyEL	<b>4,168.1</b>	3,875.8	<b>4,168.1</b>	3,875.8
Supplementary pension insurance under TEL	<b>100.8</b>	99.7	<b>100.8</b>	99.7
Insurance under minimum YEL cover	<b>230.9</b>	218.0	<b>230.9</b>	218.0
Supplementary pension insurance under YEL	<b>0.6</b>	0.5	<b>0.6</b>	0.5
	<b>4,500.5</b>	4,194.0	<b>4,500.5</b>	4,194.0
Clearing of PAYG pensions received <sup>1</sup>				
TyEL pensions	<b>-151.7</b>	-74.2	<b>-151.7</b>	-74.2
YEL pensions	<b>-33.7</b>	-28.8	<b>-33.7</b>	-28.8
Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods	<b>-141.7</b>	-154.7	<b>-141.7</b>	-154.7
YEL state share	<b>-5.7</b>	-11.5	<b>-5.7</b>	-11.5
VEKL state compensation	<b>-0.1</b>	-0.1	<b>-0.1</b>	-0.1
	<b>-332.9</b>	-269.2	<b>-332.9</b>	-269.2
Reinsurance	<b>0.0</b>	-0.0	<b>0.0</b>	-0.0
	<b>4,167.6</b>	3,924.7	<b>4,167.6</b>	3,924.7
Claims handling expenses	<b>48.3</b>	34.2	<b>48.3</b>	34.2
Maintenance of work capacity expenses <sup>2</sup>	<b>6.5</b>	7.7	<b>6.5</b>	7.7
Claims paid before reinsurance	<b>4,222.5</b>	3,966.6	<b>4,222.5</b>	3,966.6
Reinsurance share	<b>-0.1</b>	-0.2	<b>-0.1</b>	-0.2
Total claims paid	<b>4,222.4</b>	3,966.5	<b>4,222.4</b>	3,966.5

<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 2012 the disability risk administrative cost components included in Varma's premium income totalled EUR 62 million, 96 per cent of which were used for well-being-at-work projects as part of claims incurred. In 2012 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 2012	Parent Company 2011	Group 2012	Group 2011
<b>Investment returns</b>				
Returns on investments in Group companies				
Dividend	<b>0.4</b>	0.5		
Interest		0.0		0.0
	<b>0.4</b>	0.5		0.0
Returns on investments in associates				
Dividend	<b>13.4</b>	8.3		
	<b>13.4</b>	8.3		
Returns on investments in real estate				
Dividend		0.1		
Interest				
Group companies	<b>42.1</b>	40.1		
Other			<b>0.7</b>	0.5
Other returns	<b>298.1</b>	294.1	<b>322.2</b>	317.0
	<b>340.1</b>	334.3	<b>322.9</b>	317.4
Returns on other investments				
Dividend	<b>421.8</b>	436.7	<b>421.9</b>	436.9
Interest	<b>365.2</b>	348.1	<b>365.2</b>	348.1
Other returns	<b>602.9</b>	1,307.4	<b>602.9</b>	1,307.4
	<b>1,389.9</b>	2,092.3	<b>1,390.0</b>	2,092.4
	<b>1,743.9</b>	2,435.3	<b>1,712.9</b>	2,409.9
Reversed impairment	<b>326.7</b>	163.6	<b>326.7</b>	163.6
Sales proceeds	<b>1,365.1</b>	1,477.3	<b>1,364.6</b>	1,485.8
Total	<b>3,435.7</b>	4,076.3	<b>3,404.2</b>	4,059.3
<b>Investment expenses</b>				
On real estate	<b>-183.0</b>	-176.2	<b>-88.0</b>	-84.4
On other investments	<b>-943.6</b>	-1,177.9	<b>-943.6</b>	-1,177.9
Interest	<b>-0.7</b>	-1.5	<b>-0.7</b>	-1.5
	<b>-1,127.3</b>	-1,355.6	<b>-1,032.4</b>	-1,263.7
Impairment and depreciation				
Impairment	<b>-490.3</b>	-915.0	<b>-485.2</b>	-905.1
Planned depreciation on buildings	<b>-18.8</b>	-20.1	<b>-109.7</b>	-108.8
	<b>-509.1</b>	-935.1	<b>-594.9</b>	-1,013.8
Sales losses	<b>-925.7</b>	-1,836.0	<b>-925.7</b>	-1,836.0
Total	<b>-2,562.2</b>	-4,126.6	<b>-2,553.0</b>	-4,113.5
<b>Net investment return in the income statement</b>	<b>873.5</b>	-50.4	<b>851.2</b>	-54.2

## 4. Operating expenses in the income statement

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
Insurance policy acquisition costs				
Direct business commissions	<b>1.5</b>	1.9	<b>1.5</b>	1.9
Other insurance policy acquisition costs	<b>8.9</b>	6.0	<b>8.9</b>	6.0
	<b>10.3</b>	7.9	<b>10.3</b>	7.9
Portfolio administration expenses	<b>36.3</b>	35.1	<b>36.3</b>	35.1
Administrative expenses				
Statutory charges				
Finnish Centre for Pensions' share	<b>8.3</b>	11.4	<b>8.3</b>	11.4
Judicial administration fee	<b>1.1</b>	0.9	<b>1.1</b>	0.9
Financial Supervisory Authority supervision fee	<b>0.6</b>	0.7	<b>0.6</b>	0.7
	<b>10.0</b>	13.0	<b>10.0</b>	13.0
Other administrative expenses	<b>15.4</b>	16.1	<b>15.4</b>	16.1
	<b>72.0</b>	72.1	<b>72.0</b>	72.1

## 5. Overall operating expenses by function

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
Claims paid				
Claims handling expenses	<b>48.3</b>	34.2	<b>48.3</b>	34.2
Maintenance of work capacity expenses	<b>6.5</b>	7.7	<b>6.5</b>	7.7
	<b>54.8</b>	41.9	<b>54.8</b>	41.9
Operating expenses	<b>72.0</b>	72.1	<b>72.0</b>	72.1
Investment management charges				
Expenses on real estate	<b>5.1</b>	5.9	<b>5.1</b>	5.9
Expenses on other investments	<b>16.7</b>	16.0	<b>16.7</b>	16.0
	<b>21.8</b>	21.9	<b>21.8</b>	21.9
Total operating expenses	<b>148.7</b>	135.9	<b>148.7</b>	135.9

## 6. Personnel expenses

	<b>Parent Company</b>	Parent Company	<b>Group</b>	Group
1 Jan–31 Dec, € million	<b>2012</b>	2011	<b>2012</b>	2011
Salaries and remunerations	<b>37.0</b>	39.5	<b>37.0</b>	39.5
Pension expenses	<b>6.7</b>	7.0	<b>6.7</b>	7.0
Other personnel-related expenses	<b>4.6</b>	5.0	<b>4.6</b>	5.0
Total	<b>48.3</b>	51.6	<b>48.3</b>	51.6

## 7. Management salaries and remunerations

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
President and CEO and his deputy	<b>1.1</b>	1.0	<b>1.1</b>	1.0
Members and deputy members of the Board of Directors	<b>0.3</b>	0.4	<b>0.3</b>	0.4
Members and deputy members of the Supervisory Board	<b>0.1</b>	0.1	<b>0.1</b>	0.1
Total	<b>1.5</b>	1.5	<b>1.5</b>	1.5
Average number of personnel during the financial year	<b>572</b>	588	<b>572</b>	588

President and CEO Matti Vuoria was paid EUR 757,517 in salary and fringe benefits. President and CEO Vuoria will continue in his position until the end of 2013 and will retire 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. The supplementary pension insurance has not accrued supplementary pension since 14 March 2011, when the President and CEO turned 60.

Hannu Tarvonen, his deputy, was paid EUR 298,702 in salary and fringe benefits. Hannu Tarvonen's retirement age is 60 years and his pension will be 66 per cent of the calculated pensionable salary.

## 8. Auditors' fees

1 Jan–31 Dec, € million	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
KPMG Oy Ab				
Auditing fees	<b>0.2</b>	0.2	<b>0.2</b>	0.2
Taxation advice	<b>0.0</b>	0.1	<b>0.0</b>	0.1
Other fees	<b>0.1</b>	0.1	<b>0.1</b>	0.1
Other audit firms				
Taxation advice	<b>0.0</b>	0.1	<b>0.0</b>	0.1

## 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 2012	Book value 2012	Fair value 2012	Remaining acquisition cost 2011	Book value 2011	Fair value 2011
31 Dec, € million						
Real estate investments						
Real estate	477.3	493.9	678.4	505.5	522.1	696.7
Shares in Group companies	1,604.3	1,604.3	2,226.9	1,488.7	1,488.7	2,053.3
Other real estate shares	27.9	27.9	31.0	29.7	29.7	32.8
Loans to Group companies	982.6	982.6	982.6	909.2	909.2	909.2
Loans to real estate companies	47.0	47.0	47.0	291.4	291.4	291.4
Investments in Group companies						
Shares and participations	4.3	4.3	4.3	4.3	4.3	4.3
Loan receivables						
Investments in associates						
Shares and participations	185.5	185.5	364.5	175.5	175.5	325.8
Other investments						
Shares and participations	12,541.8	12,541.8	16,043.9	11,081.9	11,081.9	13,410.9
Money-market instruments	10,255.0	10,255.0	11,172.4	10,477.2	10,477.2	11,067.8
Loans guaranteed by mortgages	439.5	439.5	439.5	611.5	611.5	611.5
Other loan receivables	1,935.8	1,935.8	1,937.5	2,248.9	2,248.9	2,250.1
Deposits				65.0	65.0	65.0
Other investments	-9.6	-9.6	11.7	-4.4	-4.4	-0.8
	28,491.3	28,507.9	33,939.6	27,884.6	27,901.1	31,717.9
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-161.4			-106.7		
Book value includes:						
Revaluations entered as income		16.6			16.6	
Valuation difference (difference between fair value and book value)			5,431.7			3,816.7



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

	Remaining acquisition cost 2012	Book value 2012	Fair value 2012	Remaining acquisition cost 2011	Book value 2011	Fair value 2011
31 Dec, € million						
Real estate investments						
Real estate	3,020.7	3,037.3	3,987.9	3,101.5	3,118.0	3,944.0
Other real estate shares	27.9	27.9	31.0	31.3	31.3	32.8
Loans to real estate companies						
Investments in Group companies						
Shares and participations	0.7	0.7	0.9	0.8	0.8	0.9
Loan receivables						
Investments in associates						
Shares and participations	217.3	217.3	364.5	206.7	206.7	325.8
Other investments						
Shares and participations	12,556.9	12,556.9	16,059.0	11,097.0	11,097.0	13,425.9
Money-market instruments	10,255.0	10,255.0	11,172.4	10,477.2	10,477.2	11,067.8
Loans guaranteed by mortgages	439.5	439.5	439.5	611.5	611.5	611.5
Other loan receivables	1,935.8	1,935.8	1,937.5	2,248.9	2,248.9	2,250.1
Deposits				65.0	65.0	65.0
Other investments	-9.6	-9.6	11.7	-4.4	-4.4	-0.8
	28,444.1	28,460.7	34,004.4	27,835.5	27,852.1	31,723.0
The remaining acquisition cost of money-market instruments includes:						
The difference between the nominal value and acquisition cost, released (+) or charged (-) to interest income	-161.4			-106.7		
Book value includes:						
Revaluations entered as income		16.6			16.6	
Valuation difference (difference between fair value and book value)			5,543.7			3,870.9

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

31 Dec. 2012, € 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.	175.5
Increase	11.2
Decrease	-1.3
Acquisition cost, 31 Dec.	185.5

### Shares and participations in Group companies

31 Dec. 12	Domicile	Shares	Votes	Book value € million
Tieto Esy Oy	Helsinki	14.4%	50.1%	0.9
Osakevarma Oy	Helsinki	100.0%	100.0%	3.3
				4.3
Housing associations and real estate companies				1,604.3

### Shares and participations in associates

31 Dec. 12	Domicile	Shares	Votes	Book value € million
NV Kiinteistösijoitus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	7.7
SATO Corporation	Helsinki	39.9%	39.9%	110.4
Technopolis Plc	Oulu	24.1%	24.1%	59.0
VVT Kiinteistösijoitus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	8.4
				185.5
Housing associations and real estate companies				11.4

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

31 Dec. 2012, € million

### Shares and participations in Group companies

Acquisition cost, 1 Jan.	0.8
Decrease	-0.0
Acquisition cost, 31 Dec.	0.7

### Shares and participations in associates

Acquisition cost, 1 Jan.	206.7
Increase	12.6
Decrease	-2.0
Acquisition cost, 31 Dec.	217.3

### Shares and participations in Group companies

31 Dec. 12	Domicile	Shares	Votes	Book value € million
Tieto Esy Oy	Helsinki	14.4%	50.1%	0.7
				0.7

### Shares and participations in associates

31 Dec. 12	Domicile	Shares	Votes	Book value € million
NV Kiinteistösi joitus Oy	Helsinki	45.0%	45.0%	0.0
Realia Holding Oy	Helsinki	20.6%	20.6%	6.2
SATO Corporation	Helsinki	39.9%	39.9%	143.1
Technopolis Plc	Oulu	24.1%	24.1%	59.3
VVT Kiinteistösi joitus Oy	Helsinki	40.0%	40.0%	0.0
Garantia Insurance Company Ltd	Helsinki	30.5%	30.5%	8.7
				217.3
Housing associations and real estate companies				21.6

## 14. Changes in investments in real estate

	Parent Company Real estate and real estate shares	Parent Company Loans to Group companies	Group Real estate and real estate shares	Group Loans to Group companies
31 Dec. 2012, € million				
Acquisition cost, 1 Jan.	2,360.8	1,202.3	4,164.4	
Increase	210.3	148.9	127.9	
Decrease	-55.0	-321.6	-82.1	
Acquisition cost, 31 Dec.	2,516.1	1,029.6	4,210.1	
Accumulated depreciation, 1 Jan.	-180.4		-887.7	
Accumulated depreciation from items sold	5.4		19.6	
Depreciation for the financial year	-18.8		-102.3	
Accumulated depreciation, 31 Dec.	-193.8		-970.4	
Impairments, 1 Jan.	-158.2		-137.6	
Impairments on items sold	0.4		0.4	
Impairments for the financial year	-55.6		-53.9	
Reversed impairment	0.6			
Impairments, 31 Dec.	-212.8		-191.1	
Revaluations, 1 Jan.	16.6		16.6	
Revaluations, 31 Dec.	16.6		16.6	
Book value, 31 Dec.	2,126.1	1,029.6	3,065.2	

## 15. Real estate investments in own use

31 Dec. 2012, € million	Parent Company	Group
Remaining acquisition cost	86.4	86.4
Book value	86.4	86.4
Fair value	98.8	98.8

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

31 Dec. 12	Shares %	Book value € million	Market value € million
<b>Listed</b>			
<b>Finland</b>			
Affecto Plc	1.4	0.9	0.9
Ahlstrom Corporation	3.3	20.3	20.3
Aktia p.l.c.	4.0	15.3	15.5
Alma Media Corporation	7.1	23.0	24.2
Amer Sports Corporation	6.8	61.4	92.9
Aspo Plc	1.7	1.0	3.4
Atria Group Plc	2.7	4.8	4.8
Basware Corporation	4.1	10.7	10.7
CapMan Plc	4.3	3.1	3.1
Cargotec Corporation	4.3	55.5	55.5
Componenta Corporation	6.5	2.8	2.8
Comptel Corporation	4.8	2.1	2.1
Cramo Plc	0.2	0.5	0.5
Digia Plc	3.6	2.0	2.0
Efore Plc	4.0	1.2	1.2
Elisa Corporation	5.5	116.8	154.2
Etteplan Oyj	4.1	2.2	2.2
Finnair Plc	0.5	1.4	1.4
Fiskars Corporation	3.0	24.9	41.1
Fortum Corporation	0.9	107.8	107.8
F-Secure Corporation	8.6	21.0	21.0
Glaston Corporation	8.9	2.5	2.5
HKScan Corporation	6.8	13.5	13.5
Kemira Oyj	7.5	136.2	136.2
Kesko Corporation	1.1	16.7	27.9
Kesla Oyj	4.4	0.6	0.6
KONE Corporation	0.7	21.7	97.5
Konecranes Plc	2.6	29.2	41.4
Lassila & Tikanoja plc	1.5	6.7	7.0
Lemminkäinen Corporation	4.2	11.7	11.7
Marimekko Corporation	4.8	3.4	5.5
Metso Corporation	1.9	93.2	93.2
Metsä Board Corporation	4.9	35.0	35.0
Neste Oil Corporation	1.6	40.3	40.3
Nokia Corporation	2.0	214.5	214.5
Nokian Tyres plc	6.8	147.4	270.4
Okmetic Oyj	2.8	1.6	2.4
Olvi plc	2.0	7.4	8.1
Oriola-KD Corporation	4.2	14.2	14.2
Outokumpu Oyj	2.1	24.8	24.8
Outotec Oyj	4.8	41.8	93.5
PKC Group Plc	2.7	4.4	8.9
Pohjola Pankki plc	0.9	24.4	32.3
Ponsse Plc	1.4	1.6	2.3
Pöyry PLC	4.7	8.2	8.2
Raisio plc	1.7	7.0	8.6
Ramirent Plc	6.8	45.8	45.8
Rautaruukki Corporation	2.5	20.9	20.9

Sampo plc	8.5	380.7	1,160.8
Sanoma Corporation	0.5	5.8	5.8
Sievi Capital Plc	1.0	0.5	0.5
Solteq Oyj	4.3	0.7	0.8
Sponda Plc	10.3	93.1	104.7
SRV Group Plc	1.2	1.4	1.4
Stockmann plc	3.1	30.6	30.6
Stonesoft Corporation	2.7	1.4	2.4
Stora Enso Oyj	2.0	88.3	88.3
Suominen Corporation	9.1	7.9	7.9
Talvivaara Mining Company Plc	8.7	29.4	29.4
Teleste Corporation	2.8	2.1	2.1
Tieto Corporation	4.0	42.6	42.6
Tiimari Plc	9.4	3.0	3.0
Tikkurila Oyj	8.6	55.5	55.5
UPM-Kymmene Corporation	1.5	70.4	70.4
Uponor Corporation	7.1	49.6	49.6
Vaisala Corporation	2.0	5.7	5.7
Wulff Group Plc	6.8	0.8	0.8
Wärtsilä Corporation	5.2	144.7	334.8
YIT Corporation	7.9	102.6	147.5
Other		1.9	2.4
<b>Finnish equities, total</b>		<b>2,572.1</b>	<b>3,981.5</b>
<b>Other countries</b>			
<b><i>Australia</i></b>			
Pancontinental Oil & Gas NL	0.3	0.3	0.3
<b><i>Austria</i></b>			
Erste Group Bank AG	0.0	0.8	1.2
Scholler-Bleckmann Oilfield Equipment AG	0.1	1.3	1.4
Voestalpine AG	0.0	1.2	1.2
<b><i>Belgium</i></b>			
Anheuser-Busch InBev NV	0.0	3.9	3.9
Bekaert SA	0.1	0.6	0.7
Belgacom SA	0.2	17.3	17.3
<b><i>Bermuda</i></b>			
Frontline Ltd/Bermuda	0.4	2.0	2.4
Golar LNG LTD	0.0	1.1	1.1
Seadrill Ltd	0.3	37.3	37.3
<b><i>Canada</i></b>			
Africa Oil Corp	0.4	1.2	1.2
<b><i>Cayman Islands</i></b>			
Polarcus Ltd	3.9	13.5	17.6
<b><i>Cyprus</i></b>			
Globaltrans Investment PLC	0.2	3.6	3.6
Ocean Rig UDW Inc	0.7	10.4	10.4
SD Standard Drilling Plc	1.1	2.9	3.6
Songa Offshore SE	2.2	4.5	4.5
<b><i>Denmark</i></b>			
Carlsberg A/S	0.0	1.3	1.5
Novo Nordisk A/S	0.0	5.2	5.2
Novozymes A/S	0.0	0.5	0.5
<b><i>France</i></b>			
Air Liquide SA	0.0	0.6	0.7

Arkema SA	0.0	2.0	2.1
Arkema SA	0.1	3.6	4.0
Atos Origin SA	0.0	1.7	2.0
AXA SA	0.0	3.7	4.2
BNP Paribas	0.0	4.5	5.6
Bourbon SA	0.1	1.4	1.4
Bouygues SA	0.0	0.5	0.5
Cap Gemini SA	0.1	3.4	3.5
Carrefour SA	0.0	1.1	1.1
Christian Dior SA	0.0	1.0	1.0
Cie de St-Gobain	0.0	1.3	1.3
Cie Generale de Geophysique - Veritas	0.0	1.2	1.3
Cie Generale d'Optique Essilor International SA	0.0	1.7	1.7
Credit Agricole SA	0.0	1.4	1.7
Danone	0.0	5.7	5.8
France Telecom SA	0.0	1.7	1.7
GDF Suez	0.0	2.3	2.4
Hermes International	0.0	0.3	0.3
Lafarge SA	0.0	0.8	0.8
L'Oreal SA	0.0	3.6	3.6
LVMH Moet Hennessy Louis Vuitton SA	0.0	5.5	5.5
PPR	0.0	1.0	1.0
Publicis Groupe SA	0.0	0.8	0.8
Renault SA	0.0	1.0	1.1
Rexel SA	0.1	3.2	3.2
Sanofi-Aventis SA	0.0	8.4	8.7
Schneider Electric SA	0.0	1.7	1.9
Societe Generale	0.0	2.2	3.2
Teleperformance SA	0.2	3.0	3.8
Total SA	0.0	8.7	8.7
UBISOFT ENTERTAINMENT	0.2	1.6	1.7
Unibail-Rodamco SE	0.1	16.6	16.8
Valeo SA	0.1	2.2	2.4
Vinci SA	0.0	1.7	1.7
Vivendi SA	0.0	2.1	2.1
<b>Germany</b>			
Adidas AG	0.0	2.1	2.1
Allianz SE	0.0	7.1	8.5
Alstria Office REIT-AG	1.5	10.9	11.3
BASF SE	0.0	6.1	6.9
Bayer AG	0.0	3.7	4.3
Bayerische Motoren Werke AG	0.0	2.4	2.9
Beiersdorf AG	0.0	0.9	0.9
Bilfinger Berger SE	0.1	2.8	2.8
Brenntag AG	0.1	5.3	5.6
Commerzbank AG	0.0	1.5	1.5
Continental AG	0.0	1.1	1.3
Daimler AG	0.0	3.2	3.3
Deutsche Bank AG	0.0	4.0	4.0
Deutsche Euroshop AG	0.1	2.2	2.4
Deutsche Post AG	0.1	18.9	19.3
Deutsche Telekom AG	0.0	2.6	2.6
Elringklinger AG	0.1	1.8	2.0
Fresenius Medical Care AG & Co KGaA	0.0	1.1	1.1
Fresenius SE & Co KGaA	0.0	1.1	1.1



Hannover Rueckversicherung AG	0.0	0.6	0.9
HeidelbergCement AG	0.0	0.6	0.6
Henkel AG & Co KGaA	0.0	1.6	1.6
Lanxess AG	0.0	0.9	1.0
Linde AG	0.0	3.5	3.7
MAN SE	0.0	1.6	1.6
Merck KGaA	0.0	0.6	0.6
Münchener Rückversicherungs AG	0.0	2.4	3.1
Porsche Automobil Holding SE	0.0	0.8	1.1
RWE AG	0.0	1.7	1.7
SAP AG	0.0	4.6	4.9
Siemens AG	0.0	6.8	7.3
ThyssenKrupp AG	0.0	1.8	1.8
Volkswagen AG	0.0	2.2	2.6
<b>Ireland</b>			
C&C Group Plc	0.2	2.4	3.1
CRH PLC	0.0	1.0	1.0
DCC PLC	0.1	2.1	2.6
Elan Corp Plc	0.0	0.4	0.4
Governor & Co of the Bank of Ireland/The	0.0	0.9	0.9
Smurfit Kappa Group PLC	0.1	0.8	1.1
<b>Italy</b>			
Assicurazioni Generali SpA	0.0	3.3	3.7
Davide Campari-Milano SpA	0.0	0.6	0.6
De'Longhi SpA	0.1	1.7	1.9
Enel SpA	0.0	2.2	2.2
ENI SpA	0.0	4.8	5.1
Hera SpA	0.1	1.7	1.8
Intesa Sanpaolo SpA	0.0	2.6	2.7
Luxottica Group SpA	0.0	0.7	0.7
Pirelli & C SpA	0.0	1.5	1.5
Prysmian SpA	0.1	2.9	3.4
Saipem SpA	0.0	2.4	2.4
Snam Rete Gas SpA	0.1	17.5	17.9
Telecom Italia SpA	0.0	0.7	0.7
Terna Rete Elettrica Nazionale SpA	0.3	17.4	17.6
UniCredit SpA	0.0	2.7	3.0
<b>Jersey C.I.</b>			
Glencore International PLC	0.0	1.3	1.3
Randgold Resources Ltd	0.0	0.6	0.6
Shire PLC	0.0	1.3	1.3
Wolseley PLC	0.0	1.6	1.6
WPP PLC	0.0	1.3	1.3
<b>Kazakhstan</b>			
Kazakhstan Kagazy PLC	12.5	1.5	1.8
<b>Liberia</b>			
Royal Caribbean Cruises Ltd	0.0	2.4	2.5
<b>Luxembourg</b>			
ArcelorMittal	0.0	1.1	1.1
Northland Resources SA	1.1	4.8	4.8
Pacific Drilling SA	0.6	9.2	9.4
Prospector Offshore Drilling SA	2.4	4.4	5.0
SES SA	0.0	0.7	0.7
Subsea 7 SA	0.5	31.7	32.8
Tenaris SA	0.0	0.5	0.5

**Netherlands**

Aegon NV	0.0	2.0	2.4
Akzo Nobel NV	0.0	1.2	1.2
ASML Holding NV	0.0	2.3	2.4
Fugro NV	0.0	0.8	0.9
ING Groep NV	0.0	5.4	6.1
Koninklijke Ahold NV	0.0	0.9	0.9
Koninklijke DSM NV	0.0	0.5	0.6
Koninklijke KPN NV	0.0	1.9	1.9
Koninklijke Vopak NV	0.0	2.3	2.3
Mediq NV	0.1	0.7	0.8
Nutreco NV	0.2	3.4	3.9
Qiagen NV	0.0	0.3	0.3
Reed Elsevier NV	0.0	0.8	0.8
Royal Dutch Shell PLC	0.0	8.1	8.1
Royal Imtech NV	0.1	2.3	2.3
TomTom NV	0.1	0.5	0.6
Unilever NV	0.0	7.4	8.0
Ziggo NV	0.3	12.3	16.5

**Norway**

Aker Solutions ASA	0.6	20.2	24.3
Det Norske Oljeselskap ASA	0.9	8.4	12.3
DNB ASA	0.2	23.9	23.9
DNO international ASA	0.2	2.5	3.2
Dolphin Group AS	7.0	13.1	20.0
Electromagnetic GeoService	0.8	3.0	3.0
Fred Olsen Energy ASA	0.2	3.8	4.1
Kvaerner ASA	1.3	7.3	7.9
Marine Harvest ASA	0.9	18.9	23.3
Norsk Hydro ASA	0.1	9.5	9.8
Norwegian Energy Co AS	2.3	3.0	3.1
Orkla ASA	0.0	3.0	3.3
Panoro Energy ASA	4.4	3.8	3.8
Petroleum Geo-Services ASA	1.1	25.3	30.0
Sevan Drilling AS	3.7	6.7	6.7
SpareBank 1 SR Bank	0.6	6.3	6.3
Statoil ASA	0.1	69.6	69.6
Storebrand ASA	2.7	43.4	44.9
Telenor ASA	0.1	35.9	36.3
TGS Nopec Geophysical Co ASA	0.9	20.2	22.4
Tomra Systems ASA	0.3	1.6	3.3
Yara International ASA	0.2	25.7	26.0

**Portugal**

EDP - Energias de Portugal SA	0.0	0.6	0.6
Galp Energia SGPS SA	0.0	1.2	1.2

**Russia**

Seligdar OJSC	3.2	1.5	1.5
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**Spain**

Abertis Infraestructuras SA	0.2	17.7	18.0
Acerinox SA	0.0	0.9	0.9
Amadeus IT Holding SA	0.0	2.4	2.5
Banco Bilbao Vizcaya Argentaria SA	0.0	3.9	4.9
Banco Santander SA	0.0	5.3	6.3
Iberdrola SA	0.0	1.7	1.8
Inditex SA	0.0	2.0	2.0

Repsol YPF SA	0.0	1.3	1.3
Telefonica SA	0.0	3.5	3.5
Viscofan SA	0.0	0.8	0.9
<b>Sweden</b>			
AarhusKarlshamn AB	0.3	2.9	3.6
AF AB	0.5	1.3	2.8
Assa Abloy AB	0.1	4.5	5.7
Atlas Copco AB	0.1	13.3	15.6
Atrium Ljungberg AB	1.4	16.8	18.2
Atrium Ljungberg AB	1.6	17.0	20.9
Autoliv Inc	0.3	11.3	12.3
Axis Communications AB	0.3	3.6	4.0
Boliden AB	0.3	10.7	11.4
Electrolux AB	0.1	6.8	7.5
Elekta AB	0.3	9.3	13.9
Gefinge AB	0.1	3.6	4.2
Hennes & Mauritz AB	0.1	32.1	33.3
Hexagon AB	0.2	8.2	10.9
Hufvudstaden AB	1.3	20.8	25.4
Husqvarna AB	0.2	3.0	3.2
Investor AB	0.0	4.0	4.2
Lundin Petroleum AB	0.1	3.1	3.5
Meda AB	0.4	9.9	10.3
Modern Times Group AB	0.2	2.6	2.6
Nobia AB	0.2	0.9	0.9
Nordea Bank AB	0.8	213.9	219.8
Sandvik AB	0.1	12.5	13.3
Securitas AB	0.2	4.9	5.3
Skandinaviska Enskilda Banken AB	0.1	17.1	20.0
SKF AB	0.1	5.0	5.7
Swedbank AB	0.1	11.9	14.0
Swedish Orphan Biovitrum AB	0.1	0.9	0.9
Svenska Cellulosa AB	0.1	11.5	14.0
Tele2 AB	0.1	6.5	6.5
Telefonaktiebolaget LM Ericsson	0.0	4.4	4.5
TeliaSonera AB	0.1	11.4	11.4
Trelleborg AB	0.1	1.5	1.6
Volvo AB	0.0	2.2	2.2
<b>Switzerland</b>			
ABB Ltd	0.0	21.3	23.0
Adecco SA	0.0	1.6	1.6
Barry Callebaut AG	0.0	1.5	1.5
Cie Financiere Richemont SA	0.0	4.5	4.5
Credit Suisse Group AG	0.0	3.6	3.6
Dufry AG	0.1	2.9	2.9
Geberit AG	0.0	0.6	0.6
Holcim Ltd	0.0	1.2	1.2
Kuehne + Nagel International AG	0.0	2.1	2.2
Logitech International SA	0.2	2.4	2.4
Nestle SA	0.0	9.3	9.7
Novartis AG	0.0	12.9	13.0
Roche Holding AG	0.0	26.9	27.2
Swiss Life Holding AG	0.0	0.7	0.8
Swiss Re AG	0.0	1.9	2.3
Swisscom AG	0.1	17.4	17.4

Syngenta AG	0.0	3.3	3.4
The Swatch Group AG	0.0	1.7	1.7
UBS AG	0.0	5.9	6.2
Xstrata PLC	0.0	2.0	2.0
Zurich Financial Services AG	0.0	3.1	3.3
<b>United Kingdom</b>			
Aggreko PLC	0.0	1.9	1.9
Anglo American PLC	0.0	3.0	3.0
Antofagasta PLC	0.0	0.6	0.6
ARM Holdings PLC	0.0	2.5	2.6
AstraZeneca PLC	0.0	4.5	4.5
Aviva PLC	0.0	2.0	2.1
Balfour Beatty PLC	0.0	1.1	1.1
Barclays PLC	0.0	3.0	3.6
BG Group PLC	0.0	6.5	6.5
BHP Billiton PLC	0.0	5.2	5.2
British Land Co PLC	0.3	16.6	16.6
British Sky Broadcasting Group PLC	0.0	0.9	0.9
BT Group PLC	0.1	18.4	18.4
Burberry Group PLC	0.0	1.0	1.0
Capita PLC	0.0	1.5	1.6
Centrica PLC	0.0	2.3	2.3
Croda International PLC	0.1	4.9	5.1
Diageo PLC	0.0	6.3	7.4
Eurasian Natural Resources Corp PLC	0.0	0.8	0.8
GKN PLC	0.0	0.5	0.5
GlaxoSmithKline PLC	0.0	24.2	24.2
Hays PLC	0.1	1.0	1.0
HSBC Holdings PLC	0.0	9.9	11.8
Intertek Group PLC	0.0	1.0	1.1
J Sainsbury PLC	0.0	0.5	0.5
Kingfisher PLC	0.0	0.8	0.8
Lloyds Banking Group PLC	0.0	2.5	3.6
Marks & Spencer Group PLC	0.2	16.7	16.7
Meggitt PLC	0.0	1.3	1.4
Mondi PLC	0.0	0.3	0.3
National Grid PLC	0.1	19.9	19.9
Next PLC	0.0	0.7	0.7
Old Mutual PLC	0.0	1.6	1.6
Pearson PLC	0.0	1.1	1.1
Persimmon PLC	0.0	0.4	0.4
Premier Oil PLC	0.0	0.6	0.6
Prudential PLC	0.0	3.1	3.6
Reckitt Benckiser Group PLC	0.0	5.7	5.7
Reed Elsevier PLC	0.0	0.9	0.9
Rolls-Royce Group PLC	0.0	2.7	3.1
Rotork PLC	0.1	1.2	1.6
SABMiller PLC	0.0	2.9	3.5
Severn Trent PLC	0.4	17.0	17.0
Smith & Nephew PLC	0.0	0.7	0.7
Smiths Group PLC	0.0	1.3	1.5
Soco International PLC	0.1	0.7	0.8
SSE PLC	0.0	1.8	1.8
Standard Chartered PLC	0.0	3.5	3.9
Standard Life PLC	0.0	1.0	1.5

Tate & Lyle PLC	0.0	0.6	0.7
Tesco PLC	0.0	3.0	3.0
The Weir Group PLC	0.1	2.3	2.5
Tullow Oil PLC	0.0	5.0	5.0
United Utilities Group PLC	0.3	16.6	16.6
WM Morrison Supermarkets PLC	0.0	0.7	0.7
Vodafone Group PLC	0.0	6.6	6.6
<b>United States</b>			
Cobalt International Energy Inc	0.0	0.9	0.9
Fidelity National Information Services Inc	0.0	2.5	2.5
Google Inc	0.0	3.2	3.2
Rowan Cos PLC	0.0	1.2	1.2
Whole Foods Market Inc.	0.0	3.9	3.9
Other		25.2	25.9
<b>Foreign equities, total</b>		<b>1,800.3</b>	<b>1,926.7</b>
<b>Listed equities, total</b>		<b>4,372.4</b>	<b>5,908.2</b>
	Shares	Book value	Fair value
31 Dec. 12	%	€ million	€ million
<b>Unlisted equities</b>			
<b>Finland</b>			
Ahlström Capital Oy	6.5	8.4	19.0
Arek Oy	18.0	2.5	2.5
Fingrid Oyj	12.2	13.6	66.2
Finnprotein Oy	13.3	4.3	4.3
Havator Group Oy	7.8	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	1.0	1.0
Mediverkko Yhtymä Oy	11.2	3.0	5.5
Mervento Ltd	14.6	3.0	3.0
Mervento Ltd	4.3	0.9	0.9
Metsä Tissue Corporation	8.4	15.3	15.3
Tornator Oy	13.1	10.5	55.9
Vaasa Engineering Oy	8.7	1.9	1.9
Viavia Oy	15.9	4.2	4.2
Vierumäki Country Club Oy	17.2	0.6	0.6
VVO group plc	8.5	42.4	75.3
Other		0.7	1.1
<b>Finnish equities, total</b>		<b>125.2</b>	<b>270.7</b>
<b>Other countries</b>			
<b>Cayman Islands</b>			
Fir Tree Special Opportunities SPC Ltd	0.0	13.0	13.0
<b>Luxembourg</b>			
MX International S.á r.l.	0.0	20.0	32.0
<b>Netherlands</b>			
BenCo Insurance Holding B.V.	3.5	0.7	3.7
<b>Sweden</b>			
Attendo Holding AB	4.0	15.7	15.7
<b>United States</b>			
Scitor Corporation	0.5	1.1	1.3
Slap Shot Holdings Corporation	0.0	1.4	4.7

SunGard Capital Corporation	0.3	7.4	7.4
Vanguard Health Systems Inc	0.0	1.5	1.5
Other		0.4	0.4
<b>Foreign equities, total</b>		<b>61.4</b>	<b>79.9</b>

<b>Unlisted equities, total</b>		<b>186.6</b>	<b>350.7</b>
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	Book value	Fair value
31 Dec. 12	€ million	€ million
<b>Hedge funds</b>		
1903 Offshore Debt Fund Ltd	59.2	91.6
Bayview Opportunity Offshore II a L.P.	33.1	40.8
Bayview Opportunity Offshore III a L.P.	58.2	59.9
Bayview Opportunity Offshore L.P.	23.7	45.8
Black River Commodity Multi-Strategy Fund Ltd	3.3	3.3
Blackstone First Avenue Offshore Fund Ltd	92.4	107.1
Blackstone Market Opportunities Offshore Fund SPC	7.9	10.1
Blackstone Select Opportunities Offshore Fund	193.0	237.4
Blackstone Strategic Equity Offshore Fund Ltd	1.4	1.4
Blackstone Strategic Opportunity Offshore Fund Ltd	75.8	75.8
Blackstone Value Recovery Offshore Fund Ltd A1	27.1	44.5
BlueMountain Equity Alternatives Fund Ltd	53.1	76.5
BlueTrend Fund Ltd	75.1	108.2
Boussard & Gavaudan Holding	49.3	49.3
Boussard & Gavaudan Plc BGF	23.1	24.2
BTG Pactual Gemm	53.9	54.2
Capula Global Relative Value Fund Ltd	45.1	70.5
Capula Tail Risk Fund Ltd	61.8	61.8
CarVal Global Value Fund L.P.	105.1	166.1
CS Iris V Fund Ltd	59.4	67.4
D.E.Shaw Composite International Fund	2.5	3.7
Dabroes Offshore Investment Fund Ltd	34.9	34.9
Dialectic Antithesis Offshore, Ltd	54.4	54.4
Dialectic Antithesis Opportunities Fund II L.P.	26.3	26.3
Double Black Diamond Ltd	116.4	177.8
EJF Debt Opportunities Offshore Fund Ltd	76.4	76.4
EJF Sidecar Fund Offshore (D) Ltd	15.2	15.2
Element Capital Feeder Fund Ltd	54.6	130.5
Elliot International Ltd	122.3	200.5
Fir Tree International Value Fund Ltd	53.2	80.8
Five Mile Capital Partners II L.P.	26.8	26.8
Five Mile Capital Partners LLC	3.0	3.0
Glenview Capital Partners Ltd	56.5	60.2
Golden Tree Credit Opportunities Ltd	14.0	43.0
Golden Tree Distressed Debt Fund Ltd	65.8	79.4
Golden Tree MultiStrategy, Ltd A Liquid	2.6	3.2
Golden Tree Offshore Fund II Ltd	30.9	41.9
Golden Tree Offshore Fund Ltd	13.9	18.7
GSO Special Situations Overseas Fund Ltd	3.8	7.5
H/2 Credit Partners Ltd	71.4	80.4
H/2 Special Opportunities II L.P.	17.4	25.3
H/2 Special Opportunities L.P.	11.1	22.5
H/2 Targeted Return Strategies I Ltd	8.3	10.1
HBK Offshore Fund II L.P.	147.4	189.0

King Street Capital, Ltd	43.6	67.1
Mortality Fund I	23.4	26.8
Newport Global Opportunities Fund L.P.	30.8	34.7
Oak Hill Credit Alpha Fund Ltd	30.5	43.6
Ospraie Special Opportunities Ltd	19.9	29.6
OxAM Quant Fund Limited	50.0	53.9
OZ Asia Overseas Fund Ltd	2.7	2.7
OZ Europe Overseas Fund II Ltd	9.1	9.1
OZ Overseas Fund Ltd	15.2	22.6
Reservoir Capital Overseas Partners II L.P.	15.1	17.4
Scout Capital Long Term Ltd	45.2	66.2
Selectinvest ARV MC Ltd	2.1	2.4
Seneca Capital International SLV Ltd	1.7	1.7
Spinnaker Global Emerging Markets Fund Ltd	54.4	61.8
Spinnaker Global Opportunity Fund Ltd	49.9	59.0
SRM Global Fund Ltd	6.3	6.3
The Canoyne Value Realization Fund Ltd	22.6	34.6
Whippoorwill Distressed Opportunity Fund Ltd	54.1	68.9
York Investment Ltd	23.4	42.2
ZAIS Empiricus Fund	54.2	54.4
ZAIS Financial Copr Reit	3.5	4.4
Zais Opportunity Fund Ltd	29.4	57.7
ZAIS SerVertis Fund I Ltd	26.1	34.7
ZAIS Zephyr Offshore Feeder Fund A-2 Ltd	6.9	14.5
Other	103.7	118.1
<b>Hedge funds, total</b>	<b>2,854.0</b>	<b>3,741.9</b>

#### Real estate funds

Alinda Infrastructure Parallel Fund I L.P.	40.1	45.1
Alinda Infrastructure Parallel Fund II L.P.	43.3	48.0
Apollo European Real Estate Fund II Euro L.P.	9.5	9.5
Apollo European Real Estate Fund III L.P.	42.9	44.1
Arcus European Infrastructure Fund 1 L.P.	47.2	47.2
AXA European Real Estate Opportunity Fund II L.P.	15.4	15.4
Blackstone Real Estate Partners Europe III L.P.	39.8	45.9
Blackstone Real Estate Partners International II L.P.	23.8	23.8
CapMan Hotels RE Ky	6.1	8.2
CapMan RE II Ky	1.8	2.8
CapMan Real Estate I Ky	8.0	8.0
Captiva Capital Partners II S.C.A.	0.8	0.8
Colony Investors VII, L.P.	7.8	7.8
Colony Parallel Investors VIII, L.P.	21.4	21.4
EPI Baltic I Oy	1.1	1.1
EPI Russia I Ky	20.8	20.8
EQT Infrastructure No. 1 L.P.	37.1	44.8
Fairfield Aerium International SCA Class B	7.4	7.4
ICECAPITAL Housing Fund I Ky	23.3	33.1
ICECAPITAL Housing Fund II Ky	8.7	8.7
ICECAPITAL Saint Petersburg Residential Fund I Ky	16.2	16.2
Macquarie European Infrastructure Fund II L.P.	94.9	109.0
Macquarie European Infrastructure Fund III L.P.	151.4	202.0
MGPA Asia Fund III L.P.	23.5	25.4
Moorfield Real Estate Fund II B L.P.	33.1	35.2
NV Property Fund I Ky	106.4	109.9

Sponda Fund II Ky	23.3	23.4
Sponda Fund III Ky	17.9	18.3
The CIT Real Estate L.P.	2.5	2.5
VVT Property Fund I Ky	0.1	0.1
Other	0.9	12.4
<b>Real estate funds, total</b>	<b>876.4</b>	<b>998.3</b>

**Fixed-income funds**

H/2 TRS II CDO Holdings LTD	62.2	129.3
Inari Fund L.P.	196.7	196.7
iShares iBoxx Corporate ETF	69.4	69.4
iShares Markit Corporate ETF	19.7	19.7
Ivalo Fund L.P.	156.4	159.3
<b>Fixed-income funds, total</b>	<b>504.3</b>	<b>574.4</b>

**Equity funds**

Aberdeen Global China Equity Fund	50.4	55.0
Aberdeen Global Latin American Equity Fund	31.6	31.8
Amundi Latin America Equity I7C Fund	27.0	27.0
Blakeney Investors Fund	11.4	32.2
East Capital Bering Ukraine Fund	3.3	3.3
East Capital Financial Investors AB	18.9	18.9
Estonia Timberland Fund	8.5	9.2
Fidelity Asian Special Situations Fund SS A ACC	31.8	31.8
Fidelity Emerging Asia Fund AS A ACC	20.5	20.5
FIM Brazil Fund	11.7	11.7
FTIF Templeton Asian Growth Fund I	51.9	52.4
FTIF Templeton Asian Smaller Companies Fund	24.2	24.7
GAM Star plc - China Equity Fund	21.0	21.0
GS US Blend Equity Portfolio fund	81.0	100.1
Henderson Horizon Pan European Smaller Companies Fund	35.0	37.8
iShares MSCI Brazil ETF	71.5	71.5
Legg Mason Global Funds PLC Royce Smaller Co Fund	18.9	19.0
Leopard Cambodia Equity Fund	2.4	2.4
Montanaro European Smaller Companies Fund	20.0	20.4
Nomura Strategic Value Fund Class I	29.1	31.0
Nordea Russia (Growth)	25.0	26.3
Open Door Capital Group China Healthcare Partnership Master	9.5	16.8
SPDR EMERGING ASIA PACIFIC ETF	19.1	19.1
SPDR S&P 500 ETF TRUST	500.5	522.6
SPDR S&P China ETF	27.5	30.0
SSgA Enhanced Emerging Markets Equity Fund	228.9	238.4
Taaleritehdas Arvo Rein Osake A	6.0	6.7
Taaleritehdas Lyydian Leijona Osake	8.2	15.5
Threadneedle Pan European Smaller Companies Fund	20.0	20.1
Turquoise Partners Limited Class D	18.1	18.1
UBS Equity SICAV USA Growth	50.5	59.3
UBS Global Emerging Markets Opportunity Fund Class I-B	49.7	49.7
Vanguard Emerging Markets Stock Index Fund	239.8	244.9
Vanguard Institutional Index Fund Plus shares	329.7	487.8
William Blair US Small Mid Cap Growth Fund	18.9	18.9
Other	0.3	0.3
<b>Equity funds, total</b>	<b>2,121.7</b>	<b>2,396.4</b>



**Private equity funds**

1903 Equity Fund L.P.	3.3	3.3
Abingworth Bioventures III B L.P.	1.8	1.8
Access Capital Fund L.P. II B	23.0	23.0
Access Capital Fund L.P. II C	5.6	5.6
AC Cleantech Growth Fund I KY	4.7	11.1
Alpha Private Equity Fund 4 - Elara CI L.P.	2.4	2.4
Alpha Private Equity Fund 5 - JABBAH CI L.P.	14.8	21.3
Altor Fund III L.P.	15.9	21.0
Altor Fund II L.P.	23.9	28.3
Amanda III Eastern Private Equity L.P.	2.3	2.8
Apollo Investment Fund VII Euro Holdings, L.P.	23.6	55.4
Armada Mezzanine Fund III Ky	5.0	6.0
Auda Asia II L.P.	12.9	13.0
Auda Secondary II Feeder Fund L.P.	11.8	12.7
Behrman Capital IV L.P.	18.1	20.7
Blackstone Capital Partners IV L.P.	19.7	24.4
Blackstone Capital Partners VI L.P.	69.5	70.2
Blackstone Capital Partners V L.P.	10.6	14.9
Blackstone Capital Partners V L.P.	24.0	25.4
Blackstone Mezzanine Partners II L.P.	8.9	8.9
BlueRun Ventures, L.P.	10.5	10.5
CapMan Buyout IX Fund A L.P.	43.2	46.1
CapMan Buyout VIII Fund A L.P.	20.1	20.1
CapMan Equity VII B L.P.	0.2	1.4
CapMan Life Science IV Fund L.P.	10.3	10.3
CapMan Public Market Fund FCP-SIF	12.9	19.0
CapMan Russia Fund L.P.	7.2	7.2
CapMan Technology Fund 2007 L.P.	6.3	6.3
CapVest Equity Partners II L.P.	12.4	13.0
Crown Co-Investor L.P.	19.5	40.4
CV (CapVest) Partners Drie II L.P.	0.4	1.1
CVC European Equity Partners IV (C) L.P.	8.1	8.1
Elbrus Capital Fund II L.P.	44.2	59.0
Elbrus Capital Fund I L.P.	9.9	9.9
EQT III UK No. 1 L.P.	10.0	13.0
EQT III ISS L.P.	5.4	5.4
EQT IV No. 1 L.P.	32.7	32.7
EQT VI No 1 L.P.	32.5	32.5
EQT V No 1 L.P.	12.4	12.4
Green Equity Investors IV L.P.	9.1	15.6
Green Equity Investors V L.P.	31.5	32.6
Hamilton Lane Co-Investment Fund II L.P.	46.7	46.7
Hamilton Lane Co-Investment Fund L.P.	36.7	54.8
Helmet SME Ventures II G Ky	0.7	0.7
IK VII L.P.	0.5	0.5
Industri Kapital 1997 L.P. I,IV	2.3	2.3
Industri Kapital 2000 L.P. I, II, IV	4.5	4.5
Industri Kapital 2004 L.P. I	13.5	13.5
Industri Kapital 2007 L.P. III	45.8	48.5
Inveni Secondaries Fund II Follow-On Ky	0.7	0.7
Kelso Investment Associates VIII L.P.	19.2	22.9
Kelso Investment Associates VII L.P.	49.4	49.4
MCP (Moelis) Co Invest L.P.	7.4	10.3

MB Equity Fund III Ky	10.8	10.8
MB Equity Fund IV Ky	46.1	73.7
MBK Partners Fund II L.P.	20.1	35.2
MBK Partners, L.P.	18.4	23.5
Mezzanine Management Fund IV A L.P.	12.8	14.6
MML Capital Partners Fund V L.P.	5.4	5.4
Moelis Capital Partners Opportunity Fund I L.P.	9.6	11.5
Moelis & Company Holdings Feeder L.P.	61.0	67.0
Morgan Stanley Emerging Private Markets Fund I NL C.V.	0.6	0.8
Motion Fund II B L.P.	11.2	11.2
Nokia Venture Partners II L.P.	4.2	4.2
Nordic Mezzanine Fund III L.P.	1.7	3.4
Nordic Mezzanine Fund II L.P.	6.7	6.7
Onex Partners III L.P.	19.8	23.6
Onex Partners II L.P.	50.4	58.6
Quadrangle Offshore GB Investors II L.P.	0.6	0.6
Permira Europe III L.P.	12.4	12.4
Permira Europe II L.P.	34.0	36.8
Permira Europe IV L.P.	40.8	57.1
Platinum Equity Capital Partners III L.P.	21.4	21.4
Platinum Equity Capital Partners II L.P.	1.9	7.3
Power Fund II Ky	6.4	6.4
Power Fund I Ky	4.4	4.4
Profita Fund III Ky	7.3	9.6
Quadriga Capital Private Equity Fund III L.P.	29.3	29.7
Saw Mill Capital Partners, L.P.	9.1	9.1
Selected Mezzanine Funds I Ky	6.1	6.4
Selected Private Equity Funds I Ky	5.4	6.0
Sponsor Fund III Ky	1.7	1.7
Sponsor Fund II Ky	17.3	17.8
TCW Crescent Mezzanine Partners IV B L.P.	14.6	14.6
TCW Crescent Mezzanine Partners V L.P.	49.7	57.0
Teknoventure Rahasto III Ky	0.7	1.0
The Fifth Cinven Fund L.P.	2.4	2.4
The Fourth Cinven Fund L.P.	40.2	46.7
Warburg Pincus Private Equity IX L.P.	33.3	68.3
Warburg Pincus Private Equity VIII L.P.	13.5	47.0
Warburg Pincus Private Equity XI L.P.	89.5	108.4
Warburg Pincus Private Equity X L.P.	19.8	19.8
VSS Communications Parallel Partners IV L.P.	21.2	21.2
Other	1.9	11.8
<b>Private equity funds, total</b>	<b>1,631.9</b>	<b>1,998.5</b>
<b>Funds, total</b>	<b>7,988.4</b>	<b>9,709.5</b>
<b>Parent Company, total</b>	<b>12,547.4</b>	<b>15,968.4</b>

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

Kaleva Mutual Insurance Company guarantee capital	3.3	3.3
Martinparkki Oy	2.4	2.4
Poha-Pysäköinti Oy	1.4	1.4
Ruohoparkki Oy	3.3	3.3
Vaasan Toripysäköinti Oy	2.3	2.3
Other	2.4	2.4
<b>Group, total</b>	<b>12,562.5</b>	<b>15,983.5</b>

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

31 Dec. 2012, € million	Intangible assets Other expenses with long-term effects	Tangible assets Equipment	Other tangible assets	Total
Acquisition cost, 1 Jan.	45.6	7.7	0.8	54.1
Completely depreciated in the previous year	-1.2	-0.5		-1.7
Increase	9.2	0.2	0.0	9.4
Decrease		-0.0		-0.0
Acquisition cost, 31 Dec.	53.6	7.4	0.9	61.9
Accumulated depreciation, 1 Jan.	-4.2	-3.5		-7.7
Completely depreciated in the previous year	1.2	0.5		1.7
Depreciation for the financial year	-18.4	-1.0		-19.5
Accumulated depreciation, 31 Dec.	-21.5	-4.0		-25.5
Book value 31 Dec. 2012	32.1	3.4	0.9	36.4
Book value 31 Dec. 2011	41.4	4.3	0.8	46.5

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

## 18. Loan receivables itemised by guarantee

	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec., € million				
Bank guarantee	<b>841.7</b>	1,089.3	<b>841.7</b>	1,089.3
Guarantee insurance	<b>337.2</b>	349.7	<b>337.2</b>	349.7
Other guarantee	<b>756.9</b>	810.0	<b>756.9</b>	810.0
Remaining acquisition cost, total	<b>1,935.8</b>	2,249.0	<b>1,935.8</b>	2,249.0

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

	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec, € million				
Loans guaranteed by mortgages	<b>364.2</b>	514.6	<b>364.2</b>	514.6
Other loan receivables	<b>1,157.0</b>	1,424.8	<b>1,157.0</b>	1,424.8
Remaining acquisition cost, total	<b>1,521.2</b>	1,939.4	<b>1,521.2</b>	1,939.4

## 20. Loans to related parties

	<b>Parent Company</b>	Parent Company	<b>Group</b>	Group
31 Dec, € million	<b>2012</b>	2011	<b>2012</b>	2011
Loans to Group companies	<b>982.6</b>	909.2		

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

	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec, € million				
Other receivables				
Advance payments for option contracts	<b>45.1</b>	23.2	<b>45.1</b>	23.2
Prepayments and accrued income				
Interest income from derivatives		0.6		0.6
Other liabilities				
Advance payments for option contracts	<b>6.5</b>	10.9	<b>6.5</b>	10.9
Value adjustments of derivatives	<b>37.4</b>	20.8	<b>37.4</b>	20.8
Accruals and deferred income				
Interest expenses from derivatives		13.9		13.9



## 22. Liabilities to Group companies

	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec, € million				
Other liabilities	<b>0.6</b>	0.6	<b>0.6</b>	0.6

## 23. Technical provisions

	<b>Parent Company 2012</b>	Parent Company 2011	<b>Group 2012</b>	Group 2011
31 Dec, € million				
Provision for unearned premiums				
Future pensions	<b>14,908.5</b>	14,629.2	<b>14,908.5</b>	14,629.2
Provision for future bonuses	<b>1,072.8</b>	1,556.2	<b>1,072.8</b>	1,556.2
Provision for current bonuses	<b>78.7</b>	73.7	<b>78.7</b>	73.7
Equity-linked provision for current and future bonuses	<b>190.4</b>	-179.6	<b>190.4</b>	-179.6
Total provision for unearned premiums	<b>16,250.5</b>	16,079.5	<b>16,250.5</b>	16,079.5
Provision for claims outstanding				
Current pensions	<b>12,408.6</b>	11,765.9	<b>12,408.6</b>	11,765.9
Equalisation provision	<b>1,107.6</b>	1,120.2	<b>1,107.6</b>	1,120.2
Total provision for claims outstanding	<b>13,516.2</b>	12,886.1	<b>13,516.2</b>	12,886.1
Total technical provisions	<b>29,766.6</b>	28,965.6	<b>29,766.6</b>	28,965.6

## 24. Solvency capital, Parent Company

31 Dec, € million	2012	2011
Capital and reserves	<b>97.4</b>	93.8
Interest on guarantee capital proposed for distribution	<b>-0.6</b>	-0.7
Valuation difference between fair values on assets and book values of balance sheet items	<b>5,431.7</b>	3,816.7
Provision for future bonuses	<b>1,072.8</b>	1,556.2
Intangible assets	<b>-32.1</b>	-41.4
Provision for pooled claims equated with solvency capital	<b>1,147.0</b>	1,095.7
	<b>7,716.3</b>	6,520.4
Minimum solvency capital as required under the Employment Pension Insurance Companies Act, Section 17 <sup>1</sup>	<b>550.6</b>	526.0
The equalisation provision for years with heavy losses included in the balance on technical account	<b>1,107.6</b>	1,120.2
Solvency margin as required under Section 16 of the Employment Pension Insurance Companies Act excluding the share of the provision for pooled claims equated with solvency capital	<b>6,569.3</b>	5,424.7
Minimum solvency capital of earnings-related pension companies excluding the temporary reliefs for the years 2008–2012 laid down in the Act 853/2008	<b>2,249.7</b>	1,808.5

<sup>1</sup> Calculated in accordance with Section 6 of the Act 853/2008.

## 25. Liabilities, Parent Company

31 Dec, € million	2012	2011
Guarantees given on own behalf		
Assets pledged as security for derivatives	0.7	249.7

Cash guarantees required for the clarification of derivative contracts to the value of EUR 0.7 million are included in the Cash at bank and in hand balance sheet item.

## 26. Capital and reserves

	<b>Parent Company</b>	<b>Group</b>
31 Dec, € million	<b>2012</b>	<b>2012</b>
Guarantee capital	<b>11.9</b>	<b>11.9</b>
Other reserves, 1 Jan.	<b>76.5</b>	<b>76.5</b>
Profit brought forward from 2011	<b>4.3</b>	<b>4.3</b>
Other reserves, 31 Dec.	<b>80.8</b>	<b>80.8</b>
Profit/loss brought forward	<b>5.3</b>	<b>-45.3</b>
Transfer to contingency fund	<b>-4.3</b>	<b>-4.3</b>
Distributed interest on guarantee capital	<b>-0.7</b>	<b>-0.7</b>
Transfer to the Board of Directors' expense account	<b>-0.1</b>	<b>-0.1</b>
	<b>0.3</b>	<b>-50.2</b>
Profit for the financial year	<b>4.3</b>	<b>0.9</b>
Total capital and reserves	<b>97.4</b>	<b>43.4</b>

## 27. Capital and reserves after proposed profit distribution

	<b>Parent Company</b>
31 Dec, € million	<b>2012</b>
Holdings of guarantee capital	
Guarantee capital	<b>11.9</b>
Proposed distribution to holders of guarantee capital	<b>0.6</b>
Policyholders	<b>84.9</b>
Total	<b>97.4</b>

## 28. Distributable profits

		<b>Parent Company 2012</b>
31 Dec, € million		
Profit for the financial year		<b>4.3</b>
Other capital and reserves		
Other reserves	80.8	
Profit brought forward	0.3	<b>81.1</b>
Total distributable profits		<b>85.5</b>

## 29. Guarantee capital

31 Dec. 2012, € million	Number	Share of guarantee capital
Mandatum Life Insurance Company Ltd.	14	2.4
Sampo plc	57	9.6



## 30. Guarantees and liabilities, Parent Company

31 Dec, € million	2012	2011
<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	<b>805.3</b>	23.1
Underlying instrument, risk-adjusted value	<b>-776.5</b>	-8.1
Fair value	<b>-5.2</b>	-0.9
Currency swap contracts		
Underlying instrument, absolute value	<b>8,129.5</b>	7,442.0
Underlying instrument, risk-adjusted value	<b>-7,982.9</b>	-7,401.6
Fair value	<b>99.2</b>	-275.2
<b>Interest rate derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	<b>19,409.5</b>	30.6
Underlying instrument, risk-adjusted value	<b>-1,660.6</b>	39.4
Fair value	<b>-2.2</b>	0.8
Option contracts		
Bought		
Underlying instrument, absolute value	<b>16,126.7</b>	15.0
Underlying instrument, risk-adjusted value	<b>-4,610.7</b>	0.0
Fair value	<b>0.4</b>	-0.0
Sold		
Underlying instrument, absolute value	<b>16,126.7</b>	
Underlying instrument, risk-adjusted value	<b>3,532.5</b>	
Fair value	<b>-0.2</b>	
Credit risk derivatives		
Underlying instrument, absolute value	<b>753.4</b>	504.7
Underlying instrument, risk-adjusted value	<b>206.9</b>	39.0
Fair value	<b>0.9</b>	1.6
<b>Interest rate swap contracts</b>		
Underlying instrument, absolute value	<b>157.3</b>	
Underlying instrument	<b>157.3</b>	
Fair value	<b>0.3</b>	
<b>Currency derivatives</b>		
Option contracts		
Bought		
Underlying instrument, absolute value	<b>1,592.7</b>	164.2
Underlying instrument, risk-adjusted value	<b>-414.9</b>	56.6
Fair value	<b>15.5</b>	-2.0
Sold		
Underlying instrument, absolute value	<b>678.5</b>	110.7
Underlying instrument, risk-adjusted value	<b>-59.3</b>	-4.1
Fair value	<b>-19.5</b>	-0.0
Currency swap contracts		
Underlying instrument, absolute value	<b>145.2</b>	193.2
Underlying instrument, risk-adjusted value	<b>-99.7</b>	193.1

Fair value	<b>9.0</b>	0.9
<b>Equity derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	<b>127.4</b>	202.0
Underlying instrument, risk-adjusted value	<b>127.4</b>	-111.4
Fair value	<b>-0.1</b>	-2.6
Option contracts		
Bought		
Underlying instrument, absolute value	<b>534.7</b>	1,043.5
Underlying instrument, risk-adjusted value	<b>25.9</b>	270.4
Fair value	<b>1.3</b>	9.1
Sold		
Underlying instrument, absolute value	<b>579.7</b>	102.5
Underlying instrument, risk-adjusted value	<b>31.4</b>	-6.9
Fair value	<b>0.2</b>	4.6
<b>Other derivatives</b>		
Forward and futures contracts		
Underlying instrument, absolute value	<b>757.6</b>	142.1
Underlying instrument, risk-adjusted value	<b>285.2</b>	111.6
Fair value	<b>2.7</b>	-2.3
Option contracts		
Bought		
Underlying instrument, absolute value	<b>20.5</b>	
Underlying instrument, risk-adjusted value	<b>3.5</b>	
Fair value	<b>-0.3</b>	
Sold		
Underlying instrument, absolute value	<b>20.5</b>	
Underlying instrument, risk-adjusted value	<b>-9.0</b>	
Fair value	<b>1.0</b>	
<b>Total</b>		
<b>Underlying instrument, absolute value</b>	<b>65,965.2</b>	9,973.6
<b>Underlying instrument, risk-adjusted value</b>	<b>-11,243.3</b>	-6,822.1
<b>Fair value</b>	<b>103.0</b>	-266.0

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	2012	2011
<b>Investment commitments</b>		
Private equity funds	<b>3,196.4</b>	1,034.6
Other funds	<b>1,216.0</b>	352.8
<b>Pension liabilities</b>		
Pension commitments	<b>1.0</b>	1.2
<b>Leasing and renting liabilities</b>		
Expiring next year	<b>0.9</b>	0.8
Expiring later	<b>1.1</b>	0.7
<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>5.9</b>	6.1
Obligation to verify VAT allowances of real estate investments	<b>130.0</b>	144.6
<b>Loaned securities</b>		
Bonds		
Nominal value	<b>1,219.0</b>	1,456.6
Remaining acquisition cost	<b>1,277.3</b>	1,541.9
Fair value	<b>1,352.6</b>	1,625.5

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

### Balance sheet at fair value, Parent Company

31 Dec, € million	2012	2011	2010
<b>ASSETS</b>			
Investments	<b>34,406</b>	31,852	33,190
Receivables	<b>1,208</b>	1,157	1,019
Equipment	<b>36</b>	46	43
	<b>35,651</b>	33,055	34,252
<b>LIABILITIES</b>			
Capital and reserves	<b>97</b>	93	89
Valuation differences	<b>5,400</b>	3,775	4,444
Provision for pooled claims equated with solvency capital	<b>1,147</b>	1,096	1,070
Provision for future bonuses	<b>1,073</b>	1,556	2,309
Total solvency capital	<b>7,716</b>	6,520	7,913
Provision for current bonuses (for client bonuses)	<b>79</b>	74	89
Equity-linked provision for current and future bonuses	<b>190</b>	-180	263
Equalisation provision	<b>1,108</b>	1,120	1,158
Provision for pooled claims equated with solvency capital	<b>-1,147</b>	-1,096	-1,070
Actual technical provision	<b>27,317</b>	26,395	25,269
Total	<b>27,468</b>	26,240	25,620
Other liabilities	<b>388</b>	221	630
	<b>35,651</b>	33,055	34,252

### Income statement at fair value, Parent Company

1 Jan–31 Dec, € million	2012	2011	2010
Premiums written	<b>4,231</b>	3,977	3,735
Claims paid	<b>-4,168</b>	-3,925	-3,653
Change in technical provisions	<b>-1,219</b>	-596	-1,190
Net investment income	<b>2,510</b>	-693	3,299
Total operating expenses	<b>-149</b>	-136	-132
Taxes	<b>-4</b>	-5	-5
<b>Total result <sup>1</sup></b>	<b>1,201</b>	-1,378	2,054

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

## Investments classified according to risk

€ million, at fair value	Market value 31 Dec. 12		Risk position % 31 Dec. 12		Risk position % 31 Dec. 11		Return % 31 Dec. 12	Return % 31 Dec. 11	24 m Volati- lityduration	Modi- fied
Fixed-income										
investments	13,035.5	37.9	12,575.8	36.6	13,151.4	41.3	4.4	4.2		
Loan										
receivables	2,441.0	7.1	2,441.0	7.1	2,947.8	9.3	3.2	3.9		
OECD/EEA										
public sector										
bonds	4,102.9	11.9	4,052.2	11.8	5,593.1	17.6	3.6	5.1	2,8 <sup>1</sup>	4,3 <sup>2</sup>
Other bonds	4,958.1	14.4	5,347.4	15.5	3,030.9	9.5	8.1	4.9		
Other										
money-										
market										
instruments										
and deposits	1,533.5	4.5	735.2	2.1	1,579.5	5.0	0.7	1.0		
Equity										
investments	11,554.1	33.6	11,726.9	34.1	9,728.0	30.5	14.5	-13.0		
Listed										
equities	8,393.8	24.4	8,566.6	24.9	6,883.4	21.6	14.9	-18.9	17.1	
Private										
equity	2,394.3	7.0	2,394.3	7.0	2,099.1	6.6	13.0	9.6		
Unlisted										
equities	766.1	2.2	766.1	2.2	745.6	2.3	15.5	20.7		
Real estate										
investments	4,463.5	13.0	4,463.5	13.0	4,447.2	14.0	4.5	6.4		
Direct real										
estate	3,960.6	11.5	3,960.6	11.5	3,975.0	12.5	4.6	5.9		
Real estate										
funds	502.9	1.5	502.9	1.5	472.3	1.5	3.1	11.2		
Other										
investments	5,353.0	15.6	5,640.0	16.4	4,525.5	14.2	6.0	4.5		
Hedge funds	3,779.4	11.0	3,779.4	11.0	3,571.5	11.2	6.8	3.5	2.6	
Commodities	2.5	0.0	289.4	0.8	112.9	0.4				
Other										
investments	1,571.1	4.6	1,571.1	4.6	841.1	2.6	6.0	10.9		
	34,406.1	100.0	34,406.1	100.0	31,852.1	100.0	7.7	-2.1	4.2	

<sup>1</sup> Volatility was calculated for all bonds (not just public sector bonds).

<sup>2</sup> The modified duration for all bonds.

## Key figures and analyses

### Summary

31 Dec, € million	2012	2011	2010	2009	2008
Premiums written, € million	<b>4,230.7</b>	3,976.6	3,735.2	3,399.7	3,431.0
Pensions paid and other payments made, € million <sup>1</sup>	<b>4,167.5</b>	3,924.6	3,652.9	3,265.9	2,998.1
Net investment income at fair value, € million	<b>2,492.4</b>	-711.0	3,277.8	3,551.1	-4,455.4
Return on invested capital, %	<b>7.7</b>	-2.1	11.0	14.1	-15.2
Turnover, € million	<b>5,120.7</b>	3,942.9	4,888.1	5,883.4	1,463.4
Total operating expenses, € million	<b>148.7</b>	135.9	132.0	126.6	117.5
of turnover, %	<b>2.9</b>	3.4	2.7	2.2	8.0
Operating expenses covered by the expense loading included in insurance contributions	<b>110.3</b>	93.2	93.7	93.1	82.5
of TyEL and YEL payroll, %	<b>0.6</b>	0.5	0.5	0.6	0.5
Total result, € million	<b>1,201.4</b>	-1,377.7	2,054.4	2,185.3	-4,207.4
Technical provisions, € million	<b>29,766.6</b>	28,965.6	29,088.8	27,789.3	24,205.0
Solvency capital, € million	<b>7,716.3</b>	6,520.4	7,912.9	6,017.1	3,698.0
of technical provision, % <sup>2</sup>	<b>28.0</b>	24.8	30.8	24.9	16.9
in relation to solvency limit	<b>2.4</b>	2.5	2.3	2.8	2.8
Equalisation provision, € million	<b>1,107.6</b>	1,120.2	1,158.3	1,016.2	1,007.8
Pension assets, € million <sup>3</sup>	<b>35,198.4</b>	32,782.3	33,570.1	30,126.8	25,468.5
Transfer to client bonuses of TyEL payroll, %	<b>0.4</b>	0.4	0.5	0.4	0.2
TyEL payroll, € million	<b>17,706.1</b>	17,324.6	16,495.3	15,152.7	15,873.7
YEL payroll, € million	<b>909.9</b>	880.0	749.4	732.6	694.1
TyEL policies <sup>4</sup>	<b>27,600</b>	28,100	28,300	27,600	27,400
TyEL insured persons	<b>498,500</b>	498,400	488,300	474,800	480,200
YEL policies	<b>41,280</b>	41,940	38,400	38,300	38,400
Pensioners	<b>331,400</b>	330,000	326,900	322,900	303,500

<sup>1</sup> Claims paid in income statement excluding costs for operations relating to compensations and working capacity maintenance.

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

<sup>3</sup> Technical provisions + valuation differences.

<sup>4</sup> Policies written by employers with insurance contracts.

## Performance analysis

31 Dec, € million	2012	2011	2010	2009	2008
<b>Sources of profit</b>					
Technical underwriting result	-9.2	-35.0	145.1	11.6	73.9
Investment surplus at fair value	1,189.4	-1,378.0	1,874.0	2,151.1	-4,318.0
+ Net investment income at fair value	2,492.4	-711.0	3,277.8	3,551.1	-4,455.4
- Return requirement on technical provisions	-1,303.0	-667.1	-1,403.9	-1,400.1	137.4
Loading profit	21.2	35.3	35.4	22.7	36.6
Total result	1,201.4	-1,377.7	2,054.5	2,185.3	-4,207.4
<b>Appropriation of profit</b>					
To increase solvency	1,123.4	-1,450.7	1,965.4	2,124.3	-4,244.4
Equalisation provision	-12.6	-38.1	142.1	8.3	69.5
Solvency capital	1,136.0	-1,412.6	1,823.3	2,116.0	-4,313.9
Change in provision for future bonuses	-483.4	-753.1	-324.9	1,038.7	-1,860.5
Change in difference between fair value and book value	1,615.0	-664.6	2,143.9	1,073.9	-2,457.8
Change in accumulated appropriations	0.0	0.0	0.0	0.0	0.0
Profit for the financial year	4.3	5.0	4.3	3.3	4.4
Transfer to client bonuses	78.0	73.0	89.0	61.0	37.0
Transfer to augment the provision for current bonuses	0.0	0.0	0.0	0.0	0.0
Total	1,201.4	-1,377.7	2,054.4	2,185.3	-4,207.4

## Solvency

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

	<b>2012</b>	2011	2010	2009	2008
Solvency limit	<b>11.8</b>	9.9	13.3	9.0	6.1
Maximum amount of solvency capital	<b>47.1</b>	39.6	53.2	36.1	24.3
Solvency capital <sup>1</sup>	<b>28.0</b>	24.8	30.8	24.9	16.9

<sup>1</sup> Includes during 2008–2012 a share of the provision for pooled claims equated with solvency capital.



## Investment allocation at fair value

	2012		2011		2010		2009		2008	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Loan										
receivables <sup>1</sup>	<b>2,394.2</b>	<b>7.0</b>	2,888.2	9.1	3,678.8	11.1	3,476.5	11.6	2,424.9	9.9
Bonds <sup>1 2</sup>	<b>10,670.6</b>	<b>31.0</b>	9,485.4	29.8	7,092.6	21.4	9,150.1	30.6	8,708.5	35.4
includes										
fixed-income										
funds	<b>577.3</b>		100.7		68.7		99.6		114.4	
Other money-										
market										
instruments										
and deposits <sup>1</sup>										
<sup>2 3</sup>	<b>1,533.5</b>	<b>4.5</b>	1,873.1	5.9	1,083.1	3.3	1,715.6	5.7	2,038.2	8.3
includes										
fixed-income										
funds	<b>0.0</b>		0.0		0.0		0.0		0.0	
Shares and										
participations	<b>14,835.4</b>	<b>43.1</b>	12,727.1	40.0	16,703.2	50.3	11,067.8	37.0	7,640.5	31.1
Real estate <sup>4</sup>	<b>4,960.7</b>	<b>14.4</b>	4,877.6	15.3	4,646.1	14.0	4,518.5	15.1	3,772.8	15.3
includes										
investment										
trusts and										
undertakings										
for collective										
investment										
in										
transferable										
securities										
(UCITS)	<b>1,000.1</b>		902.7		700.8		594.1		512.2	
Other										
investments	<b>11.7</b>	<b>0.0</b>	0.7	0.0	-13.9	0.0	0.0	0.0	0.2	0.0
<b>Total</b>										
<b>investments</b>	<b>34,406.1</b>	<b>100.0</b>	31,852.1	100.0	33,189.8	100.0	29,928.5	100.0	24,585.2	100.0
<b>Modified</b>										
<b>duration of</b>										
<b>the bond</b>										
<b>portfolio</b>	<b>4.3</b>									

<sup>1</sup> Accrued interest included.

<sup>2</sup> Of fixed-income funds, long-term funds are included in bonds and short-term funds in other money-market instruments.

<sup>3</sup> Includes deposits included in investments in the balance sheet.

<sup>4</sup> Includes shares in investment trusts and investments in comparable UCITS funds investing in real estate and real estate communities.

## Investment return specification and surplus

€ million	2012	2011	2010	2009	2008
<b>Direct income</b>	<b>925.1</b>	921.0	928.2	794.2	1,149.7
Loan receivables	<b>115.3</b>	147.2	157.9	139.3	91.9
Bonds	<b>239.6</b>	162.0	263.0	279.9	417.1
Other money-market instruments and deposits	<b>14.2</b>	21.0	6.7	41.1	76.4
Shares and participations	<b>400.7</b>	432.7	327.0	178.6	443.7
Real estate investments	<b>186.7</b>	181.2	181.0	153.6	140.8
Other investments	<b>-9.6</b>	0.5	0.0		
Unallocated income, costs and operating expenses from investment activities <sup>1</sup>	<b>-21.8</b>	-23.4	-7.4	1.8	-20.2
<b>Changes in book value <sup>2</sup></b>	<b>-47.7</b>	-967.4	205.7	1,682.9	-3,147.4
Shares and participations	<b>112.0</b>	-922.8	293.9	1,478.2	-2,975.9
Bonds	<b>-78.2</b>	-46.5	-44.5	294.5	-123.0
Real estate investments	<b>-60.1</b>	9.2	-28.5	-90.4	-121.2
Other investments	<b>-21.4</b>	-7.4	-15.2	0.7	72.7
<b>Net investment income booked</b>	<b>877.4</b>	-46.4	1,134.0	2,477.2	-1,997.6
<b>Change in difference between fair value and book value <sup>3</sup></b>	<b>1,615.0</b>	-664.6	2,143.9	1,073.9	-2,457.8
Shares and participations	<b>1,090.5</b>	-1,058.9	1,953.2	608.7	-2,409.4
Bonds	<b>372.6</b>	291.6	177.7	419.4	-113.2
Real estate investments	<b>136.8</b>	102.0	12.1	45.9	64.6
Other investments	<b>15.2</b>	0.7	0.8	0.0	0.2
<b>Net investment income at fair value</b>	<b>2,492.4</b>	-711.0	3,277.8	3,551.1	-4,455.4
<b>Return requirement on technical provision <sup>4</sup></b>	<b>1,303.0</b>	667.1	1,403.9	1,400.1	-137.4
<b>Investment surplus, book value</b>	<b>-425.6</b>	-713.5	-269.9	1,077.1	-1,860.2
<b>Investment surplus at fair value</b>	<b>1,189.4</b>	-1,378.1	1,873.9	2,151.0	-4,318.0
<b>Share of net investment income accounted for by derivatives</b>	<b>-213.0</b>	-340.8	-536.6	222.5	382.5

<sup>1</sup> Includes items in the Profit and Loss Account not entered in investment income.

<sup>2</sup> Capital gains and losses and other changes in book value.

<sup>3</sup> Changes in book value not included in the balance sheet.

<sup>4</sup> In 2008 the interest requirement corresponding to the supplementary factor is not included in the return requirement on technical provision.

## Net investment income at fair value

	<b>Net investment income <sup>1</sup> € million</b>	<b>Invested capital <sup>2</sup> € million</b>	<b>Return on invested capital %</b>	Return on invested capital %	Return on invested capital %	Return on invested capital %	Return on invested capital %
	<b>2012</b>	<b>2012</b>	<b>2012</b>	2011	2010	2009	2008
Loan receivables	<b>82.9</b>	<b>2,689.5</b>	<b>3.1</b>	3.7	0.7	3.2	4.3
Bonds <sup>3</sup>	<b>567.9</b>	<b>10,076.4</b>	<b>5.6</b>	5.6	6.7	11.3	1.8
of which fixed-income funds account for	<b>30.4</b>	<b>249.2</b>	<b>12.2</b>	15.7	45.5	40.7	-15.6
Other money-market instruments and deposits <sup>3</sup>	<b>12.8</b>	<b>1,736.4</b>	<b>0.7</b>	1.1	2.1	4.7	8.1
Shares and participations	<b>1,602.9</b>	<b>13,103.5</b>	<b>12.2</b>	-9.8	19.4	30.0	-33.9
Real estate <sup>4</sup>	<b>263.4</b>	<b>4,844.1</b>	<b>5.4</b>	6.2	3.6	2.7	2.5
of which investment trusts and undertakings for collective investment in transferable securities (UCITS) account for	<b>81.9</b>	<b>925.6</b>	<b>8.9</b>	7.9	5.8	-12.5	-29.8
Other investments	<b>-15.7</b>	<b>0.7</b>					
Total investments	<b>2,514.2</b>	<b>32,450.6</b>	<b>7.7</b>	-2.1	11.0	14.1	-15.1
Unallocated income, costs and operating expenses from investment activities	<b>-21.8</b>	<b>13.1</b>					
Net investment income at fair value <sup>1</sup>	<b>2,492.4</b>	<b>32,463.7</b>	<b>7.7</b>	-2.1	11.0	14.1	-15.2

<sup>1</sup> Net investment income at fair value = Change in fair value at the end and beginning of the financial year - cash-flow during the financial year. Cash-flow is the difference between purchases/costs and sales/income.

<sup>2</sup> Invested capital = Market value at the beginning of the financial year + time-weighted cash-flows on a daily/monthly basis.

<sup>3</sup> Includes income from fixed-income funds reported as the investments in question.

<sup>4</sup> Includes income from investment trusts and UCITS funds reported as real estate investments.

## Loading profit

€ million	2012	2011	2010	2009	2008
Expense loading components included in contributions	<b>125.4</b>	122.2	123.0	110.2	113.5
Components available to cover operating expenses arising from compensation decisions	<b>5.8</b>	5.5	4.9	4.6	4.5
Other income	<b>0.4</b>	0.8	1.2	1.0	1.1
Total loading income	<b>131.5</b>	128.5	129.0	115.8	119.1
Operating expenses covered by loading income <sup>1</sup>	<b>-110.3</b>	-93.2	-93.7	-93.1	-82.5
Total operating expenses	<b>-110.3</b>	-93.2	-93.7	-93.1	-82.5
<b>Loading profit</b>	<b>21.2</b>	35.3	35.4	22.7	36.6
Operating expenses in relation to loading income, %	<b>84</b>	73	73	80	69

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

## Maintenance of working capacity expenses

31 Dec, € million	2012	2011	2010	2009	2008
Premiums written; the administrative cost component of the disability risk	<b>5.4</b>	5.3	5.0	4.1	4.1
Claims incurred; maintenance of working capacity expenses	<b>6.5</b>	7.7	6.0	3.9	4.3
<b>Maintenance of working capacity expenses / The administrative cost component of the disability risk, %</b>	<b>121.9</b>	144.9	120.1	96.0	104.2

# Risk management

## Risk management as an element of internal control

Internal control is a process that aims to ensure:

1. the achievement of the goals and objectives set;
2. economical and efficient use of resources;
3. sufficient management of operations-related risks;
4. reliability and correctness of financial and other management information;
5. compliance with laws and regulations;
6. compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices.

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 risks, financial reporting, strategy, basic strategies connected with organisational development and management, budgets, investments, pension insurance business, operational plans, and development projects.

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

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 emergency 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 department 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 Business Operations. 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.

If necessary, any major problems observed are reported to the management, compliance officer and the Board of Directors.

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 departments. It also prepares a summary of the risk assessments drawn up by the departments. 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 department 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.

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 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.

## Business risks

Varma's business risks are related to:

- the earnings-related pension system,
- investments,
- insurance,
- client base development, and
- operations.

The company's main operating sectors are pension services, insurance services, client services, and investment operations, including their support functions. Essential risks are related to investments, information technology, the networked operation of the pension system, adjusting the control system and operating models to the rapidly changing economic situation and to the efficient implementation of legislative changes.

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, 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 investments and solvency.

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, and disturbances in the European payment system.

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

Pension insurance risks include:

- the management of the complex information systems that maintain the production of services,
- risks related to the functioning of the centralised earnings registers and outsourced services, and
- possible errors in the processing and payment of pensions or in the calculation and collection of insurance contributions.

With online services expanding, malfunctions in the company's internal systems and the public infrastructure will affect the production of services.

The TyEL component of the earnings-related pension system functions on a partially funded basis. Around one fifth of the pensions paid each year is previously funded, while the remaining part is a pooled component, which is covered by an 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 pension insurance institutions' active insurance portfolios. Thus the cost of the pooled components presents no risk for the individual pension institution.

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

The level of earnings-related pension cover is based on a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy that applies to all earnings-related pension insurance institutions. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. Under the TyEL act, the 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 an 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 1,071 million at the end of 2011, which is about 6.1 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 2012.

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 2011 was as follows:

	€ million	%
<b>TyEL basic insurance</b>		
Provision for unearned premiums		
Future old-age pension liabilities	14,110	48.6
Future disability pension liabilities	406	1.4
Provision for future bonuses	1,556	5.4
Provision for current bonuses	74	0.3
Equity-linked provision for current and future bonuses	-181	-0.6
Total provision for unearned premiums	15,964	55.0
Provision for claims outstanding		
Current old-age pension liabilities	6,889	23.7
Current disability pension liabilities	1,582	5.5
Current unemployment pension liabilities	15	0.1
Provision for pooled claims	2,903	10.0
Equalisation provision	1,071	3.7
Total provision for claims outstanding	12,459	42.9
TyEL basic pension insurance, total	28,424	98.0
TEL compliant supplementary pension insurance, total	572	2.0
YEL basic pension insurance, total	18	0.1
YEL compliant supplementary pension insurance, total	3	0.0
<b>Total technical provisions</b>	<b>29,017</b>	<b>100.0</b>

	€ million	Of payroll, %
<b>TyEL equalisation provision, 31 Dec. 2011</b>		
Old-age pension component	37	0.2
Disability pension component	806	4.6
Unemployment pension component	48	0.3
Contribution loss component	180	1.0
<b>Total</b>	<b>1,071</b>	<b>6.1</b>
Lower limit for the equalisation provision	262	
Lower limit for the equalisation provision	1,321	

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 no 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.

Until 31 December 2012, the risks involved in the assets covering technical provisions, i.e. primarily investment risks, were provided for by the solvency capital, whose amount was monitored in relation to the technical provisions and the limits calculated on the basis of investment allocation and other limits. Thus, solvency capital provided the company with a buffer for years in which the return on the assets covering the technical provisions was below the interest credited on technical provisions.

Some regulations related to investment operations and solvency were amended for a fixed period of time in the latter part of 2008. The legislation was extended to 31 December 2012. Until then, the EMU buffers, as they are called, included in the provision for pooled claims were used temporarily to support solvency capital, and the minimum solvency capital limit was lower.

As of the beginning of 2013, the earlier solvency capital and the equalisation provision were combined to form a new buffer, which will be used to carry the risks related to both investments and insurances. The calculation of the solvency limit was also adjusted, and in future it will take into account the insurance risk. At the turn of the year, Varma's solvency capital remained at the same level as when calculated according to the temporary legislation. The changes raised the solvency limit by about 0.7 percentage points.

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	1,747	5.0
Bonds and obligations	12,877	36.5
Real estate	5,817	16.5
Shares	12,867	36.5
Miscellaneous investments	1,940	5.5
	35,249	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 2012 are presented in the Notes to the Financial Statements.

Geographical allocation of investments in listed equities:

	<b>Risk distribution 31 Dec. 2012</b>		<b>Risk distribution 31 Dec. 2011</b>	
	<b>€ million</b>	<b>%</b>	<b>€ million</b>	<b>%</b>
American equities	<b>1,265</b>	<b>14.8</b>	1,096	15.9
European equities	<b>1,881</b>	<b>22.0</b>	1,095	15.9
Other areas	<b>1,157</b>	<b>13.5</b>	866	12.6
Finnish equities	<b>4,264</b>	<b>49.8</b>	3,827	55.6
<b>Listed equities</b>	<b>8,567</b>	<b>100.0</b>	6,883	100.0

Direct investments in real estate according to purpose of use:

	<b>Risk distribution 31 Dec. 2012</b>		<b>Risk distribution 31 Dec. 2011</b>	
	<b>€ million</b>	<b>%</b>	<b>€ million</b>	<b>%</b>
Residential premises	<b>685</b>	<b>17.3</b>	553	13.9
Business premises	<b>976</b>	<b>24.6</b>	1,021	25.7
Other premises	<b>442</b>	<b>11.2</b>	417	10.5
Industrial and warehouse premises	<b>528</b>	<b>13.3</b>	591	14.9
Office premises	<b>1,330</b>	<b>33.6</b>	1,393	35.0
<b>Direct real estate investments</b>	<b>3,961</b>	<b>100.0</b>	3,975	100.0

The vacancy rate of business premises was 6.2 (5.4) per cent.

Bonds according to credit rating:

	<b>Risk distribution 31 Dec. 2012</b>		<b>Risk distribution 31 Dec. 2011</b>	
	<b>€ million</b>	<b>%</b>	<b>€ million</b>	<b>%</b>
AAA	<b>3,860</b>	<b>41.1</b>	5,849	66.5
AA	<b>784</b>	<b>8.3</b>	163	1.9
A	<b>2,209</b>	<b>23.5</b>	832	9.5
BBB or worse	<b>1,272</b>	<b>13.5</b>	1,186	13.5
Not rated	<b>1,481</b>	<b>15.8</b>	798	9.1
Other items	<b>-206</b>	<b>-2.2</b>	-37	-0.4
	<b>9,400</b>	<b>100.0</b>	8,790	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 1,076 million (1,551) at year-end 2012. 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 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% drop in the value of listed equity investments and certain hedge fund investments, the solvency capital still exceeds the minimum solvency capital (=2/3 of the solvency limit; however, 2 per cent of the technical provisions when the temporary act is effective) 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	Effect Share prices	Effect Interest rates	Effect Real estate
	31 Dec. 2012	-30%	+1% pp	value -10%
Solvency capital	<b>7,716 mill. €</b>	4,981 mill. €	7,321 mill. €	7,270 mill. €
% of technical provisions	<b>28.0%</b>	18.5%	26.6%	26.4%
in relation to solvency limit	<b>2.4 times</b>	1.8 times	2.2 times	2.2 times
Yield on investment, %	<b>7.7%</b>	-2.6%	6.5%	6.3%

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 1,194 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 into 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 economic development of the coming years will be characterised by the current euro crisis, increasing government budget deficits and a slowdown in overall global economic demand. The structural challenges for the Finnish economy are the sharp growth in public spending caused by the ageing of the population, the dwindling workforce, and especially the declining industrial activity in our country.

The escalation of the Finnish structural challenges in the current economic situation increase 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 is co-operating 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

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 normal activities in seriously disturbed conditions. 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 players, banks, authorities, and the service security 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 backup 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 co-ordination within the sector fail to work,
6. our own IT applications or networks fail to work, stoppage of services provision,
7. counterparty risks and the invalidity of contracts under exceptional circumstances, and
8. risks related to the availability of data at the onset of a crisis.

Varma participates in operational 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, securing 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.

## 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.



# Proposal of the Board of Directors

Distributable profits as presented in the notes to the financial statements	85,470,751.66	euros
The Board of Directors proposes that the profit for the year be distributed as follows:	4,337,890.66	euros
to be transferred to the contingency fund (optional reserve)	3,700,000.00	euros
to be paid as interest on guarantee capital	552,206.08	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	25,684.58	euros

Helsinki, 14 February 2013

Sakari Tamminen

Kari Jordan

Mikael Aro

Lasse Laatumen

Kai Telanne

Mikko Mäenpää

Johanna Ikäheimo

Karsten Slotte

Veli-Matti Töyrylä

Riku Aalto

Ari Kaperi

Kari Stadigh

Matti Vuoria, 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, 2012. 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, 28 February 2013

Raija-Leena Hankonen

Authorized Public Accountant

Petri Kettunen

Authorized Public Accountant



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



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