

Varma's Interim Report 1 January–30 June 2024

The comparison figures in parentheses are from 30 June 2023 unless otherwise indicated.

- Total result amounted to EUR 1,684 (110) million.
- The six-month return on investments was 5.9 (2.6) per cent, and the market value of investments was EUR 62.1 (59.1 on 1 Jan) billion.
- Solvency capital amounted to EUR 15,693 (14,010 on 1 Jan) million and was 1.7 times (1.6 on 1 Jan) the solvency limit.

Economic operating environment

Moderate global economic growth continued in the first half of 2024. Economic growth has been driven largely by services, as growth in the manufacturing industry has been muted. Activity in the real estate sector has also been sluggish, although the development has reflected significant regional differences. Compared to economic growth, employment development has remained quite strong, although for example in the US there have been signs of a gradual cooling of demand for labour.

Geographically, the growth differences in the overall economy narrowed during the first half of the year. Economic growth slowed in the US while at the same time accelerating slightly in the eurozone and China. Finland's economic growth was a positive surprise in the first quarter of the year, but the outlook for the rest of the year has remained weaker than the first half of the year. Companies' investments, residential construction and consumption have remained muted due to the higher interest rate level and households' savings rate. It is hoped, however, that disinflation and easing monetary policy will ease the distress in the latter half of the year.

Global inflation slightly accelerated early in the year, but resumed a downward trend in the second quarter. In the US, inflation has clearly outpaced the Fed's target rate, and the Fed has delayed its planned interest rate cuts. Also in the eurozone, wage inflation in particular has continued to accelerate faster than expected, which has kept government bond interest rates on the rise on both sides of the Atlantic, despite the European Central Bank's June policy rate cut.

As economic growth is expected to continue to be fairly moderate and inflation to persistently remain above the central banks' target levels, no sudden changes to economic policy are expected. Nevertheless, the central banks have started to cut interest rates, and the tightening effect of monetary policy is expected to gradually ease. The market has received a lot of attention during the summer, e.g. for the political uncertainty caused by the parliamentary elections in France and the UK, and November's US presidential election. Geopolitical tensions have remained high due to, for instance, Russia's war of aggression and military operations in Gaza.

Earnings-related pension system

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

The changes to the contribution category model, which is used to finance disability pensions, took effect at the start of 2024. The impacts of the changes will be reflected in employers' insurance contributions in the longer term. The changes aim to, among other things, promote the employment of older workers and those with partial disability and encourage companies to adopt timely and effective rehabilitation practices.

The insurance contribution interest rate used in TyEL and YEL insurance contributions was 4.1 per cent during the first half of the year. As of the beginning of July, the TyEL insurance contribution interest rate has been 3.75 per cent, while the YEL insurance contribution interest rate has remained at 4.1 per cent.

Varma's economic development

Varma's total result at fair value for six months amounted to EUR 1,684 (110) million. The most significant factor of the total result is the investment result, which was EUR 1,667 (89) million. The return on investments at fair value amounted to EUR 3,482 (1,484) million, and the interest credited on the technical provisions was EUR 1,814 (1,395) million. The estimated technical underwriting result was EUR 17 (20) million. Following the introduction of the company-specific administrative cost component, Varma charges to its customers an administrative cost component that has been calculated to reflect Varma's costs. The loading profit was EUR 0 (1) million.

Varma's solvency remained at a strong level. The solvency capital, which serves as a risk buffer for investment operations, was EUR 15,693 million at the end of June (14,010 mill. on 1 Jan), and 133.0 per cent in relation to the technical provisions (130.4 on 1 Jan).

Solvency capital was on a solid level, i.e. 1.7 (1.6 on 1 Jan) times the solvency limit.

Tables illustrating Varma's financial development are presented as attachments to this half-year report.

Insurance business

Varma's pension recipients numbered 350,600 at the end of June (350,500 at the start of the year). Claims paid in January–June totalled EUR 3,618 (3,393) million. Varma issued 25,840 pension decisions between January and June, 12,040 of which were new decisions, i.e. 10.9 per cent more than in the corresponding period last year. During the first quarter of the year, the number of old-age pension applications was considerably lower compared to the first quarter of 2023, because at the beginning of this year none of the age cohorts had reached their statutory old-age retirement age. In the second quarter of the year, Varma received the usual amount of old-age pension applications.

At the end of June, 625,440 (607,535 on 1 Jan) employees and entrepreneurs were insured by Varma. The TyEL payroll grew 2.1 per cent during the review period compared to the same period of 2023. EUR 141 million in annual premiums written will be transferred to Varma from other earnings-related pension insurance companies based on the review period, calculated based on the TyEL net transfer information in the applications. Sales of new pension insurance policies remained on a good level in January–June, at EUR 44 (64) million.

In June, the Ministry of Social Affairs and Health confirmed the calculation bases that apply to the administrative cost component for Varma in 2025.

Based on amendments to the Self-Employed Persons' Pensions Act (YEL) that entered into force at the start of 2023, last year Varma reviewed the income of 12,000 entrepreneurs whose income was under EUR 15,000. This work continues in 2024 and concerns entrepreneurs whose YEL income is between EUR 15,000 and EUR 25,000. For Varma, this means reviewing the YEL insurance of 8,000 entrepreneurs. The reviews started in June, upon completion of the entrepreneurs' 2023 tax information.

Investments

In the first half of 2024, the return on Varma's investments grew to 5.9 (2.6) per cent and the value of investments reached EUR 62,069 (57,370) million by the end of June. Varma's solvency ratio strengthened in the first half of the year to 133.0 per cent (129.9 per cent in Q2/2023).

Risk sentiment on the markets remained strong, and half-year returns were driven primarily by the strong performance of listed equities. Corporate bonds were bolstered by solid economic growth, but the rise in interest rates dampened the positive effect and hindered the performance of listed fixed income investments. The returns on government bonds remained negative due to the rise in interest rates. The weak development of real estate continued, and the returns in the first half of the year were negative.

Equity investments yielded 9.1 (4.6) per cent. The return on listed equities was as high as 11.2 (5.2) per cent, but the differences between geographical areas and business sectors remained great. Of Varma's listed equity investments, US equities performed very strongly, while Finnish and European equities were slightly weaker. After a strong first quarter, the return on Japanese equities was negative in the second quarter due to the depreciation of the yen. In the first half of 2024, the reported returns on private equity investments were clearly more moderate than the returns on listed equities and reached 5.5 (3.9) per cent.

The new rise in interest rates kept the return on fixed income investments at a modest 1.6 (1.8) per cent. In fixed income investments, investment loans and higher-risk corporate bonds remained the strongest performers. The markets priced in more moderate monetary policy easing than before in the USA and Europe, which raised government bond interest rates and negatively affected government bonds with a lower risk level. At the end of June, France's surprise election fuelled uncertainty and raised the country's government bond interest rates compared to Germany's.

The return on real estate investments was negative, at -2.4 (-3.3) per cent. As the high-interest-rate environment continued, the markets have continued to set higher return expectations on real estate investments. The low real estate transaction volume places additional pressures on return expectations, as buyers and sellers continue to seek a shared view on return requirements. The inflation hedge provided by real estate investments has contributed to offsetting the change in value, as rents have generally followed the development of inflation and increased net rental income, even though the increase in vacancy rates has dampened this impact. The fair value of Varma's directly owned real estate portfolio is assessed regularly, and an impairment of EUR 67 million was recorded in the portfolio. The impairment was based on the assessment of an independent third party.

The return on other investments reached 6.0 (1.9) per cent. Hedge investments performed rather consistently after a strong first quarter, taking advantage of high running interest income and credit spreads. Due to the low duration, the rising interest rates had very limited negative impacts on hedge investments.

Varma has USD-denominated investments in almost all asset classes. In accordance with Varma's investment policy, part of the currency risk is hedged. In terms of operations, foreign currency risks are managed as a whole, and in financial reporting, the exchange rate impact is included in the returns of various asset classes. The US dollar strengthened against the euro in January–June, which somewhat supported Varma's investment returns.

Varma's investment activities focussed on maintaining the company's secure solvency position, broadly diversifying investments and strongly emphasising risk management. In its investment risk management, the company used derivatives for hedging purposes and to control the risk level of the portfolio. The market risk of investments is the greatest risk affecting the company's result and solvency. Equities constitute by far the greatest market risk. The VaR (Value-at-Risk) figure describing the total risk of Varma's investments stood at EUR 2,135 (2,172) million.

Operating expenses and personnel

Varma's total operating expenses in the reporting period were EUR 69 (71) million. The loading profit during the period was EUR 0 (1) million. Varma implements the statutory earnings-related pension cover in an efficient manner. Following the introduction of the company-specific administrative cost component, the size of the administrative cost component included in the insurance contribution equals Varma's operating expenses.

Varma's parent company had an average of 585 employees in the first half of the year (584 in 2023). The method for calculating the average number of personnel changed with the inclusion of temporary employment; the comparison figure has been changed accordingly. At the end of June, Varma's personnel were distributed as follows: pension services 15 per cent, actuarial and insurance services 14 per cent, customer service departments 17 per cent, disability risk management 12 per cent, investment operations 14 per cent, and other functions 28 per cent.

Varma's personnel development has focussed on developing an agile operating culture and strengthening competence. In addition, the promotion of equality and diversity practices has been continued by extensively adopting anonymous recruitment and coaching the entire personnel to consider different minorities in the work community and in customer interaction.

Corporate Governance

Varma's Supervisory Board held its constitutive meeting on 22 May 2024. Christoph Vitzthum continues as Chair of the Supervisory Board. Päivi Leiwo and Petri Vanhala continue as Deputy Chairs.

An up-to-date Corporate Governance Statement based on the recommendations of the Finnish Corporate Governance Code is presented on Varma's website. Varma publishes quarterly interim reports. Varma's website also contains an up-to-date list of the positions of trust held by Varma's management.

Sustainability

Varma is a visible and responsible owner. In the first half of 2024, Varma participated in the general meetings of 97 Finnish listed companies and 430 foreign listed companies. Varma participated in all general meetings by proxy or through advance voting. Information about Varma's positions and votes at the general meetings is published on Varma's website.

In spring 2024, Varma assessed the composition of the committees of the boards of Finnish listed companies in which it has holdings. According to the assessment, nearly half of the audit committee chairs were women (49 per cent). However, women accounted for less than 10 per cent of board chairs.

Varma joined a global initiative to prevent possible harmful effects of social media and smart devices. The initiative of the UN-supported Principles for Responsible Investment (PRI) draws attention to the impacts of the use of smart devices on mental health and well-being. Investors encourage their investees to draw up policies to reduce the risks of addiction and mental health problems, commit to children's online safety and set related goals, and develop mechanisms for reporting harmful content. A total of 33 international investors with roughly EUR 2,400 billion in assets under management are part of the project.

Varma also joined an initiative in which investors aim to accelerate collaboration, share experiences and make better use of shared resources in the fight against antimicrobial resistance (AMR).

Varma invested EUR 1.6 billion in a listed US ETF that takes climate impacts into consideration. The fund, tailored to Varma, invests in global companies with a track record of reducing greenhouse gases and carbon dioxide emissions.

Varma has published a sustainability report in line with the Global Reporting Initiative (GRI) since 2016. This reporting, as well as, for example, Varma's Science Based Targets for reducing emissions have enabled the company to smoothly prepare for the EU's 2024 sustainability reporting. In the first half of 2024, Varma continued to prepare its sustainability reporting.

Risk management

particular are estimated to remain elevated. The most significant financial risks are those concerning investments. Varma's liquidity remains at a secure level.

The risks of pension insurance operations are related to pension and insurance processing and to the effectiveness of the joint systems used in the sector. The risk level related to these has remained low.

The Board of Directors has confirmed the principles for the company's internal control and risk management system. More information about insurance, investment, operative and other risks, the means for managing them, as well as related quantitative data, are provided in the notes to Varma's financial statements.

Varma's Board of Directors' investment plan lays down the general security goals for investments, diversification and liquidity goals, and the principles governing the company's currency risk hedging. The diversification of the investment portfolio is based on allocation that takes into account the return correlations of asset classes. Varma's risk and solvency assessment describes Varma's key risks and the company's measures to manage them.

Outlook

The outlook for the economic operating environment remains quite challenging. Global economic growth is expected to remain moderate this year. Persistent inflation may force central banks to maintain relatively tight monetary policy for a long time, however. The rise in interest rates and high indebtedness leave financial policy little room to manoeuvre and cut consumers' spending opportunities, although there are significant differences between countries in how monetary policy is directed to debt servicing costs.

Geopolitical risks remain high also in Finland, which, combined with the higher interest rate level, is putting the brakes on companies' investment decisions. Expenditure pressures related to the aging population, issues related to security and energy policy, higher debt service costs than in the last few years and political polarisation mean sustainable economic policy will continue to face challenges. The rapid development of artificial intelligence may boost future development of productivity, but its impacts on economic growth, employment and productivity are still difficult to assess.

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

Helsinki, 16 August 2024

Risto Murto
President and CEO

The figures presented in this interim report are unaudited figures of the parent company.

Varma Mutual Pension Insurance Company is a responsible and solvent investor of pension funds. The company is responsible for the statutory earnings-related pension cover of 976,000 people in the private sector. Premiums written totalled EUR 6.5 billion in 2023 and pension payments stood at EUR 7.1 billion. Varma's investment portfolio amounted to EUR 62.1 billion at the end of June 2024.

FURTHER INFORMATION:

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ATTACHMENT: Graphs and charts

www.varma.fi/en

<https://www.varma.fi/annualreport>

Balance sheet at fair values (Parent Company)

€ million	6/2024	6/2023	12/2023
Assets			
Investments	62,069	57,370	59,078
Receivables	1,780	551	1,339
Furniture and fixtures	2	2	2
Total Assets	63,851	57,923	60,419
Liabilities			
Capital and reserves	156	149	152
Valuation differences	14,561	11,827	12,975
Provision for future bonuses	986	1,480	892
Off-balance-sheet items other deductions	-10	-4	-9
Solvency capital, total	15,693	13,451	14,010
Provision for current bonuses (for client bonuses)	0	0	142
Equity-linked provision for current and future bonuses	945	-409	-17
Actual technical provision	46,567	45,363	45,949
Total	47,512	44,954	45,932
Other liabilities	646	-482	335
Total Liabilities	63,851	57,923	60,419

Income statement at fair values (Parent Company)

€ million	1-6/2024	1-6/2023	1-12/2023
Premiums written	3,312	3,228	6,466
Claims paid	-3,618	-3,393	-6,775
Change in technical provisions	-1,438	-1,153	-2,134
Net investment income	3,506	1,497	3,396
Total operating expenses	-69	-71	-137
Other income/expenses	0	0	2
Taxes	-8	2	-2
Total result ¹⁾	1,684	110	815

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

€ million	1-6/2024	1-6/2023	1-12/2023
Underwriting profit/loss	17	20	70
Investment result	1,667	89	739
Loading profit	0	1	4
Other income/expenses	0	0	2
Total result	1,684	110	815

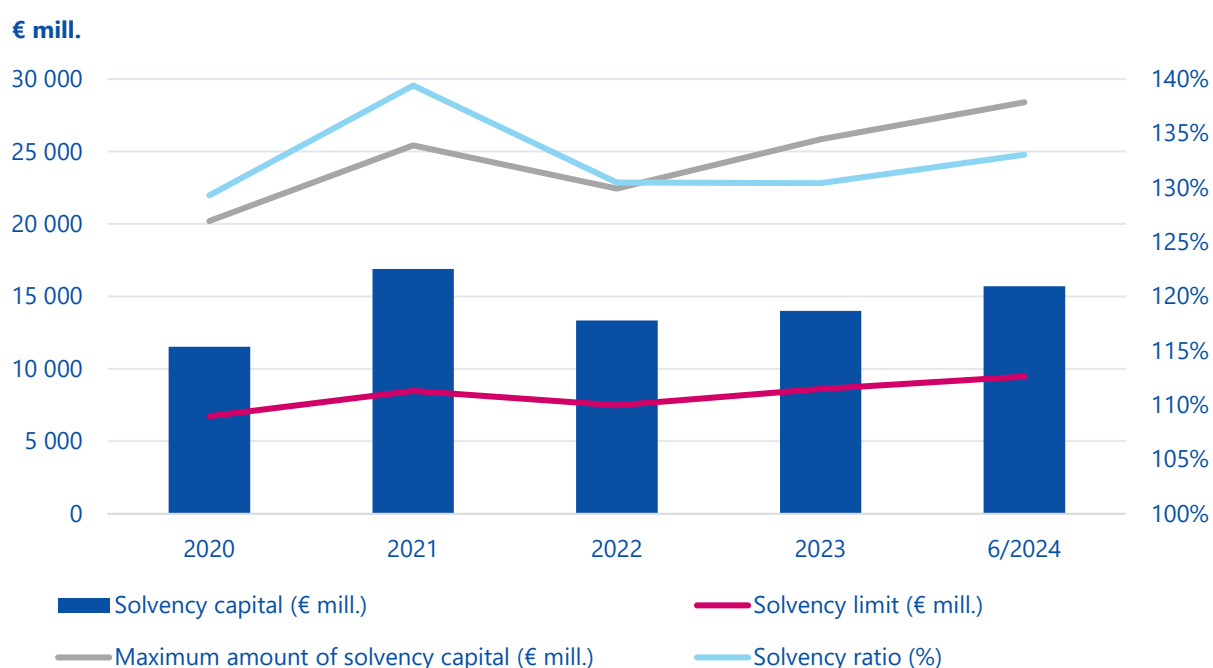
Solvency capital and limits

	30/06/2024	30/06/2023	31/12/2023
Solvency limit (€ mill.)	9,466	8,006	8,614
Maximum amount of solvency capital (€ mill.)	28,399	24,018	25,843
Solvency capital (€ mill.)	15,693	13,451	14,010
Solvency ratio (%) ¹⁾	133.0	129.9	130.4
Solvency capital/Solvency limit ²⁾	1.7	1.7	1.6

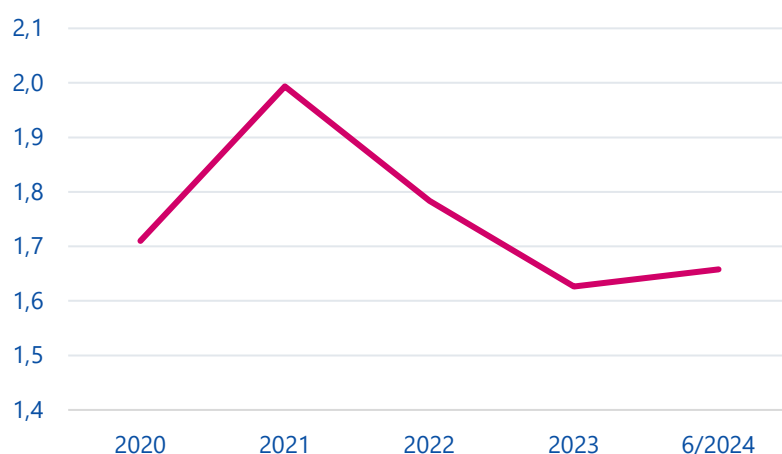
¹⁾ Pension assets in relation to the technical provisions under §11 of the Ministry of Social Affairs and Health's decree governing pension institutions (614/2008).

²⁾ Solvency capital in relation to the solvency limit.

Solvency development



Solvency capital in relation to the solvency limit



Investments at fair value

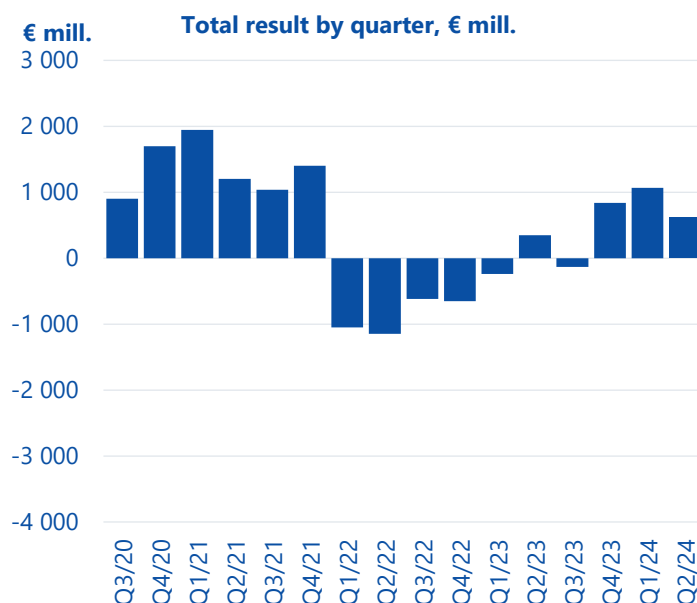
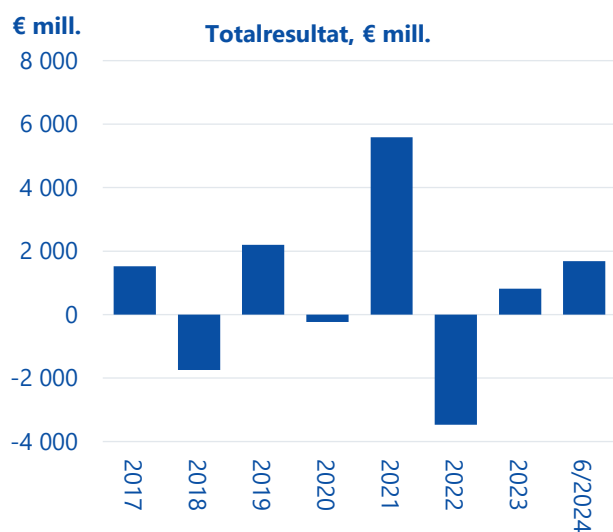
	30 Jun 2024				30 Jun 2023				31 Dec 2023				1-6/2024	1-6/2023	1-12/2023	24 m Volati- lity
	Market Value		Risk position		Market Value		Risk position		Market Value		Risk position		Return	Return	Return	
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	MWR	%	MWR	
Fixed-income investments ¹	11,828	19	13,520	22	13,293	23	17,216	30	12,081	20	9,307	16	1.6	1.8	5.6	
Loan receivables	2,411	4	2,411	4	2,639	5	2,639	5	2,598	4	2,598	4	4.2	2.9	7.3	
Bonds	7,688	12	10,556	17	9,263	16	11,774	21	8,304	14	8,967	15	0.8	1.7	5.8	5.5
Public bonds	2,797	5	5,564	9	4,746	8	7,156	12	3,769	6	4,335	7	-1.5	1.3	4.5	
Other bonds	4,891	8	4,991	8	4,517	8	4,619	8	4,536	8	4,632	8	2.4	2.2	7.3	
Other money-market instruments and deposits	1,729	3	553	1	1,391	2	2,803	5	1,179	2	-2,259	-4	1.3	0.7	2.0	
Equity investments	34,194	55	34,361	55	29,441	51	29,525	51	31,874	54	31,866	54	9.1	4.6	8.6	
Listed equities	22,248	36	22,415	36	18,578	32	18,661	33	20,634	35	20,626	35	11.2	5.2	10.3	12.9
Private equity	11,067	18	11,067	18	10,147	18	10,147	18	10,425	18	10,425	18	5.5	3.9	5.5	
Unlisted equities	879	1	879	1	717	1	717	1	815	1	815	1	2.6	0.3	8.9	
Real estate investments	5,636	9	5,636	9	5,623	10	5,623	10	5,641	10	5,641	10	-2.4	-3.3	-4.3	
Direct real estates	3,011	5	3,011	5	3,039	5	3,039	5	3,021	5	3,021	5	-0.4	-2.9	-4.0	
Real estate funds	2,626	4	2,626	4	2,584	5	2,584	5	2,620	4	2,620	4	-4.6	-3.8	-4.6	
Other investments	10,411	17	10,392	17	9,013	16	9,015	16	9,481	16	9,480	16	6.0	1.9	5.6	
Hedge funds	10,413	17	10,413	17	9,027	16	9,027	16	9,480	16	9,480	16	6.1	2.4	6.1	2.3
Commodities	0	0	-6	0	-9	0	-1	0	0	0	0	0				
Other investments	-5	0	-5	0	-16	0	-16	0	-1	0	-1	0				
Total investments	62,069	100	63,909	103	57,370	100	61,379	107	59,078	100	56,294	95	5.9	2.6	6.0	4.6
Impact of derivatives			-1,840	-3			-4,009	-7			2,784	5				
Investment allocation at fair value	62,069	100	62,069	100	57,370	100	57,370	100	59,078	100	59,078	100				

The modified duration for all the bonds is 4.76.

The open currency position is 31.1 per cent of the market value of the investments.

¹ Includes accrued interest

Total result



Summary of the key figures

	1-6/2024	1-6/2023	1-12/2023
Premiums written, € million	3,312	3,228	6,466
Net investment income at fair value, € million	3,482	1,484	3,363
Return on invested capital, %	5.9	2.6	6.0

	6/2024	6/2023	12/2023
Technical provisions, € million	48,498	46,433	46,966
Solvency capital, € million	15,693	13,451	14,010
in relation to solvency limit	1.7	1.7	1.6
Pension assets, € million	63,178	58,379	60,057
% of technical provisions	133.0	129.9	130.4
TyEL payroll, € million	26,255	25,610	25,367
YEL payroll, € million	1,053	934	943

Investments at fair value, broken down as per the regulations of the Financial Supervisory Authority

	Market value						Risk position					
	30 Jun 2024		30 Jun 2023		31 Dec 2023		30 Jun 2024		30 Jun 2023		31 Dec 2023	
	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%
Fixed-Income Investments	11,828	19.1	13,293	23.2	12,081	20.5	13,520	21.8	17,216	30.0	9,307	15.8
Loan receivables	2,411	3.9	2,639	4.6	2,598	4.4	2,411	3.9	2,639	4.6	2,598	4.4
Bonds	7,688	12.4	9,263	16.1	8,304	14.1	10,556	17.0	11,774	20.5	8,967	15.2
Other money-market instruments and deposits	1,729	2.8	1,391	2.4	1,179	2.0	553	0.9	2,803	4.9	-2,259	-3.8
Equity investments	34,194	55.1	29,441	51.3	31,874	54.0	34,361	55.4	29,525	51.5	31,866	53.9
Listed equities	22,248	35.8	18,578	32.4	20,634	34.9	22,415	36.1	18,661	32.5	20,626	34.9
Private equity	11,067	17.8	10,147	17.7	10,425	17.6	11,067	17.8	10,147	17.7	10,425	17.6
Unlisted equities	879	1.4	717	1.2	815	1.4	879	1.4	717	1.2	815	1.4
Real estate investments	5,636	9.1	5,623	9.8	5,641	9.5	5,636	9.1	5,623	9.8	5,641	9.5
Direct real estates	3,011	4.9	3,039	5.3	3,021	5.1	3,011	4.9	3,039	5.3	3,021	5.1
Real estate funds	2,626	4.2	2,584	4.5	2,620	4.4	2,626	4.2	2,584	4.5	2,620	4.4
Other investments	10,411	16.8	9,013	15.7	9,481	16.0	10,392	16.7	9,015	15.7	9,480	16.0
Hedge funds	10,413	16.8	9,027	15.7	9,480	16.0	10,413	16.8	9,027	15.7	9,480	16.0
Commodities	3	0.0	2	0.0	2	0.0	-16	0.0	4	0.0	1	0.0
Other investments	-5	0.0	-16	0.0	-1	0.0	-5	0.0	-16	0.0	-1	0.0
Total	62,069	100.0	57,370	100.0	59,078	100.0	63,909	103.0	61,379	107.0	56,294	95.3
Impact of derivatives							-1,840	-3.0	-4,009	-7.0	2,784	4.7
Total	62,069	100.0	57,370	100.0	59,078	100.0	62,069	100.0	57,370	100.0	59,078	100.0

Modified duration of the bond portfolio 4.8

Net return on invested capital

	Net investment return at fair value	Invested capital	Return % on invested capital	Return % on invested capital	Return % on invested capital
	€ million	€ million	30 Jun 2024 %	30 Jun 2023 %	31 Dec 2022 %
Fixed-Income Investments	188	11,912	1.6	1.8	5.6
Loan receivables	104	2,486	4.2	2.9	7.3
Bonds	63	7,857	0.8	1.7	5.8
Other money-market instruments and deposits	21	1,569	1.3	0.7	2.0
Equity investments	2,872	31,600	9.1	4.6	8.6
Listed equities	2,275	20,259	11.2	5.2	10.3
Private equity	576	10,505	5.5	3.9	5.5
Unlisted equities	22	836	2.6	0.3	8.9
Real estate investments	-136	5,713	-2.4	-3.3	-4.3
Direct real estates	-12	3,031	-0.4	-2.9	-4.0
Real estate funds	-124	2,682	-4.6	-3.8	-4.6
Real estate funds	581	9,701	6.0	1.9	5.6
Hedge funds	592	9,687	6.1	2.4	6.1
Commodities	2	1			
Other investments	-13	13			
Total	3,505	58,926	5.9	2.7	6.1
Unallocated income, costs and operating expenses from investment activities	-23	13			
Net investment return at fair value	3,482	58,939	5.9	2.6	6.0