

## Board of Directors' Report 2013

### A look back at 2013

Despite an uncertain economy and investment climate, Veritas's investments yielded well during 2013. Especially the favourable development in the share markets during the final quarter had a positive effect on the overall result.

The economic downturn made its mark on the insurance business with decreased customer payrolls compared with the previous year, which resulted in premiums written declining somewhat following several years of growth. Credit losses also increased in 2013.

Veritas strengthened its position in the earnings-related pension markets through a co-operation agreement concluded with Handelsbanken Finland in the spring. The co-operation agreement concluded with Pohjantähti Mutual Insurance Company was renewed in the summer and the objective is to expand the sales partnership.

Veritas's operations are based on high-quality customer service. During 2013, Veritas has invested in both its online services and pension benefit processing IT system. The personnel has also taken part in a development programme to improve motivation and work satisfaction.

### Development of the sector

At the beginning of 2013, Professors Nicholas Barr and Keith Ambachtsheer published a report concerning the Finnish earnings-related pension system. Both Professor Barr and Professor Ambachtsheer are of the opinion that the Finnish system functions well, but that in order to be maintained, the system's sustainability must be enhanced. More emphasis should be placed on extending careers, restraining cost development and increasing investment income.

The report presented in the autumn to labour market organisations by Director General at the Ministry of Finance, Jukka Pekkarinen, also evaluated the pension system's sustainability. The report examines the need for reform in the present system and takes into account, among other things, increasing life expectancy, the current employment situation, the income of pensioners and the sustainability of the public sector economy. The pension reform, which will come into force in 2017, is being prepared by the labour market organisations.

The Ministry of Social Affairs and Health is preparing legislation concerning the administration of earnings-related pension companies. The objective is to create a more transparent pension system and strengthen its credibility as well as, to a reasonable degree, harmonise the regulations through the Solvency II Directive that applies to all insurance companies.

The Ministry also intends to develop competition in the earnings-related pension sector. Discussions concerning stricter regulations for the use of funds for furthering well-being at work as well as a future company-specific expense loading in the pension contribution continued in 2013. A reform of the earnings-related pension institutions' solvency regulations is pending at the Ministry of Social Affairs and Health. The aim is for the reformed model to measure economic risks in more detail and to support the risk management of pension investments in an improved manner. According to current plans, the legislative amendment is set to come into force in early 2016.

The earnings-related pension sector witnessed the merger of two companies in 2013, namely Fennia Mutual Insurance Company and LocalTapiola Mutual Pension Insurance Company. The companies formed a new company named Elo Mutual Pension Insurance Company, which has been operational as of 1 January 2014.

### Financial statements

#### Insurance operations

Veritas's total premium income declined by 1.2 per cent in 2013. TyEL premium income was 1.4 per cent lower than in 2012 while the YEL premium income increased by 0.7 per cent.

#### Premium income

The average TyEL contribution in 2013 was 22.8 per cent of the payroll. Employees' earnings-related pension contributions are age-dependent and totalled 5.15 per cent of the salary or wages for those under 53 years of age. For persons aged 53 or over, the contribution was 6.5 per cent.

The YEL contribution is also age-dependent. The YEL contribution was 22.5 per cent for those under the age of 53 and 23.85 per cent for those who had turned 53.

Both TyEL and YEL insurance contributions remained at the same level as in the previous year. The average earnings-related pension contribution would have increased by 0.4 per cent on 1 January 2013, however; in order to dissolve a proportion of the equalisation provision, an equal reduction of the contribution was implemented simultaneously.

In 2013, Veritas's total premium income declined compared with the previous year. The TyEL premium income decreased by 1.4 (+8.2) per cent and totalled EUR 395.3 (401.0) million. The premium income from YEL insurance was EUR 57.5 (57.1) million.

Of the above-mentioned premium income, EUR 0.4 (0.5) million came from additional contributions under the Employees Pensions Act. The Parliament has approved legislation according to which the supplementary pension system will be discontinued at the end of 2016. The amendment entered into force as of 1 January 2014.

Credit loss on premiums due increased and came to EUR 5.9 (3.7) million.

**Pensions paid**

In 2013, Veritas paid out pensions and other compensation in a total of EUR 436.4 (407.2) million. The amount includes handling costs in a total of EUR 4.0 (3.9) million and EUR 0.4 (0.5) million in expenses for occupational health activities.

Statutory TyEL pensions amounted to EUR 378.2 (349.3) million and YEL pensions to EUR 53.8 (53.5) million.

**Technical provisions**

Veritas's total technical provisions equalled EUR 2,137.8 (2,058.8) million on 1 January 2013. The provision for un-earned premiums was EUR 1,176.2 (1,148.9) million of which provision for claims outstanding made up EUR 961.6 (909.9) million.

The compounding requirements for technical provisions are determined in such a way that the compounding of 10 per cent of the technical provisions is tied to the average return on listed equities of pension insurers. Compounding on the rest of the technical provisions is dependent on the average solvency of pension institutions. These requirements are determined by adding the supplementary coefficient to the 3 per cent discount rate.

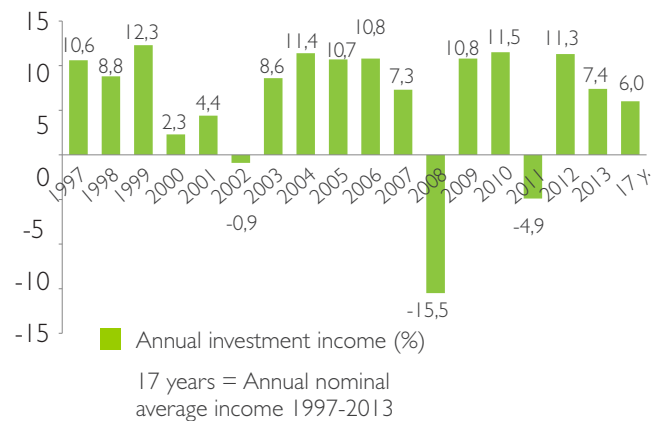
In 2013, the requirement tied to the return on equity was 19.92 per cent and the supplementary coefficient was 0.71 per cent during the period between 1 January and 31 March 2013, 0.98 per cent between 1 April and 30 June 2013, 1.20 per cent during 1 June to 30 September 2013 and 0.85 per cent during the final quarter. The technical rate of interest, used, among other things, for the compounding of contributions, was 4.0 per cent during the first half of 2013 and 4.75 per cent during the period between 1 July to 31 December 2013.

**Investment markets**

Net income on invested capital was 7.4 (11.3) per cent during 2013. The positive development in the equity markets, in particular, contributed to the good overall returns. Listed equities yielded 18.3 (15.4) per cent and the share portfolio a total of 16.7 (13.9) per cent.

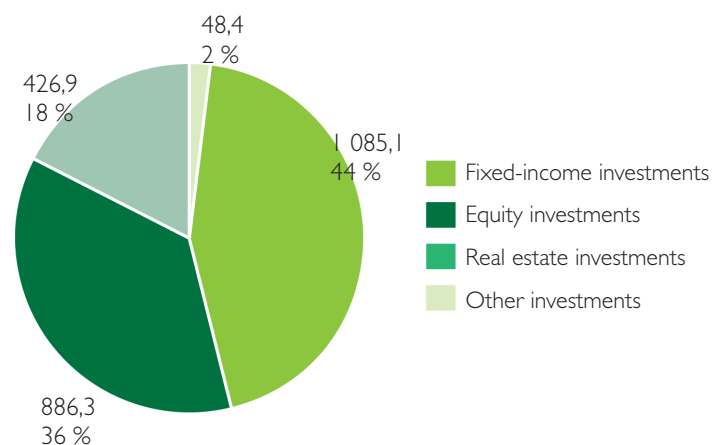
The growing fixed-income markets affected the performance of the fixed-income portfolio. Veritas's fixed-income investments yielded 1.5 (11.7) per cent. Real estate investments brought in a relatively good return of 5.9 (7.9) per cent.

In the longer term, Veritas's investment income has been very good with the annual nominal average return on investments at 6.0 per cent (real return of 4.1 per cent) since 1997. During the last five years, the nominal average investment income has been 7.0 per cent (real return 5.1 per cent).



At the turn of the year, the market value of Veritas's investment portfolio was EUR 2,446.6 (2,275.0) million including cash at bank and in hand as well as investment receivables and liabilities.

**Investment allocation, MEUR**



In 2012, Veritas signed the UN's Principles for Responsible Investment (UNPRI). The first voluntary reporting according to the principles is set to take place in 2014.

**Solvency and total profit**

Veritas's total profit came to EUR 52.1 (149.9) million. The total profit includes the return on investments, EUR 57.2 (142.1) million, the underwriting profit, EUR -6.8 (6.0) million, and the loading profit, EUR 1.6 (1.8) million.

The company's solvency also strengthened during 2013. According to the new solvency regulations that came into force on 1 January 2013, the company's solvency capital consists of the former solvency margin and the equalisation provision. Based on the new regulations, the company's solvency improved somewhat at the beginning of 2013. The solvency capital amounted to EUR 541.1 (498.6) million at the end of 2013. The solvency capital for 2012 is calculated according to the rules in force in 2013. The solvency ratio rose to 27.6 (24.1) per cent while the solvency position declined to 2.1 (2.4). The solvency position decreased mainly due to the increase in the solvency limit, which was 13.2 per cent (10.1).

EUR 5.6 (4.8) million were transferred to client bonuses, which is 0.3 per cent of the insured payroll.

### Operating expenses and expense ratio

One of Veritas's key goals is ensuring sufficient cost-effectiveness. An effective cost structure benefits the customer as half of the loading profit is paid to the customer as client bonuses.

Expense loading of the insurance contribution used on operating expenses rose by 2.1 per cent to 16.7 (16.4) million. Loading profit increased by 0.8 per cent to EUR 18.3 (18.2) million.

Operating expenses totalled 91.0 (89.9) per cent of the expense loading in the premium income.

### Group

At the end of 2013, the Group consisted of the parent company Veritas Pension Insurance and 33 wholly-owned and 3 jointly-owned limited liability housing and real estate companies. A new subsidiary was acquired and two subsidiaries were sold during the year.

### Customers

#### Employees insured under TyEL and YEL

At the end of 2013, Veritas insured 53,339 (53,339) employees under a total of 6,791 (6,991) Employees Pensions Act (TyEL) policies. The insured TyEL payroll decreased by 1.1 per cent to EUR 1,601.1 (1,618.4) million.

The number of Self-Employed Persons Pensions Act (YEL) policies declined by 3.7 per cent to 10,870 (11,290) while average earnings rose by 5.0 per cent. The insured YEL income correspondingly amounted to EUR 252.1 (249.4) million.

According to the co-insurance agreement between Veritas and Pensions-Alandia insurance company, Veritas is responsible for half of the TyEL and YEL policies granted by Pensions-Alandia. Pensions-Alandia's entire insurance portfolio on 31 December 2013 consisted of 10,790 (10,784) employees and 1,286 (1,302) YEL entrepreneurs.

During 2013, Veritas has updated its online service for TyEL and YEL customers. The service was launched in February 2014.

### Pensions and other benefits

During the reporting year, Veritas granted 2,506 (2,517) new pensions.

	2013	2012
Old-age pensions	1,785	1,819
Disability pensions	411	398
Part-time pensions	86	79
Survivors' pensions	224	221

A total of 28,424 (27,581) people received pensions from Veritas. Of these 21,109 (19,968) received old-age pensions, 3,926 (4,184) disability pensions, 337 (330) part-time pensions, 1 (23) unemployment pensions and 3,051 (3,011) survivors' pensions.

Veritas is upgrading its compensation processing IT system between 2012 and 2015. The improvement project is being carried out together with Varma Mutual Pension Insurance Company and Mutual Insurance Company Fennia (as of 2014 Elo Mutual Pension Insurance Company). Ilmarinen Mutual Pension Insurance Company also decided to take part in the project as of summer 2013.

### Well-being at work

Veritas offers all of its customers tools, support and advice related to well-being at work.

In 2013, a total of 118 Avanti occupational health care projects took place. 57 self-employed persons took part in life-style analyses. Veritas also organised 11 open and 53 customer-specific courses for well-being at work, where participants received the Centre for Occupational Safety's Well-being at Work Card.

### Personnel

During 2013, the average number of employees was 138 (137) measured in full-time resources. 11 new employees were recruited and six left the company. No employees retired in 2013. Of all the employees, 59 per cent spoke Finnish and 41 spoke Swedish as their first language and the majority, 77 per cent, were women.

A development programme for Veritas's entire personnel was carried out in 2013. The programme's goal is to increase work satisfaction and boost employee well-being and thus also enhance productivity. Special emphasis has been placed on increasing the efficiency of internal co-operation and fine-tuning processes.

The annual personnel survey, conducted in spring 2013, showed that job satisfaction and employee commitment remained at a very good level.

Veritas Pension Insurance has an incentive system in place that covers the entire personnel. The incentive system is aimed at clarifying the correlation between the strategic targets and each employee's work input. In December 2013, a number of adjustments and changes were made to the terms and conditions and parameters for the incentive system for 2014. The basic and maximum levels of incentives remained unchanged compared with previous years.

## Administration

### Corporate governance

Veritas's administration and management are based on legislation concerning the governance of earnings-related pension companies, insurance companies and limited companies as well as on the company's Articles of Association.

In addition to these, Veritas also abides by the Finnish Corporate Governance Code that is administered by the Securities Market Association. As the company is an unlisted limited company and the act concerning earnings-related pension companies sets its own requirements for operating principles, Veritas departs from certain sections of the Code's recommendations.

### Board of Directors

The Board of Directors is responsible for the professional management of Veritas Pension Insurance and the various operating principles as well as the appropriate organisation of the operations.

The composition of Veritas's Board of Directors during the term of office 1 January and 31 December 2013:

Kaj-Gustaf Bergh, President (EK)  
Stig-Erik Herrgård, President (EK)  
Eivor Huldén, Director  
Markus Jussila, President  
Olli Koski, Chief Economist (SAK)  
Hannu Louhi, Director of Group  
Anders Nordman, President  
Lotta Savinko, Director for Lobbying and Negotiation (AKAVA)  
Ralf Sund, Ombudsman (STTK)  
Kjell Sundström, Chairman, President  
Peter Wetterstein, Professor  
Johan Åström, Master of Laws (Confederation of Finnish Industries EK)

Deputy members were Piia Alvesalo, Advisor (Confederation of Finnish Industries EK), Stefan Mutanen, President, and Joonas Rahkola, Economist (SAK).

Kjell Sundström was re-elected as the Board's Chairman in January and Ralf Sund was elected as Vice-Chairman. The Board of Directors met 11 times during the previous year. The Chairman of the company's Supervisory Board has the right to participate in Board meetings and Peter Boström made use of this right four times. The company's President also has the right to take part in Board meetings. Jan-Erik Stenman, Master of Laws, LL.M., has been President of Veritas since 2004. Kaisa Forsström, Master of Laws is the Company Lawyer and has been Deputy to the President since 2012.

In 2013, the Board of Directors had three preparatory committees. The Nomination and Compensation Committee prepares nominations and payroll matters for the Board to discuss. The Audit Committee handles issues concerning the company's financial position and financial reporting as well as internal control. The Investment and Risk Committee participates in the preparation of the investment and risk management plan.

The composition of the committees in 2013:

### Investment and Risk Committee

Kjell Sundström  
Olli Koski  
Kaj-Gustaf Bergh

### Nomination and Compensation Committee and Audit Committee

Kjell Sundström  
Ralf Sund  
Johan Åström

The Investment and Risk Committee met five times during 2013, the Audit Committee met five times and the Nomination and Compensation Committee met three times.

### Supervisory Board

Veritas's Supervisory Board meets twice annually. The task of the Supervisory Board is to elect the company's Board of Directors and to monitor the company's administration, which the Board and company's President are responsible for. Peter Boström was Chairman of the Supervisory Board and Leila Kurki, Senior Adviser (STTK) was Vice-Chairman.

The Supervisory Board's Election Committee prepares nomination and compensation matters for the Supervisory Board and Annual General Meeting. The Committee's members were Peter Boström, Chairman, and Leila Kurki as Vice-Chairman in addition to Johan Åström, an expert at the Confederation of Finnish Industries (EK).

### Treasury shares

Veritas did not purchase any of its treasury shares during the year. At the end of 2013 the company has one treasury share in its possession.

## Internal control, risk management and internal auditing

The goal of Veritas Pension Insurance is for the entire organisation to be covered by good internal control. Good internal control enables the Board of Directors, management and employees to, with any reasonable degree of certainty, ensure that operations are effective and appropriate, that financial reporting is carried out reliably and that the appropriate laws and regulations and the internal rules are complied with.

Risk management at Veritas Pension Insurance is based on a risk management plan that is annually approved by the company's Board.

The risk management plan covers the company's entire operations. The principles and framework for the investment function are defined in an annual investment plan that is approved by the Board.

Risk management is described in more detail in the risk management notes to the financial statements.

The core task of internal auditing is to ensure that the company's risk management, control and administration processes are effective and function according to the set targets and the established operating models. The framework for the internal audit function is determined by the Board of Directors in the form of an annual internal audit plan.

## Outlook

Even a strong system needs to develop continuously in order to guarantee sustainability.

The labour market organisations are preparing a pension reform that will come into force in 2017. Particular emphasis must be placed on adapting the system to the constantly increasing life expectancy.

The study into the development of the competitiveness of the sector will also continue. Preparations for renewing the provisions for the use of funds furthering well-being at work are set to continue in 2014. Simultaneously, negotiations are ongoing concerning the prerequisites for a system in which companies would partly set the price for their expense loading in the insurance contribution themselves. The proposal for new solvency regulations for earnings-related pension companies will be completed during 2014 in order for them to become valid at the beginning of 2016. At the same time, work towards renewing the administrative regulations for earnings-related pension companies will carry on in 2014.

2014 will be a more challenging year in terms of the investment markets. In Europe, inflation forecasts will lead to the central banks strengthening their stimulus measures while the Chinese government is expected to take measures for

handling the emerging credit bubble. Possible disturbances on the markets may lead to swift reactions especially on the part of the United States where investors have invested borrowed money.

Despite the major changes taking place on the earnings-related pension markets, Veritas will also continue to play a role among the markets other operators. The benefit of a decen-