GARANTIA INSURANCE COMPANY LTD
REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2018

GARANTIA
SECURING OWNERSHIP

Garantia Insurance Company Ltd

Garantia makes investments and deals happen and enables the accumulation of wealth. Our solutions help our customers to promote sales, secure financing and improve capital efficiency.

Garantia was established in 1993. It is a private non-life insurance company specialising in guaranty insurance. The company is domiciled in Helsinki and its business practices are supervised by the Finnish Financial Supervisory Authority. Garantia's solutions for corporates include loan guaranties, commercial bonds, investment guaranties, portfolio guarantees for rental apartments and residual value guaranties. Garantia's solutions for consumers include Takaamo- and Securent rent guarantees and residential mortgage guaranties that are offered to consumers via partners. Based on agreements made with pension insurance companies Garantia is also responsible for calculation of employees' pension insurance (TyEL) interest rates according to calculation bases approved by the Ministry of Social Affairs and Health.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri is a financial group whose parent company Taaleri Plc is listed on Nasdaq Helsinki's main market. The Taaleri Group comprises three business areas: Wealth Management, Financing and Energy. Taaleri provides services to institutional investors, companies and private individuals. Taaleri's operations are supervised by the Finnish Financial Supervisory Authority.

Further information: www.garantia.fi, www.taaleri.com

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GARANTIA'S YEAR 2018 IN BRIEF

Strong growth profitably

- Premiums written increased 14% on the comparison period and came to EUR 17.4 (15.2) million. Earned premiums increased 15% to EUR 12.3 mn (10.6). The insurance exposure grew 12%.
- The balance on the technical account increased to EUR 8.1 mn (4.3) thanks to excellent growth, positive claims incurred and a decrease in operating costs. The claims ratio was -6.4% (10.1), expense ratio 40.3% (51.1) and the combined ratio was 34.0% (60.3).
- Earnings before taxes were EUR 9.2 (16.8) million due to net return on investments recognised in profit and loss falling to EUR 1.9 (11.5) million.
- The return on investments at fair value was -1.7% (6.6).
- Solvency remained strong, despite the capital add-on confirmed by the Finnish Financial Supervisory Authority in June. Including the capital add-on, the solvency ratio was 233.4% (237.6 pro forma), and excluding the capital add-on, the solvency ratio was 390.7% (393.6).
- On 10 December 2018, S&P confirmed Garantia's financial strength rating as A- with a stable rating outlook.

Profit and loss account and key ratios

EUR t	2018	2017	Change
Gross premiums written	**17 381**	**15 235**	**14 %**
Other items*	-5 099	-4 598	11 %
Earned premiums	**12 282**	**10 638**	**15 %**
Claims incurred	783	-1 079	-173 %
Operating expenses	-4 954	-5 330	-7 %
Balance on technical account before changes in equalisation provision	**8 110**	**4 228**	**92 %**
Change to equalisation provision	-783	1 079	-173 %
Balance on technical account	**7 327**	**5 307**	**38 %**
Investment income and expenses, net	1 897	11 458	-83 %
Other income and expences	1	3	**-76 %**
Earnings before tax	**9 225**	**16 768**	**-45 %**
Combined ratio, %	34,0 %	60,3 %	-26,3 pp
Claims ratio, %	-6,4 %	10,1 %	-16,5 pp
Expense ratio, %	40,3 %	50,1 %	-9,8 % pp
Return on investments at fair value, %	-1,7 %	6,6 %	-8,3 % pp
Solvency ratio (S2), %**	233,4 %	393,6 %	-160,2 % pp
Total insurance exposure, EUR bn	1,67	1,49	12 %
Average number of personnel	25	24	+1
Financial strength rating (S&P)	A-	A-	-

The figures used for result comparison are those for the corresponding periods in 2017. The comparison data used for the balance sheet and cross-section items are the data for the end of 2017 unless otherwise indicated.

*Reinsurers' share of premiums written, change to provision for unearned premiums and reinsurers' share of change to provision for unearned premiums.

** The Solvency II regulations do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016. The Solvency II capital adequacy figures have not been audited. Solvency ratio % includes the capital add-on confirmed by FSA on June 2018 from 30th June 2018.

REPORT BY THE BOARD OF DIRECTORS

Operating environment

The Finnish economy continued to see good growth in 2018. Growth was boosted by strong performance in exports and growth in private consumption, which was driven by a higher employment and earnings level, as well as expansionary monetary policy. Corporates' profitability improved and investments increased, thanks to low interest rates and good availability of financing. The economic outlook, however, began to deteriorate towards the end of the year. Uncertainty increased particularly due to global trade barriers and expectations of a tighter monetary policy, which also significantly affected the investment markets.

The access to finance continued to be excellent for Finnish companies. While companies have more diversified funding sources, the banking sector is still clearly the main source of financing in Finland. The TyEL premium lending by employment pension companies totalled EUR 0.8 billion on 30 September 2018, the same level as on 31 December 2017. Growth in construction continued, maintaining the good level of demand for commercial bonds. The housing market was busy, especially in growth centres, increasing demand for residential mortgages and their guaranties. During 2018 households took out new mortgages worth EUR 18.4 billion and the volume of housing loans denominated in euros granted by banks grew from EUR 96.1 billion (31 December 2017) to EUR 97.8 billion (31 December 2018).

The global economy was strong in early 2018, but political disputes over trade weakened the outlook for the global economy for the rest of the year. Investor sentiment deteriorated as economic growth expectations changed for the worse, and towards the end of the year, there was a sell-off in equity investments. December has historically been a profitable month in the equity markets. In fact, the last time the stock markets suffered a similar decline in the US was in December 1931. All in all, the year was challenging and also exceptional for investors, as virtually all asset classes generated negative or very low returns. The normal benefit gained from the diversification of an investment portfolio across fixed income and equity investments did not materialize, as the risk premiums on corporate bonds widened in the bond markets, causing valuation losses for bond investors. The risk premiums of investment grade corporate bonds, in particular, began to grow.

In the US, the Federal Reserve hiked its policy rate four times within 12 months. On the ECB's initiative, the decision to start tightening monetary policy was also made in Europe, and this was particularly reflected in the corporate bond markets as early as autumn 2018. The western central banks play a key role in maintaining economic growth. In Europe, economic data weakened towards the end of the year, in addition to which the European economy suffered from internal policy disputes over Brexit, the Italian budget deficit and the riots in France, among other things.

Insurance operations

Gross premiums written (including the reinsurers' share) increased 14.1% to EUR 17.4 (15.2) million. Ceded reinsurance accounted for EUR 1.0 (1.0) million of the premiums written total, which means that net premiums written (with the reinsurers' share deducted) increased by 14.9% to EUR 16.3 (14.2) million. Premium income grew in all product groups. In September an EUR 82 million multi-issuer bond issued by eight Finnish companies guaranteed by Garantia increased premium income in loan guaranties. Construction, which continued to be brisk, increased guaranty fees especially in commercial bonds and, in addition to this, the premium income from investment guaranties developed in cooperation with Taaleri grew. An active housing market boosted guaranty fees in residential mortgage guaranties, though the growth in premium income slowed down slightly from the comparison period. Earned premiums grew by 15.5% to EUR 12.3 (10.6) million.

The insurance exposure grew 11.8% and was EUR 1,667 (1,491) million at the end of the year. Residential mortgage guaranties accounted for 39.3% (38.9) of the total exposure, commercial bonds for 30.8% (29.5), loan guaranties for 22.1% (24.5) and other guaranties for 7.8% (7.2)[1].

Claims paid remained at an exceptionally low level. The amount recovered from claims paid during previous years on corporate loan guaranties exceeded the amount of claims paid, in addition to which changes to the provision for known claims reduced the claims incurred. The claims ratio was -6.4% (10.1) and claims incurred in relation to the insurance exposure was -0.05% (0.07). In 2018, a total of EUR 0.7 (0.6) million in claims were paid, and about half of these were for residential mortgage guaranties and half for loan guaranties. The proportion of this sum recorded

[1] The comparative data for 31 December 2017 have been adjusted due to the new product group classification implemented in H1 2018, where investment guaranties were transferred from the commercial bonds product group to the other guaranties product group.

as claims of recourse was EUR 0.0 (0.0) million. A total of EUR 2.1 (0.9) million was recovered from claims paid during and prior to the financial year. EUR 0.9 (0.3) million of this concerned claims of recourse. The net outstanding claims provision in the balance sheet (with the reinsurers' share deducted) decreased to EUR 1.3 (1.6) million on 31 December 2018 due to a change in the provision for known claims, decreasing claims incurred by EUR 0.4 million.

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Public Insurance Funds Act (1164/1992, as amended) and subsequently declared bankrupt on 5 February 2018, related to which Garantia originally received a claim on 30 December 2011. The processing of the case in the district court has not yet begun, due to other pending investigations related to the pension fund. Garantia considers that the claim is still unfounded which is why it has not been entered in the profit and loss account as a provision.

Operating expenses fell by 7.1% to EUR 5.0 (5.3) million as a result of a decrease in personnel costs. The expense ratio was 40.1% (50.1).

The balance on the technical account before changes to the equalization provision increased to EUR 8.1 (4.3) million and the combined ratio decreased to 34.0% (60.3) as a result of an increase in premium revenue, positive claims incurred and a decline in operating expenses. The equalization provision increased by EUR 0.8 (decreased by 1.1) million, and the balance on the technical account was EUR 7.3 (5.3) million.

In 2018, Garantia's business expanded as the company developed new guaranty solutions together with its customers. Garantia expanded into the rent guaranty business with a business acquisition completed on 31 August 2018. A rent guaranty can be used to replace the traditional rental collateral paid to bank accounts. Garantia offers the Takaamo rent guaranty solutions to tenants, the Securent rent guaranty solutions to landlords and tailored portfolio solutions to large lessors and service providers who offer management or rental services for rental apartments. Garantia also introduced the maintenance charge guaranty, which guarantees the payment of maintenance charges and financing charges, for housing companies. The maintenance charge guaranty is suitable for new and existing housing companies alike. In September 2018, eight Finnish companies issued a multi-issuer bond of EUR 82 million guaranteed by Garantia. Garantia will guarantee the payment of coupons and repayment of the debt capital for the entire issue to the investors in accordance with the bond's terms and conditions. This was the third multi-issuer bond issued by medium-sized companies that was guaranteed by Garantia.

Investment activities

The slowdown of global economic growth and the growing uncertainty in the economic outlook were reflected in the investment market as an increase in volatility and reduction in market values. This also affected in Garantia's investment activities.

The net return on investments recognised in profit and loss was EUR 1.9 (11.5) million and comprised fixed income returns, capital gains that were substantially lower than in the comparison period and considerably higher write-downs. As a result of sales and fluctuations in investment values, the valuation difference of investment assets decreased considerably and was EUR 1.8 (6.4) million at the end of December.

The investment income at fair value (excl. income, expenses and operating expenses from investment activities unallocated to investment types) declined to -1.7% (6.6). Net investment income from capital employed at fair value was EUR -2.6 (7.9) million, or -1.9% (6.3).

The investment portfolio (incl. cash and bank balances) was EUR 134.1 (134.4) million at the end of the year.

Risks and risk management

The principal risks associated with Garantia's business operations are credit risks arising from guaranty operations, and the market risk regarding investment assets covering technical provisions.

Garantia's risk position remained stable in 2018 despite the turbulence in the investment markets. The growth of insurance exposures took place in the highly dispersed mortgage and investment guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. The share of the insurance exposure classified as investment grade (with a rating between AAA and BBB-), excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, made up 10.7% (21.3) of the insurance exposure, while guaranties with a rating of at least BB- accounted for 79.5% (75.5). The share of those with lower credit ratings of C+ or lower decreased to 1.7% (2.7). The principal sectors in the insurance exposure were construction at 51.8% (43.7) and manufacturing at 21.6% (24.6). The proportion of construction guaranties that are reinsured is 53.5% (55.0).

As part of the Taaleri Group, Garantia is subject to the regulations on large exposures as defined in the EU Capital Requirements Regulation. At the end of the year, Garantia's largest individual exposure was 22.3% (20.8) of the Taaleri Group's own funds.

The risk level of investment activities was retained at a moderate level throughout the year and was further reduced at the end of the year. Fixed income investments made up 87.4% (76.0), equity investments 11.1% (22.7) (incl. private equity investments) and real estate investments 1.4% (1.3) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The share of investment grade fixed income investments (excl. fixed income funds) was 51.2% (48.9)[2]. The modified duration of bond investments was 3.4 (3.7).

Solvency

Garantia's solvency remained strong. Garantia's own funds amounted EUR 103.3 (106.8) million. The solvency capital requirement including the capital add-on was EUR 44.3 (44.9, pro forma) million and excluding the capital add-on EUR 26.4 (27.1) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, including the capital add-on was 233.4% (237.6 pro forma) and excluding the capital add-on it was 390.7% (393.6). The decrease in basic own funds was mainly a consequence of a change in expected dividends, as a year earlier the number of expected dividends was zero. The decrease of the solvency capital requirement excluding the capital add-on was a consequence of the decline in the investment risk being faster than the growth in the underwriting risk.

Solvency, EUR t	31.12.2018	31.12.2017 *pro forma*	31.12.2017
Own funds	**103 281**	**106 802**	**106 802**
Solvency capital requirement			
Market risk	19 934	24 786	24 786
Non-life underwriting risk	21 271	17 112	17 112
Counterparty default risk	137	257	257
Operational risk	395	347	347
Diversification effect and adjustment for loss-absorbing capacity	-15 299	-15 369	-15 369
Total	**26 437**	**27 132**	**27 132**
Capital add-on	17 812	*17 812*	0
Total	**44 249**	**44 944**	**27 132**
Amount of own funds in excess of the solvency capital requirement	59 033	61 858	79 670
Solvency ratio, %	233,4 %	237,6 %	393,6 %

Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds. Garantia does not apply the transition arrangements in defining its basic own funds and Garantia's own funds do not include items classified as ancillary own funds. Garantia does not use the matching adjustment or the volatility adjustment in the technical provisions calculation. Garantia applies the standard formula for the Solvency Capital Requirement calculation. Garantia does not use simplified calculation in the standard formula's risk modules or sub-modules, or company-specific parameters instead of the parameters of the standard formula. Garantia does not apply the transition arrangements of technical provisions or market risk calculations.

In June, the Financial Supervisory Authority confirmed Garantia's capital add-on, or the increase in solvency capital requirement, at EUR 17.8 million. In its decision, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk modules differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation. The Financial Supervisory Authority also stated that the requirement to use the internal model is not appropriate in Garantia's case. The capital add-on is valid as of 30 June 2018 and will remain in effect until further notice. The Financial Supervisory Authority will assess the amount of the capital add-on at least once a year.

Garantia's solvency and financial condition report in accordance with chapter 8a of the Insurance Companies Act is published on the company's website, www.garantia.fi, in accordance with the timetable prescribed by regulation. The solvency and financial condition report is also available at the following address: Garantia Insurance Company Ltd, Kasarmikatu 21 B, 00130 Helsinki.

[2] The comparative data for 31 December 2017 have been adjusted so that the credit rating is based on 1. the issuer or senior debt credit rating confirmed by an external credit rating agency and 2. Garantia's internal credit rating (previously 1. Garantia's internal credit rating).

The Solvency II capital adequacy regulations do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016. The Solvency II capital adequacy figures have not been audited.

Credit Rating

Standard & Poor’s Global Ratings Europe Limited (S&P) confirmed Garantia Insurance Company Ltd’s financial strength rating (FSR) and the company’s financial enhancement rating (FER) as A- with a stable rating outlook on 10 December 2018.

Personnel

During the financial year, Garantia employed an average of 25 (24) people. The average age of the personnel at the end of the year was 39.5 (42.0), and their average duration of employment at Garantia was 5.6 (6.6) years on 31 December 2018. Women made up 40.3% (47.8) of the personnel and men 59.7% (52.2).

Shares and shareholders

Taaleri Plc (Business ID 2234823-5, registered domicile Helsinki) owns the entire share capital of Garantia Insurance Company Ltd. On 31 December 2018, the number of Garantia shares was 60,000 and shareholders’ equity was EUR 10,200,000. The company has one share class.

Structural arrangements

On 31 August 2018, Garantia acquired the entire share capital of Suomen Vuokravastuu Oy (SVV), and on 31 December 2018 Suomen Vuokravastuu Oy was merged in an absorption merger into Garantia Insurance Company Ltd. In connection with the merger, the rent guaranties offered by SVV were converted into guaranty insurances and included in Garantia’s normal guaranty insurance business. The financial significance of this M&A arrangement will initially be minimal for Garantia, as SVV’s business was small and still in the start-up phase at the time of acquisition. In the final accounts for 1 August 2017 – 31 December 2018 SVV’s turnover amounted to EUR 422,000, its operating profit for the year to EUR 7 thousand, its balance sheet total to EUR 109,000 and its guaranty portfolio to EUR 1.8 million. The acquisition of the shares was a related party transaction, as the main shareholder of SVV is a relative of a member of the Board of Directors of Garantia. An independent expert assessed SVV's fair value prior to the acquisition.

Management

The Annual General Meeting held on 28 February 2018 elected Hannu Tonteri as Chairman of the Board of Directors, and Juhani Elomaa (Vice Chairman), Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny as members of the Board. All were re-elected to their positions. The sole shareholder, Taaleri Plc, elected Karri Haaparinne as a member of the Board and Vice Chairman on 16 October 2018 when Juhani Elomaa resigned from his position. The term of the members of the Board of Directors lasts until the end of the following Annual General Meeting.

The company’s Board of Directors convened 15 times during the financial year. The Board of Directors had no separate committees during the financial period.

During the financial year, Vesa Aho, M.Sc. (Econ. & Bus. Adm.), was the company’s CEO until 31 August 2018 and Acting CEO Titta Elomaa, M.Sc. (Econ. & Bus. Adm.), was the CEO from 1 September 2018. The Management Team consisted of the CEO (until 30 August 2018), the Acting CEO, Tuukka Fabritius, Martti Purhonen and Niina Pullinen.

The annual general meeting held on 28 February 2018 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the responsible auditor.

Garantia procures its Actuarial Function and Appointed Actuary from an external service provider as an outsourced service. In 2018 the service was provided by Kaippio & Kaippio Oy, with actuary SHV Janne Kaippio as the appointed actuary.

Garantia’s internal audit is procured from an external service provider as an outsourced service. In 2018 the service was provided by PricewaterhouseCoopers Oy.

Extraordinary distributions of funds

The extraordinary general meeting held on 20 June 2018 decided on an extraordinary distribution of funds totalling EUR 5,000,000. The funds were distributed from the retained earnings account. Garantia's distributable funds in the latest confirmed and audited financial statements at 31 December 2017 amounted to EUR 23,869,858.07.

Board of Directors' proposal for the treatment of net profit for the financial year and the use of distributable funds

The net profit for the financial year was EUR 7,285,711.00, and the company's distributable funds amounted to EUR 26,155,569.07. The Board of Directors proposes that the profit be transferred to the retained earnings account and that a total of EUR 5,000,000.00 from retained earnings be distributed as dividends.

Outlook for 2019

The positive trend in the Finnish economy is expected to continue in 2019, although growth will fall short of the pace seen in the past two years. Increasing trade barriers could slow down growth in global trade, which in turn could impact exports and investments in Finland. Monetary policy in the eurozone, however, will maintain favourable financing conditions in Finland, as elsewhere in Europe. Corporate and household investments are expected to slow down following a decline in construction investments, but domestic consumption will remain brisk owing to a good trend in employment and wages.

Slower growth in investments, favourable interest rates and good availability of financing will keep corporate loan margins narrow and competition intense, especially in the case of companies with good creditworthiness. Investments in new building will fall clearly from their historically high level, although renovation is expected to continue to grow. While growth in wages and an improved employment rate will sustain private consumption, the uncertainty over general economic conditions, high levels of household debt and bank requirements for collateral may, however, decrease housing sales compared with the past two years. Moreover, regional differences in the demand for dwellings and in their prices will grow significantly. The rental apartment market is expected to see steady demand due to the number of people moving for employment.

The Bank of Finland and the Financial Supervisory Authority have for some time been concerned about the level of household indebtedness and used this as a reason to justify the need for an income-based loan cap and to place a limit on collateral accepted in the calculation of the maximum loan to value ratio. The need for such reforms is currently being assessed by a working group appointed by the Ministry of Finance with the purpose of discovering means for curbing excessive debt among households and private persons. Based on the working group's findings, a decision will be made on potential regulatory amendments that could have a significant impact on the demand of residential mortgage guarantees offered by Garantia in the future.

The pace of growth in the global economy is decreasing and the economic outlook has become more uncertain, as there are many challenges ahead. The success of central banks in tightening their monetary policies will largely determine how controlled the slowdown in growth will be. Many investment banks have already given up on 2019 as an investment year, highlighting more risks than opportunities. Equity analysts, however, remain fairly positive, and we may see some disappointment over earnings and downward revisions to growth expectations. The investment markets got a taste of this in January 2019, when Apple issued its first ever negative profit warning. A substantial decrease in asset values may take place if the monetary policy actions of the central banks prompt a general flight from risky investments.

China has an enormous impact on the global economic outlook. Although the country has stimulated its economy by increasing indebtedness, China's current leadership has made it a goal to curb the amount of debt. High levels of debt, along with the trade war, are the main reason for China's weaker outlook. The US and China are looking for ways to resolve their disputes, as the deteriorating economic outlook adds pressure on both countries. China will cause volatility in the global financial markets and is likely to cause numerous postponements of investment decisions, but if the country succeeds in revitalizing, they could strengthen investor confidence in continued global economic growth in 2019 and 2020.

Finland's economic growth, coupled with Garantia's active customer-oriented approach, expansion into new product areas and products developed together with Taaleri, create a good foundation for continued growth. Garantia's purpose of operations is to secure ownership. We carry out this purpose by helping our customers and partners to promote their sales, secure their financing and to improve their capital efficiency also in 2019.

FINANCIAL STATEMENTS

Profit and loss account

euro	Note	2018	2017	change, %
Technical Account				
Earned premiums				
Premiums written	1, 2, 3	17 381 102	15 235 465	14,1 %
Reinsurers' share		-1 034 599	-1 008 260	2,6 %
Change to provision for unearned premiums		-4 205 119	-3 668 696	14,6 %
Reinsurers' share		140 380	79 255	
		12 281 764	**10 637 765**	**15,5 %**
Claims Incurred				
Claims paid		186 412	-363 828	-151,2 %
Reinsurers' share		241 078	21 097	1042,7 %
Change in provision for outstanding claims		1 170 473	-1 754 096	-166,7 %
Reinsurers' share		-815 249	1 017 920	-180,1 %
		782 714	**-1 078 907**	**-172,5 %**
Operating expenses	5, 6, 7, 8	-4 954 290	-5 330 391	-7,1 %
Balance on technical account before change to equalisation provision		**8 110 188**	**4 228 467**	**91,8 %**
Change to equalisation provision		-782 714	1 078 907	-172,5 %
Balance on Technical Account		**7 327 474**	**5 307 373**	**38,1 %**
Non-technical account				
Investment income	4	6 711 979	12 583 249	-46,7 %
Investment expenses	4	-4 815 224	-1 125 453	327,8 %
Other income and expences		769	3 253	
Direct taxes on ordinary operations		-1 939 288	-3 454 376	-43,9 %
Net profit for the financial year		**7 285 711**	**13 314 045**	**-45,3 %**

Balance sheet

Assets euro	Note	31.12.2018	31.12.2017	change, %
INTANGIBLE ASSETS				
Intangible rights	8	30 157	2 662	1032,7 %
Goodwill	8	380 035	0	-
Other long-term expenditure	8	7 523	28 745	-73,8 %
		417 714	**31 407**	**1230,0 %**
INVESTMENTS	9			
Real estate investments				
Real estate investment funds and collective investments		1 829 900	1 729 737	5,8 %
		1 829 900	**1 729 737**	**5,8 %**
Other investments				
Shares and participations		14 011 891	26 835 012	-47,8 %
Debt securities		114 151 352	97 399 980	17,2 %
		128 163 243	**124 234 991**	**3,2 %**
Total		**129 993 143**	**125 964 728**	**3,2 %**
DEBTORS				
Arising out of direct insurance operations				
From policy holders		669 136	522 668	28,0 %
Arising out of reinsurance operations		0	36 066	-100,0 %
Other		0	900 938	-100,0 %
		669 136	**1 459 672**	**-54,2 %**
OTHER ASSETS				
Tangible assets	8			
Machinery and equipment		20 846	51 207	-59,3 %
Other tangible assets		48 365	48 365	0,0 %
		69 211	**99 572**	**-30,5 %**
Cash and bank balances		918 439	447 327	105,3 %
Total		**987 650**	**546 899**	**80,6 %**
PREPAYMENTS AND ACCURED INCOME				
Accured interest and rental income		1 653 541	1 381 152	19,7 %
Other accured income		403 013	18 237	2109,9 %
		2 056 553	**1 399 389**	**47,0 %**
TOTAL ASSETS		**134 124 197**	**129 402 095**	**3,6 %**

Liabilities euro	Note	31.12.2018	31.12.2017	change, %
SHAREHOLDERS' EQUITY AND RESERVES	10, 11			
Share capital		10 200 000	10 200 000	0,0 %
Reserve for invested unrestricted equity		-	-	
Retained earnings		18 869 858	10 555 813	78,8 %
Profit / loss of the financial year		7 285 711	13 314 045	-45,3 %
Total		**36 355 569**	**34 069 858**	**6,7 %**
TECHNICAL PROVISIONS				
Provision for unearned premiums		21 122 823	16 917 704	24,9 %
Reinsurers' share		-543 684	-403 304	34,8 %
		20 579 139	**16 514 400**	**24,6 %**
Claims outstanding	12	1 880 398	3 050 871	-38,4 %
Reinsurers' share		-589 472	-1 404 721	-58,0 %
		1 290 926	**1 646 150**	**-21,6 %**
Equalisation provision		73 318 405	72 535 691	1,1 %
Total		**95 188 470**	**90 696 241**	**5,0 %**
CREDITORS				
Arising out of direct insurance operations		875	54 622	-98,4 %
Arising out of reinsurance operations		288 994	313 145	-7,7 %
Other		170 851	239 425	-28,6 %
		460 719	**607 193**	**-24,1 %**
ACCRUALS AND DEFERRED INCOME				
Other		2 119 439	4 028 803	-47,4 %
		2 119 439	**4 028 803**	**-47,4 %**
TOTAL LIABILITIES		**134 124 197**	**129 402 095**	**3,6 %**

Cash flow statement

euro	2018	2017
Cash flow from operations		
Profit / loss from ordinary operations	7 285 711	13 314 045
Adjustments		
Change in technical provisions	4 492 229	3 246 711
Write-downs and revaluations on investments	3 283 935	140 068
Planned depreciation	61 768	83 214
Other adjustments	258 358	-6 851 256
Cash flow from operations before financing items and taxes	**15 382 000**	**9 932 782**
Change in working capital		
Short-term non-interest-bearing trade receivables increase (-)/decrease (+)	133 371	797 798
Short-term non-interest-bearing liabilities increase (+)/decrease (-)	-2 055 838	1 985 943
Cash flow from operations before financing items and taxes	**13 459 534**	**12 716 523**
Intrest paid and payments for other financing expences of operating activities	0	0
Direct taxes paid	-2 272 445	-1 909 228
Cash flow from operations	**11 187 089**	**10 807 295**
Cash flow from investments		
Placements in investments / capital gains on investments (excl. Financial assets)	-5 298 262	-3 778 016
Investment and capital gains (net) related to intangible and tangible assets and other assets	-417 715	7 611
Cash flow from investment operations	**-5 715 977**	**-3 770 405**
Cash flow from financing		
Dividends paid / interest on guaranty capital and other distribution of profits	-5 000 000	-9 000 000
Cash flow from financing	**-5 000 000**	**-9 000 000**
Change in financial assets	**471 112**	**-1 963 110**
Cash and bank balances at the start of the financial year	447 327	2 410 436
Cash and bank balances at the end of the financial year	918 439	447 327
	471 112	**-1 963 110**

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles for the financial statements

Basic information

Established in 1993, Garantia Insurance Company Ltd is a private non-life insurance company specialising in guaranty insurance and supervised by the Finnish Financial Supervisory Authority. In accordance with the authorisation granted by the Financial Supervisory Authority, Garantia may offer insurance in the non-life insurance classes 14 and 15 “Credit and Suretyship”. On the basis of its authorisation, the company may also transact the reinsurance business of these non-life insurance classes. Garantia Insurance Company Ltd does not have any subsidiaries. Garantia Insurance Company Ltd is domiciled in Helsinki and its registered visiting address is Kasarmikatu 21 B, 00130 Helsinki, and its registered postal address is P.O. Box 600, 00101 Helsinki. The company also has an office in Turku. A copy of the financial statements of Garantia Insurance Company Ltd is available online at www.garantia.fi or at the company’s visiting address.

Garantia is a wholly-owned subsidiary of Taaleri Plc (Business ID 2234823-5) and part of the Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on NASDAQ OMX Helsinki. The Taaleri Group’s business consists of three segments: Wealth Management, Financing and Energy. Taaleri’s operations are supervised by the Finnish Financial Supervisory Authority. The Taaleri Group prepares consolidated financial statements complying with the International Financial Reporting Standards (IFRS). These statements include reporting on Garantia as part of the Financing segment. A copy of the financial statements of Taaleri Plc is available online at www.taaleri.com or at the company’s business location at Kasarmikatu 21 B, 00130 Helsinki.

Accounting policies

The financial statements have been prepared in accordance with the Finnish Accounting Act, the Finnish Limited Liability Companies Act and the Finnish Insurance Companies Act and in compliance with the decisions, regulations and guidelines of the public authorities supervising insurance companies.

Insurance premiums

Insurance premiums for the premium contribution periods that began during the financial period as agreed in the insurance contracts have been recognised as premiums written. Those premium receivables for which it is likely that payment will not be received have been deducted from premiums written as credit losses.

Operating expenses

The commissions and profit participation of cede reinsurance and the fees of the calculation service for employees’ pension insurance (TyEL) interest rates are recognised under operating expenses as a deduction.

Merger

On 31 August 2018, Garantia acquired the entire share capital of Suomen Vuokravastuu Oy (SVV), and on 31 December 2018 Suomen Vuokravastuu Oy (merging company) was merged in an absorption merger into Garantia Insurance Company Ltd (acquiring company). The assets and liabilities of the merging company have been recognised on the acquiring company’s balance sheet at their carrying amounts.

Valuation of intangible assets and the accrual concept

Items capitalised under intangible rights consist of rights to use computer software and the business name/trademark acquired in the business acquisition. The merger deficit related to the M&A arrangement has been capitalised under goodwill, and expenses related to the development of the insurance data system have been capitalised under other long-term expenditure. Intangible assets are valued at acquisition cost less depreciation according to plan and any impairments. Intangible assets are depreciated on a straight-line basis over 5 years.

Valuation of investments and receivables on the balance sheet and determination of fair values of investments

Shares, holdings and real estate investments have been valued at the lower of acquisition cost or fair value. Any write-downs made have been revalued through profit or loss in so far as the fair value of the investment at the closing date exceeded the acquisition costs written down. Any revaluations are recognised up to the original acquisition cost.

The fair value of listed shares is taken to be the final available purchase price during continuous trading at the closing date or, if this is not available, the last trading price. The fair value of private equity funds or investment funds is taken to be the expected assignment price, which is based on the net asset value (NAV) per unit calculated by the fund management company.

Financial market instruments have been valued at the lower of acquisition cost or fair value in the case of short-term debt instruments. In the case of long-term debt instruments or bonds, financial market instruments have been valued at the acquisition cost, which is steadily adjusted towards the nominal price on a bond-specific basis over its maturity. If the fair value of a bond is lower than its acquisition cost less prior write-downs, a further write-down is recognised to adjust the acquisition cost through profit or loss.

The fair value of financial market instruments is taken to be the last purchase price for the year or, if this is not available, the last trading price, or the most probably assignment price. The fair value of other investments is taken to be the most probable assignment price.

Undisputed claims of recourse due to a loss event have been recognised on the balance sheet at probable value in compliance with the principle of prudence and taking into account any counter-collateral remaining with the company.

Premium receivables and other receivables have been valued at nominal value or at lower probable value.

Tangible assets and accrual

Office furniture and equipment have been capitalised under machinery and equipment, while art objects have been capitalised under other tangible assets. Machinery and equipment are valued at acquisition cost less depreciation according to plan and any impairment, and other tangible assets are valued at acquisition cost less any impairment. Machinery and equipment are depreciated using the reducing balance depreciation method with a factor of 25%.

Items denominated in foreign currencies

Business transactions denominated in foreign currencies have been entered at the transaction date rate. In the financial statements, the fair values of investments have been converted into euros at the closing date rate.

Employment benefits

The pensions of personnel have been arranged by means of a pension insurance policy in accordance with the Finnish Employees’ Pensions Act (TyEL) taken out with Elo Mutual Pension Insurance Company. Pension contributions have been entered as expenses on an accrual basis.

In addition to a fixed basic salary, Garantia’s remuneration scheme includes variable remuneration comprising short-term and long-term remuneration. In the short-term remuneration scheme the personnel (executive management) have the opportunity to receive a maximum amount equal to 3 (5) months’ salary and in the long-term system this is 4 (4) months’ salary. In the long-term remuneration scheme, the bonus is paid 3 years after the end of the earnings year. In the short-term remuneration scheme the payment instrument is cash or a profit-sharing compensation in the personnel fund and in the long-term remuneration scheme it is cash. The amount of the variable remuneration is entered as operating expenses for the earnings year on an accrual basis, and as deferred salaries under accrued expenses until the compensation has been paid.

Direct taxes

Direct taxes have been recognised in the income statement on an accrual basis.

Other liabilities

Liabilities other than technical provisions have been recognised in the balance sheet at nominal value.

Technical provisions

Technical provisions include that part of the premiums written accrued during the financial year and during previous years for which the respective risk concerns the period following the financial year.

The provision for claims outstanding includes the amounts of claims to be paid by the company after the financial year that are caused by loss events taking place during the financial year or earlier. The provisions include an equalization amount, which is a buffer calculated for years with a large number of loss events.

The calculation bases for the equalization provision confirmed by the Financial Supervisory Authority on 21 October 2016 have been applied in the financial statements.

Notes to the profit and loss account

Note 1: Insurance premiums written

euro	2018	2017
Non-life insurance		
Direct insurance		
Domestic	17 381 102	15 235 465
Reinsurance	0	0
Insurance premiums written before the share of insurers	**17 381 102**	**15 235 465**

Note 2: Profit per insurance class

Columns:
1 = Insurance premiums written before the share of the reinsurers
2 = Insurance premiums earned before the share of the reinsurers
3 = Claims incurred before the share of the reinsurers
4 = Operating costs before the fees of the reinsurers and shares of profit
5 = Share of the reinsurers
6 = Balance on technical account before the changes to equalization provision

Primary insurance

euro	1	2	3	4	5	6
Guarantee						
2018	17 381 102	13 116 474	1 356 885	-5 087 377	-1 335 303	8 050 679
2017	15 235 465	11 528 244	-2 118 014	-5 330 391	110 012	4 189 851
2016	12 215 790	10 322 694	-1 138 639	-4 966 231	-931 465	3 286 359
Reinsurance						
2018	0	59 509	0	0	0	59 509
2017	0	38 526	90	0	0	38 616
2016	1 798	40 381	-90	0	0	40 291
Total						
2018	17 381 102	13 175 983	1 356 885	-5 087 377	-1 335 303	8 110 188
2017	15 235 465	11 566 770	-2 117 924	-5 330 391	110 012	4 228 467
2016	12 217 588	10 363 075	-1 138 728	-4 966 231	-931 465	3 326 650
Change in equalization provision						
2018						-782 714
2017						1 078 907
2016						1 174 149
Balance on technical account						
2018						7 327 474
2017						5 307 373
2016						4 500 800

Note 3: Items deducted from the insurance premiums written

euro	2018	2017
Credit losses of insurance premium receivables	0	1 556

Note 4: Breakdown of investment income

euro	2018	2017
Investment income		
Income from real estate investments		
Other income	163	11 911
	163	**11 911**
Income from other investment		
Dividend income	148 801	299 159
Interest income	3 168 867	2 967 396
Other income	57 707	5 140
	3 375 376	**3 271 695**
Revaluation of write-offs	1 190 808	539 159
Capital gains	2 145 632	8 760 484
	3 336 440	**9 299 643**
Investment income, total	**6 711 979**	**12 583 249**
Investment expenses		
Expences from real estate investments	0	-9 446
Expenses from other investments	-207 935	-436 030
Interest expenses and other capital expenses	-1 000	-751
	-208 935	**-446 226**
Write-downs	-4 474 743	-679 227
Capital loss	-131 545	0
	-4 606 288	**-679 227**
Investment expenses, total	**-4 815 224**	**-1 125 453**
Net profit from investments	**1 896 756**	**11 457 795**

Note 5: Breakdown of operating costs

euro	2018	2017
Insurance sales expenses	2 273 498	2 382 234
Insurance management expenses	1 233 919	1 150 349
Administrative expenses	1 579 959	1 797 808
Commissions and profit participation, ceded reinsurance	-133 087	0
	4 954 290	**5 330 391**

Note 6: Total operating costs by operations

euro	2018	2017
Processing of claims	230 529	258 894
Operating costs	4 954 290	5 330 391
Investment management expenses	194 327	411 269
	5 379 146	**6 000 554**

Note 7: Auditor's fee

euro	2018	2017
Ernst & Young Oy and KPMG Oy Ab		
Auditor's fee	22 262	44 692
Other fees	2 108	0

Notes to the balance sheet

Note 8: Change in intangible and tangible assets

euro	Intangible assets	Tangible assets	Total
Acquisition cost 1 January	343 101	264 707	607 808
Depreciated fully during the previous year	-187 894	-12 897	-200 791
Increases	417 714	0	417 714
Deductions	0	0	0
Acquisition cost 31 December	**572 921**	**251 811**	**824 731**
Accrued depreciations 1 January	-311 694	-213 500	-525 194
Depreciated fully during the previous year	187 894	12 897	200 791
Accrued depreciation on deductions	0	0	0
Depreciations of the financial year	-31 407	-30 361	-61 768
Accrued depreciations 31 December	**-155 207**	**-230 964**	**-386 171**
Book value 31 December	**417 714**	**20 846**	**438 560**

Note 9: Fair value and valuation differences of investments

euroa	Remaining acquisition cost	Book value	Current value
Investments 31 December			
Real estate investments			
Real estate investment funds and collective investments	1 829 900	1 829 900	1 945 676
Other investments			
Shares and units	14 011 891	14 011 891	14 938 542
Other financial instruments	114 151 352	114 151 352	114 947 640
Total	**129 993 143**	**129 993 143**	**131 831 858**
The remaining acquisition cost of financial instruments includes the difference between the nominal value and the acquisition value allocated as interest income or expenses	648 648		
Valuation difference			**1 838 716**

Note 10: Change in shareholders' equity

euro		2018		2017
Restricted				
Share capital 1 January = 31 December		10 200 000		10 200 000
Unrestricted				
Reserve for invested undistricted equity 1 January	0		25 515	
Return of Capital	0	0	-25 515	0
Profit / loss of the previous accounting periods 1 January	23 869 858		19 530 298	
Distribution of dividends	-5 000 000	18 869 858	-8 974 485	10 555 813
Profit/loss of the financial year		7 285 711		13 314 045
		26 155 569		**23 869 858**
Shareholders' equity total		**36 355 569**		**34 069 858**

Taaleri Plc (Business ID 2234823-5, registered domicile Helsinki) owns 100% of Garantia Insurance Company Ltd's share capital. On 31 December 2017, the number of Garantia shares was 60,000. The company has one share class.

Note 11: Distributable funds

euro	2018	2017
Profit / loss of the financial year	7 285 711	13 314 045
Profit / loss of the previous accounting periods	18 869 858	10 555 813
Distributable capital	**26 155 569**	**23 869 858**
Reserve for invested unrestricted equity	0	0
Distributable funds total	**26 155 569**	**23 869 858**

Note 12: Provision for claims outstanding

Adequacy of provisions

	2018	2017
Loan and guarantee		
euro	1 060 834	537 873
% of claims outstanding 1 January	64,4 %	59,1 %

Section 10 (4)(1) Ministry of Social Affairs and Health (decree governing pension institutions, STMtpA 614/2008): If there is a material difference, the difference between the outstanding claims provision set aside at the start of the year for claims that have occurred in previous years, and the payments made for claims that have occurred in previous years and the outstanding claims provision still set aside for these claims. The adequacy of provision for claims outstanding is reported after reinsurers share (net).

Other notes

Note 13: Notes to the liability obligations

euro	2018	2017
Total gross exposures of guarantee insurance	1 666 514 055	1 491 279 483
Total gross exposure of guarantee insurance deducted with the collateral value (hair cut)	1 271 229 002	1 145 926 632
Rental liabilities		
Rents of the following financial year	204 349	205 858
Rents paid later	611 878	761 427
Leasing liability agreements		
Lease of the following financial year	69 019	73 348
Leases paid later	77 459	55 251
Capital commitments	4 281 668	5 268 501

Lease liabilities include Garantia Insurance Company's deferred share of the lease liabilities determined on the basis of the lease agreement between Taaleri Wealth Management Ltd and the lessor of the facilities at Kasarmikatu 21.

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Public Insurance Funds Act (1164/1992, as amended) and subsequently declared bankrupt on 5 February 2018, related to which Garantia originally received a claim on 30 December 2011. The processing of the case in the district court has not yet begun, due to other pending investigations related to the pension fund. Garantia considers that the claim is still unfounded which is why it has not been entered in the profit and loss account as a provision.

The Taaleri Group has a long-term remuneration scheme for the personnel, based on which the participating persons can receive a bonus paid partly as Taaleri shares and/or partly as cash for their work performance during the earning and commitment period. Garantia has not entered a provision in accordance with the Finnish accounting system for the bonuses estimated on the basis of the Taaleri Group's long-term remuneration scheme (synthetic options) in its financial statements as Taaleri Plc enters these remuneration programmes in the consolidated IFRS financial statements under shareholders' equity.

On 28 October 2015, the Board of Directors of Taaleri Plc decided on a share-based incentive system for key persons in the Group. Under the incentive scheme, key persons are issued synthetic option rights and potential bonus will be paid in cash in 2019–2020. At the time of granting the bonuses paid based on the incentive scheme will correspond to the value increase of total of no more than approximately 800,000 Taaleri Plc's shares, including the part paid in cash. On the basis of the 2015 synthetic option right programme, Garantia personnel have been granted 110,000 new rights based on the increase in share price, including the portion paid in cash. The number of synthetic options in circulation was 40,000 at the end of the financial period for Garantia's personnel. The costs accumulated in the Taaleri Group 2018 financial statements (IFRS) from the options granted to Garantia's personnel were EUR 226,887.19.

On 30 October 2017, the Board of Directors of Taaleri Plc decided on an incentive scheme for key persons in the Taaleri Group. The programme consists of three three-year earnings periods: 1 November 2017–31 October 2020, 1 November 2018–31 October 2021 and 1 November 2019–31 October 2022. The Board decides on the earnings criteria applied in the programme and the goals for set for each criterion at the beginning of an earnings period. In the 2017–2020 earnings period, the target group of the programme includes approximately 10 key persons, including the members of the Taaleri Group Management Team, and in the 2018–2021 earnings period approximately 11 key persons. The possible bonus paid under the scheme is based on the compound earnings of Taaleri Plc's share. The total bonuses paid for the 2017–2020 earnings period correspond to the maximum value of 180,000 and for the 2018-2021 earnings period corresponds to the maximum value of 240,000 Taaleri Plc shares, including the portion paid in cash. Of these, 87,300 are allocated to Garantia personnel, and of these in circulation was 64,800 at the end of the financial period. The bonuses are paid partly in company shares and partly in cash. The purpose of the cash portion is to cover the taxes and tax-like charges payable by key persons on the bonus. The costs accumulated in the Taaleri Group 2018 financial statements (IFRS) from the options granted to Garantia's personnel were EUR 35,794.10.

Note 14: Personnel and members of bodies

euro	2018	2017
Personnel expenses		
Salaries and remunerations	2 460 014	3 362 701
Pension expenses	475 787	463 215
Other indirect employee costs	6 654	202 521
	2 942 455	**4 028 437**
Salaries and remunerations paid to		
CEO	268 209	269 351
Members of the board of directors	168 000	168 000
Average number of employees during fiscal year	**25**	**24**

Note 15: Ownership in other companies

euro	Book value	Current value
Shares and fund units		
IShares S&P 500 EUR Hedged Ucits	7 192 159	7 193 173
Isahres Care MSCI Japan	782 112	782 112
Ishares S&P 500 B Ucits	449 400	449 400
Db Stoxx Europe 600	2 185 723	2 185 723
Mikro Rein Osake	1 731 683	1 731 683
	12 341 077	**12 342 091**
Private Equity funds		
CapMan Buyout X Fund B Ky	738 250	1 582 531
HL Large Buyout Club Fund	932 564	1 013 921
	1 670 814	**2 596 452**
Property funds		
Taaleri Tonttirahasto Ky	1 829 900	1 945 676
	1 829 900	**1 945 676**

Note 16: Related party loans and collateral and bonds given to related parties and related party transactions

On 31 August 2018, Garantia acquired the entire share capital of Suomen Vuokravastuu Oy (SVV), and on 31 December 2018 Suomen Vuokravastuu Oy was merged in an absorption merger into Garantia Insurance Company Ltd. The acquisition of the shares was a related party transaction, as the main shareholder of SVV is a relative of a member of the Board of Directors of Garantia. An independent expert assessed SVV's fair value prior to the acquisition.

As a result of the arrangement Garantia expanded its operations into rent guaranties, which can be used to replace the traditional rental collateral paid to bank accounts. Garantia offers the Takaamo rent guaranty solutions to tenants, the Securent rent guaranty solutions to landlords and tailored solutions to large lessors and service providers who offer management or rental services for rental apartments.

The financial significance of this M&A arrangement will initially be minimal for Garantia, as SVV's business was small and still in the start-up phase at the time of acquisition. In the final accounts for 1 August 2017 – 31 December 2018 SVV's turnover amounted to EUR 422,000, its operating profit for the year to EUR 7 thousand, its balance sheet total to EUR 109,000 and its guaranty portfolio to EUR 1.8 million.

Under the sale agreement, the sale price comprises the initial price, which was paid as the contract was concluded, and the additional earn-out, which is paid for the calendar years 2019–2021 and is based on the percentage of each year's premiums written. The initial sale price was EUR 350,000 and the estimated total sale price on the closing date was EUR 881,000. The estimate of the total sale price is based on the management's estimate of the development of the premiums written in the rent guaranty business and the actual price may diverge significantly from the estimate. Garantia (acquiring company) has entered the assets and liabilities received from SVV (merging company) in the absorption merger at their carrying amounts. The acquisition cost of the shares was higher than the net assets of the merging company and this merger deficit of EUR 380,035 has been capitalised in the intangible assets on the acquiring company's balance sheet as goodwill. The goodwill will be depreciated on a straight-line basis over five (5) years.

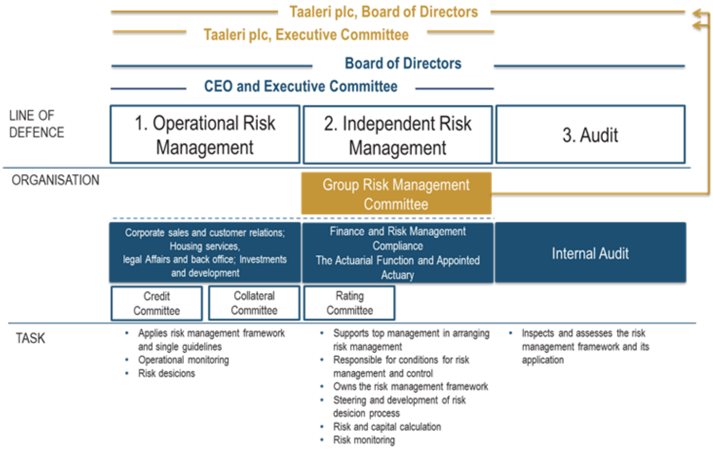
Note 17: Risk and risk management

The company's risk management and solvency management are based on Garantia's values, Code of Conduct, strategy and business objectives. The purpose of risk management is to support the achievement of the company's objectives by identifying the company's threats and opportunities and ensuring that they remain within the limits of risk appetite and risk-bearing capacity. Internal control that has been reliably organised ensures the observance of the company's business strategy, the set targets and the principles and procedures related to risk and solvency management.

At Garantia, the principal goal of internal control and risk management is to secure the company's risk-bearing capacity and thus ensure the continuity of operations. Internal control covers the activities of all of the company's units and this includes the arrangement of appropriate reporting on all of the company's organisational levels. Risk management includes the identification, measurement, monitoring, management and reporting of the individual risks and combined effect of risks that the company is exposed to. Risk and solvency management is also integrated as a fixed part of Garantia's business processes and planning and monitoring of operations.

Organisation, responsibilities and control of risk management

Internal control and risk management in Garantia are organised in accordance with a model in which internal control has three lines of defence. In accordance with this model, the tasks have been assigned to (1) units that take business risks in their operations by processing insurance policies, by making decisions binding on the company and by operating at the client interface (Operational risk management); (2) units that are responsible for risk control, carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with (Independent risk management); and (3) independent internal audit (Internal audit). External control is the responsibility of the auditors and supervisory authorities.



Picture 1: The organisation of Garantia's risk management, Picture 2: Decision-making bodies and reporting relations

The Group Risk Management Committee of the Taaleri Group is responsible for the functioning and effectiveness of the group's risk management process. The Group Risk Management Committee, which is independent of the risk-generating business lines, supports and steers internal control and risk and solvency management at Garantia in order to ensure that group-level principles and guidelines are also applied in the company. The committee reports to the Taaleri Group's Management Team and Taaleri Plc's Board of Directors.

Garantia's Board of Directors is the supreme decision-making body in matters concerning Garantia's internal control, risk management and solvency management. The Board approves the principles and policies (incl. the risk-taking limits) concerning internal control and risk management and their organisation and monitors and controls their effectiveness and the development of the risk and solvency position. Garantia's CEO, supported by the Management Team, is responsible for the arrangement of internal control and risk management practices in accordance with internal control and risk management principles.

The Board has appointed a Credit Committee, Collateral Committee and a Rating Committee, which, in accordance with the decision-making system approved by the Board, decide on matters within their purview. The Credit Committee is responsible for decisions relating to guaranty, claims and investments. The Collateral Committee is responsible for collateral assessment and for ensuring the quality and effectiveness of the collateral assessment process. The independent Rating Committee is responsible for approving credit ratings and for ensuring the quality and effectiveness of the ratings process. The Collateral Committee and Rating Committee report to the CEO and the Credit Committee reports to the Board of Directors.

The units in Garantia's organisation that are responsible for risk control carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with, and thus form a so-called independent risk management function. The task of the independent risk management function is to assist the Board of Directors and other functions to ensure efficient risk management, to monitor the functioning of the risk management system and the company's general risk profile as a whole, to report on exposure to risks and to advise the Board in risk management matters, to identify and assess developing risks and to ensure the appropriateness of the risk models used to measure risks. The independent risk management function reports its activities to the Taaleri Group Risk Management Committee, and Garantia's Board of Directors and CEO.

Internal audit is an assessment, verification and consulting function that is independent of the company's operational activities. The task of internal audit is to support the company's management in the achievement of targets by providing a systematic approach to the assessment and development of the adequacy and efficiency of the organisation's risk management, control, management and administration processes. Internal audit's activities are based on an action plan that is compiled annually. Internal audit reports on its observations, conclusions and recommendations to the Board of Directors of Taaleri Plc and Garantia.

Risk management process

Garantia's risk management process is made up of the following areas:

1. Operational planning;
2. Capital management;
3. Risk appetite;
4. Identification and assessment of risks;
5. Measurement of risks; and
6. Control and reporting of risks.

Garantia's operational planning is made up of long-term (about 3 years) strategic planning and short-term (1 year) annual planning. Operational planning is based on an analysis of the operating environment, the competitive environment and own operations and also on the Taaleri Group strategy. Profit and solvency scenarios, and stress tests, risk survey results, and a risk and solvency assessment are used to define the company's goals, projects supporting achievement of these goals and risk appetite. Every year the actuary presents the statements required by the Insurance Companies Act to the Board of Directors to support operational planning. The strategy and annual plan, including the own risk and solvency assessment, are confirmed by the company's Board of Directors, and the entire personnel are involved in its preparation.

Garantia's goal is to be a reliable partner and the company maintains strong solvency to ensure the continuity and stability of its operations. The Board has set Garantia's target level for capitalisation above the statutory solvency capital requirement, the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and the economic capital model defined at a confidence level of 99.9%. Garantia only distributes dividends or returns capital to the owner when this does not put the A- credit rating at risk. The purpose of capital management is to ensure in an anticipatory way that the company has adequate capital reserves for exceptional situations. The principal means to maintain balance between risks and actual capitalisation is to ensure profitable business operations and active risk management. If an imbalance is detected, balance is restored with management of profit and risk position or by acquiring new capital.

Risk appetite means the amount and type of risks that the company is prepared to take in order to achieve the targets set for its business. Garantia has moderate risk appetite and this is defined with so-called “risk-taking limits / risk indicators”. The Board of Directors approves the risk-taking limits / risk indicators annually as part of the capital plan (solvency limits), credit risk policy (concentration risks and risk-taking limits concerning insurance operations), reinsurance policy (risk-taking limits concerning reinsurance) and the investment plan (risk-taking limits concerning investment activities).

Constant identification and assessment of risks in the business and operating environment are part of Garantia’s risk and solvency management process. The principal risks associated with Garantia’s business operations are credit risks arising from guaranty operations, investment risks regarding assets covering technical provisions, strategic risks and operational and compliance risks. The identification and assessment of risks are described separately for each risk later in this note.

Garantia defines and assesses its capital requirement / measures the risk of its business operations with three different Value-at-Risk-based risk indicators. The primary indicator used in the steering of operations, measurement of risk and assessment of capital adequacy is economic capital (“Internal risk capital”) at a confidence level of 99.9 or 99.5%. When estimating its capital requirement, the company also uses the solvency capital requirement (SCR) based on the Solvency II standard formula at a confidence level of 99.5% including and excluding the capital add-on and the minimum capital requirement corresponding to AAA credit rating that is in accordance with the S&P’s Insurance Capital Model. In addition to VaR-based risk indicators, Garantia measures, monitors and assesses the risks of its business operations and their development with other quantitative and qualitative risk indicators. The measurement of risks is described separately for each risk later in this note.

Garantia’s monitoring and reporting of risk and solvency position is divided into internal and external monitoring and reporting. External reporting means the information published for all stakeholders and reporting to the authorities. Garantia also reports on its operations to external credit rating agency Standard & Poor’s. Internal reporting of risk and solvency position means reporting to Garantia’s Management Team and Board of Directors at least once a month and quarterly reporting to the Taaleri Group Risk Management Committee and further to the Board of Directors of the Taaleri Group. The target of internal monitoring and reporting is to ensure that the company’s risk and solvency position are within the limits of risk appetite.

Insurance risk

Insurance risk means a risk of loss arising from inadequate assumptions concerning pricing and technical provisions or an unfavourable change in the value of insurance liabilities. In guaranties, the insurance risk mostly consists of credit risk, i.e. the inability of the guaranteed counterparty to manage its financial and/or operational obligations under the contract in relation to the insured party. This may be the result of the default of the guaranteed counterparty (default risk) or the guaranteed counterparty may fail to fulfil a contractual obligation on time (delivery risk). The credit risk is also considered to include the counterparty risk of the reinsurers or the party providing other counter guaranties, which results from the default of the reinsurer or the party providing other counter guaranties, and the value change risk, which is caused by changes in the fair value of the collateral.

The aim in the management of insurance risk related to guarantee insurance i.e credit risk is to ensure that the negative profit impacts arising from client and counterparty risks remain at acceptable levels and that the returns are adequate in relation to the risks taken. In guaranty insurance credit risks are reduced by means of client selection, active management of client relationships, monitoring of changes in the clients' operations, pricing, diversification and also typically with reinsurance and with collateral and covenant arrangements. Central to the management of credit risks is the process of underwriting insurance policies, which is controlled by the credit risk policy, reinsurance policy and decision-making system confirmed by the Board of Directors and the complementary process descriptions and guidelines on credit risk assessment, auditing of distribution partners, pricing, collateral and covenants approved by the Management Team. The risk management function monitors the functioning and quality of the insurance process. In addition to the daily insurance process, credit risks are identified and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

The amount of insurance risk is measured by amount of the economic capital model, the solvency capital requirement (SCR) including and excluding the capital add-on and S&P’s insurance capital model. The insurance risk’s economic capital is defined separately for each contract with internal ratings-based approach according to Basel II which considers the exposure at default (EAD), the instrument's credit rating (probability of default, PD), duration, and the loss given default (LGD), which depends on counter-collateral and reinsurance. The economic capital model also includes concentration risk. Garantia regularly assesses its economic capital model and the functionality of the parameters used in the calculation of the amount of economic capital, including the effectiveness of risk mitigating techniques as part of assessment of the accuracy of the LGD parameter. Credit risk specific to clients and groups of connected clients are also assessed with the following indicators: client's rating and background variables, gross insurance exposure, the proportion reinsured and amount and type of other collateral, uncovered exposure, covenants and risk client status. The credit risk of insurance exposure is assessed with the following indicators including: gross exposure, proportion reinsured and other collateral, and uncovered exposure and economic capital figures by product group, rating class, industry, average maturity of exposure, claims incurred in relation to earned premiums and insurance exposure. The insurance risk position is monitored and reported to the Management Team and the Board of Directors every month.

Quantitative information on insurance risks

Sensitivity analysis of Insurance operations, 31.12.2018*				
Risk parameter	**Total, EUR thousand**	**Change in risk parameter**	**Effect on equity, EUR thousand**	**Effect on combined ratio, %**
Premium revenue	12 282	Up by 10 %	983	improvemet 3,09 pp
Claims incurred**	-783	Up by 10 %	0	weakening 0,64 pp
Large claim, EUR 10 million	0	EUR 10 mn	0	weakening 81,4 pp
Operating expenses	4 954	Up by 10 %	-396	weakening 4,03 pp

Sensitivity analysis of Insurance operations, 31.12.2017*				
Risk parameter	**Total, EUR thousand**	**Change in risk parameter**	**Effect on equity, EUR thousand**	**Effect on combined ratio, %**
Premium revenue	10 638	Up by 10 %	851	improvement 5,48 pp
Claims incurred	1 079	Up by 10 %	0	weakening 1,01 pp
Large claim, EUR 10 million	0	EUR 10 mn	0	weakening 94,0 pp
Operating expenses	5 330	Up by 10 %	-426	weakening 5,01 pp

*Sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.
** In 2018 claims incurred were positive as recovery exceeded claims paid. A negative value here has a positive profit impact.

Trend in claims incurred					
EUR thousand	**Claims paid***	**Change in provision for outstanding claims***	**Claims incurred**	**% of insurance exposure**	**Claims ratio, %**
2018	427	355	783	-0,05 %	-6,4 %
2017	-343	-736	-1 079	0,07 %	10,1 %
2016	-934	-240	-1 174	0,09 %	12,4 %
2015	-1 421	-71	-1 492	0,13 %	15,1 %
2014	-569	157	-412	0,03 %	3,7 %
2013	-2 526	121	-2 405	0,18 %	22,2 %
2012	-1 772	504	-1 268	0,09 %	11,7 %
2011	-4 827	-753	-5 580	0,44 %	50,8 %
2010	-2 098	26	-2 072	0,15 %	18,7 %

* incl. Reinsurers' share

Insurance exposure by product EUR million	2018	2017
Loan guaranties	368	365
Commercial bonds	513	462
Residential mortgage guarantees	655	579
Other guaranties	130	85
Total	**1 667**	**1 491**

Collateral position of insurance exposure EUR million	2018	2017
Reinsured	290	259
Collateral classes 1 and 2	105	86
Collateral classes 3 and 4	147	127
Uncovered position	1 124	1 019
Total	**1 667**	**1 491**

Collateral classes: 1 = A secure, liquid collateral, 2 = A secure collateral within the collateral value, 3 = A collateral within the current value, 4 = Other security

Insurance exposure by credit rating* EUR million	2018	2017
AAA - BBB-	101	178
BB+ - BB-	648	452
B+ - B-	177	182
C+ or weaker	16	22
Total	**941**	**834**

*Insurance exposure not including residential mortgage guaranties, assumed reinsurance and residual value insurance.

Insurance exposure by industry* EUR million	2018	2017
Construction	487	364
Manufacturing	203	205
Machinery and Equipment (incl. repair)	50	52
Chemical industry	47	22
Metal	46	47
Food	36	55
Other	25	29
Finance and insurance	71	40
Wholesale and retail trade	37	44
Services	34	58
Water supply and waste management	30	17
Information and communication	29	21
Other industries	50	84
Total	**941**	**834**

Industry classification is based on the classification of Statistics Finland.

*Insurance exposure not including residential mortgage guaranties, assumed reinsurance and residual value insurance.

Actuarial assumptions

Under the Insurance Companies Act, insurance companies must adopt prudent calculation criteria for determining the technical provisions. The value of the technical provisions must always be adequate so that the company can be reasonably assumed to be able to manage its commitments. The criteria for calculating the technical provisions must be submitted to the Financial Supervisory Authority before the end of the financial year.

The provision for unearned premiums is determined as ‘pro rata parte temporis’. The proportion of the premiums written of the valid insurance policies assigned to future financial years is determined on a guarantee basis. The outstanding claims provision consists of known and unknown claims. The individual claims due after the closing date are allocated on a claims basis as part of the known outstanding claims. A proportion of the premiums written accrued by the company during a financial year is allocated to outstanding claims unknown to the company on the closing date as part of unknown outstanding claims, using a specific coefficient. Actual technical provisions are not discounted.

The purpose of the equalization provision is to balance the impact of years with exceptional technical results. The equalization provision acts as a buffer, especially against growth in claims incurred. In Garantia’s calculation bases for the equalization provision an amount corresponding to the claims incurred for the period in question of the provision is recognized annually into profit and loss until the equalization provision reaches the targeted amount. In the long term the equalization provision will gravitate to its target amount. The calculation of the target amount has been defined in the Insurance Companies Act.

Quantitative information about technical provisions

Technical provisions (FAS) EUR thousand	2018	2017
Provision for unearned premiums	20 579	16 514
Provision for claims outstanding	1 291	1 646
Known provision for claims outstanding	474	935
Unknown provision for claims outstanding	817	711
Equalization provision	73 318	72 536
Total	**95 188**	**90 696**

* incl. Reinsurers' share

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2018					
EUR thousand	0-1 years	1-2 years	2-3 years	Over 3 years	Total
Provision for unearned premiums	7 651	4 106	3 021	5 801	20 579
Provision for claims outstanding	1 291	0	0	0	1 291
Total	**8 942**	**4 106**	**3 021**	**5 801**	**21 870**

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2017					
EUR thousand	0-1 years	1-2 years	2-3 years	Over 3 years	Total
Provision for unearned premiums	6 056	2 846	2 269	5 344	16 514
Provision for claims outstanding	1 646	0	0	0	1 646
Total	**7 702**	**2 846**	**2 269**	**5 344**	**18 161**

The duration of the cash flow distribution of technical provisions (not including the equalization provision) is 2.5 (2.0) years.

Investment risks

The company's investments are used for covering the technical provisions and the equity capital, and their primary purpose is to secure the liquidity of insurance operations also in years with exceptionally high claims. Garantia’s investment activities are long-term and the objective is primarily to secure capital and achieve stable and steadily increasing asset growth. The principle of prudence is observed in investment activities, according to which assets are only invested in the type of property where the company is able to identify, measure, monitor, manage, supervise and report the related risks. Market, counterparty (credit risk) and liquidity risk are the risks affecting the investment activities.

Market risk means the possibility of losses or an unfavourable change in the economic situation due directly or indirectly to the fluctuation in the market prices and volatility of assets, liabilities and financial instruments. Changes in prices affect the value of investment assets and annual returns. The principal market risks are equity risk, interest rate risk, currency risk and property risk. The credit risk of investments is made up of counterparty risk and credit spread risk. Counterparty risk means the risk of default pertaining to the contractual counterparty. Credit spread risk describes the difference in price of risky interest rate instruments and risk-free interest rate instruments, in other words, the risk arising from a change in the credit margin.

The main aim in the management of investment risks is to keep the negative profit impacts arising from investments and the changes in the values of investments at acceptable levels in the long term, to ensure that investment returns are adequate in relation to the risks taken and to safeguard the company's liquidity. Garantia follows the principle of prudence defined in the Insurance Companies Act in its investment activities. Assets are only invested in the type of assets where the company is able to identify, measure, monitor, manage, control and report the related risks. Investment activities should aim to ensure the security, convertibility into cash, rate of return and availability from location of investments, and to consider the nature of insurance agreements and the interests of the insured.

Investment risks are managed through effective diversification of the investments by asset class, sector, geographical area, credit category and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily implementation of investment activity, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment activities and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

Capital requirements for investment risks are measured by means of the economic capital model, the Solvency Capital Requirement (SCR) and S&P’s insurance capital model. In the economic capital model, investment risks are measured on an instrument-specific basis with Value-at-Risk calculation models for equity risk, currency risk, interest rate risk and credit risk. The credit risk with fixed income and private equity investments is defined with internal ratings-based method according to Basel II which considers the amount of investment, the instrument’s credit rating, the loss given default and duration. In addition to economic capital investment risks are measured based on asset class, by country, credit category, counterparty, modified duration, interest rate sensitivity and the amount of foreign currency denominated investments. The investment risk position is monitored and reported to the Management Team and the Board of Directors every month.

Quantitative information on investment risks

Investment mix at fair value EUR mn	2018	%	2017	%
Fixed income investm*	117,5	87,4 %	101,9	76,0 %
Equity investments	14,9	11,1 %	30,5	22,7 %
Land and buildings	1,9	1,4 %	1,8	1,3 %
Other investments	0,0	0,0 %	0,0	0,0 %
Total	**134,4**	100,0 %	**134,1**	100,0 %

* includes cash and bank balances. Fixed income investments include mainly bonds issued by Finnish corporates and Nordic banks.

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2018						
EUR mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	0,5	13,9	-	4,0	18,3	15,6 %
A+ - A-	0,4	-	7,8	-	8,3	7,1 %
BBB+ - BBB-	-	2,0	28,2	3,3	33,5	28,5 %
BB+ or weaker	2,5	21,3	20,3	13,2	57,4	48,8 %
Total	3,4	37,2	56,4	20,6	117,5	**100,0 %**

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2017						
EUR mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	0,2	-	1,2	8,4	9,8	9,6 %
A+ - A-	0,3	10,5	-	2,6	13,4	13,2 %
BBB+ - BBB-	-	-	19,4	7,2	26,6	26,1 %
BB+ or weaker	5,7	18,8	22,4	5,2	52,1	51,1 %
Total	6,1	29,4	43,0	23,4	101,9	**100,0 %**

* The maturity is presented until the end of the term to maturity. If the paper includes call option, the maturity is presented until the first possible Call date.
** Rating is based on 1. External rating affirmed by external rating agency to issuer or senior debt of the issuer or 2. Garantia's Internal Credit Rating.

Sensitivity analysis of investment activities, 31.12.2018*				
Investment category	Investments at fair values, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	116,6	Change in interest rates	1,0 %	3,17
Equities	12,3	Market value	10,0 %	0,99
Private Equity investmen	4,5	Market value	10,0 %	0,36

Sensitivity analysis of investment activities, 31.12.2017*				
Investment category	Investments at fair values, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	101,5	Change in interest rates	1,0 %	2,97
Equities	28,0	Market value	10,0 %	2,24
Private Equity investmen	4,3	Market value	10,0 %	0,34

*Sensitivity analysis is based on Garantia Insurance Company Ltd’s FAS financial statements. However, the effect of changes on calculations is the assumed market valuation before and after the change.

Operational risks

Operational risks mean the risk of loss resulting from deficient or faulty processes, human error, systems or external events.

Successful management of operational risks helps to ensure that the company's operations are properly organised and that the risks do not cause any unexpected direct or indirect financial losses. Garantia is determined to maintain and strengthen a corporate culture that is positively disposed towards management of operational risks and internal control by continuously providing personnel with training and guidelines.

In order to manage the operational risks, it is central to identify and evaluate risks as well as to ensure the adequacy of the control and management methods. The principal tools in the management of operational risks are risk surveys at least once a year on each unit, continuous registration of operational risks, identification of corrective measures and the monitoring and reporting of these, continuity planning, principles for outsourcing, the planning and implementation of new products, knowing your customer (KYC) and prevention of money laundering and terrorist financing, and process descriptions and other working instructions and operating guidelines.

The extent of the operational risks is measured by the solvency capital requirement (SCR) and the amount of economic capital employed by operational risks, which is determined on the basis of the annual survey of risks. Actual risk events and near misses are monitored and registered, the corrective measures concerning these are specified and the implementation of the measures is followed. Operational risks are reported to the Management Team and the Board of Directors on a quarterly basis.

Other risks

Strategic risks are the risks that result from changes in the operating and competitive environment, slow reaction to changes, selection of the wrong strategy or business model or the unsuccessful implementation of a strategy. Reputational and regulatory risks are part of strategic risks. Reputational risk means the risk that unfounded or founded unfavourable publicity related to the company’s business operations or relations weakens confidence in the company. Reputational risk is usually a consequence of a materialised operative or compliance risk which results in the deterioration of the company’s reputation among its customers and other stakeholders. Regulatory risk means the risk that changes in laws or regulations will materially weaken the company’s ability to carry out its business operations.

The principal method in the management of strategic risks is a systematic and continuous operational planning and monitoring process which makes it possible to identify and assess potential risks in the operating, competitive and regulatory environment and to update the strategy and manage the measures launched to manage risks. Reputational risk is managed in an anticipatory and long-term way by conforming with Garantia’s values, observing regulation and the Code of Conduct confirmed by the Board of Directors and by openly communicating with different stakeholders in an impartial way. Strategic risks are monitored and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

Compliance risks are the risks pertaining to legal or administrative consequences, economic losses or loss of reputation that result from the failure of the company to comply with laws, decrees or other regulations applicable to its operations. Legislative changes are actively monitored and ongoing projects are regularly reported to the Board of Directors. The survey of risks conducted at Garantia in conjunction with annual planning also includes the identification and assessment of regulatory risks and the definition and monitoring of development measures to reduce the risks. Providing the personnel with guidelines and training is also central to managing compliance risks.

Concentration risk means all types of risks that if there were to materialise, the associated losses could be so large that they would endanger the solvency of insurance or reinsurance companies or financial position. The principal concentration risk in Garantia's business operations arises from the concentration risk of direct and indirect credit and counterparty risk in guaranty and/or investment operations. Garantia’s total exposures contain large, individual group of connected clients and industry-specific credit risk concentrations. In addition, Garantia’s guaranties and investments are concentrated in Finland. The selection of clients and investment targets and the continuous monitoring of changes in the situation of clients is emphasised above all in the management of the credit risk concentration risk. Concentration risk is measured and assessed in the economic capital model with a separate concentration risk model, according to large exposures, as laid down in the Capital Requirements Regulation of the EU and with risk limits specific to groups of connected clients.

Liquidity risk means the risk that insurance and reinsurance companies are unable to convert their investments or other assets into cash in order to meet their financial obligations that fall due for payment. Liquidity risk is limited at Garantia as premiums written is collected before claims are paid and the largest individual payments are insurance compensation payments to beneficiaries or distribution of profit / repayment of capital to shareholders and the payment dates for these payments are usually known well in advance. Garantia has no financial liabilities. Garantia’s principle measures in liquidity risk management are sufficient amount of cash for managing daily payments and the liquidity of the investment portfolio.

Key financial indicators and analyses

Note 18: Key financial indicators

	2018	2017	2016	2015	2014
Gross premiums written (before share of reinsurers), EUR	17 381 102	15 235 465	12 217 588	10 018 860	11 250 256
Claims ratio, %	-6,4 %	10,1 %	12,4 %	15,1 %	3,7 %
Claims incurred without calculated interest expenses (+/-), EUR	-782 714	1 078 907	1 174 149	1 491 654	-412 292
Claims ratio without calculated interest expenses, %	-6,4 %	10,1 %	12,4 %	15,1 %	3,7 %
Expense ratio, %	40,3 %	50,1 %	52,5 %	48,5 %	42,0 %
Combined ratio, %	34,0 %	60,3 %	64,9 %	63,7 %	45,7 %
Combined ratio without calculated interest expenses, %	34,0 %	60,3 %	64,9 %	63,7 %	45,7 %
Operating profit (+) or loss (-), EUR	10 007 713	15 689 515	6 538 812	12 039 519	11 360 927
Adjustments in off-balance sheet valuation differences, current value reserve and revaluation reserve (+/-), EUR	-4 514 824	-3 542 746	3 210 059	-3 586 445	2 294 523
Total result (+/-), EUR	5 492 889	12 146 769	9 748 871	8 453 074	13 655 450
Interest expenses and other financial expenses (+), EUR	1 000	751	1 000	1 000	1 000
Calculated interest expenses (+), EUR					
Return on total assets as a percentage (at fair value)	4,0 %	9,2 %	7,7 %	6,8 %	11,2 %
Net return on investments, % at fair value on capital employed (+/-)	-1,9 %	6,3 %	5,4 %	4,4 %	7,1 %
Equalization provision, EUR	73 318 405	72 535 691	73 614 597	74 788 747	71 271 823
Average number of personnel during the financial period	25	24	22	25	25

Note 19: Earnings analyses

euro	2018	2017	2016	2015	2014
Insurance premium income (+/-)	12 281 764	10 637 765	9 467 030	9 848 753	11 070 914
Claims incurred (-/+)	782 714	-1 078 907	-1 174 149	-1 491 654	-412 292
Operating costs (-)	-4 954 290	-5 330 391	-4 966 231	-4 777 713	-4 645 538
Other technical income and expenses (+/-)		0	0	0	0
Balance on technical account before changes in equalization provision (+/-)	**8 110 188**	**4 228 467**	**3 326 650**	**3 579 386**	**6 013 084**
Investment income and expenses, revaluations and their adjustments and changes in value (+/-)	1 896 756	11 457 795	3 212 162	8 460 133	5 347 843
Other income and expenses (+/-)	769	3 253	0	0	0
Share of associated companies' profit (+) or loss (-)	0	0	0	0	0
Operating profit (+) or loss (-)	**10 007 713**	**15 689 515**	**6 538 812**	**12 039 519**	**11 360 927**
Change in equalization provision (-/+)	-782 714	1 078 907	1 174 149	-3 516 924	-6 100 731
Profit (+) or loss (-) before extraordinary items	**9 224 999**	**16 768 422**	**7 712 961**	**8 522 594**	**5 260 196**
Income taxes and other direct taxes (-/+)	-1 939 288	-3 454 376	-1 573 968	-1 711 925	-1 042 074
Minority shares (-)		0	0	0	0
Profit (+) or loss (-) for the financial year	**7 285 711**	**13 314 045**	**6 138 993**	**6 810 670**	**4 218 122**

Note 20: Investment at fair value

	Basic allocation				Risk allocation 8)			
	31.12.2018		31.12.2017		31.12.2018		31.12.2017	31.12.2016
	EUR	%	EUR	%	EUR	%	% 10)	% 10)
Fixed income investments	**117 519 620**	**87,4**	**101 907 052**	**76,0**	**117 519 620**	**87,4**	**76,0**	**79,1**
Loan receivables 1)								
Bonds	116 601 181	86,8	101 459 725	75,6	116 601 181	86,8	75,6	77,2
Other financial market instruments and deposits	918 439	0,7	447 327	0,3	918 439	0,7	0,3	1,9
Equity investments	**14 938 542**	**11,1**	**30 471 081**	**22,7**	**14 938 542**	**11,1**	**22,7**	**20,1**
Listed equities 3)	12 342 091	9,2	27 979 035	20,9	12 342 091	9,2	20,9	18,2
Private equity investments 4)	2 596 452	1,9	2 492 046	1,9	2 596 452	1,9	1,9	1,9
Unlisted equities 5)								
Real estate investments	**1 945 676**	**1,4**	**1 768 613**	**1,3**	**1 945 676**	**1,4**	**1,3**	**0,8**
Direct real estate investments		0,0	0	0,0		0,0	0,0	0,0
Real estate investment funds and collective inves	1 945 676	1,4	1 768 613	1,3	1 945 676	1,4	1,3	0,8
Other investments	**0**	**0,0**	**0**	**0,0**	**0**	**0,0**	**0,0**	**0,0**
Hedge funds 6)								
Commodities								
Other investments 7)								
Total	**134 403 838**	**100,0**	**134 146 747**	**100,0**	**134 403 838**	**100,0**	**100,0**	**100,0**
Effect of derivatives 9)								
Total investments at fair values	**134 403 838**	**100,0**	**134 146 747**	**100,0**	**134 403 838**	**100,0**	**100,0**	**100,0**
Modified duration of bond portfolio	3,4		3,7					

1) Includes accrued interest
2) Includes cash and bank balances, and receivables and debt relating to trading in securities
3) Includes balanced funds if they cannot be allocated elsewhere
4) Includes private equity funds and mezzanine funds and also infrastructure investments
5) Includes unlisted real estate investment companies
6) Includes all types of hedge fund units irrespective of the fund’s strategy
7) Includes items that cannot be allocated to other investment groups
8)The risk allocation can be presented for comparison periods as the data accumulates (not retroactively)
If the figures are presented for comparison periods and the periods are not entirely comparable, then this must be stated.
9)Includes the effect of derivatives on the difference between risk allocation and basic allocation. The effect may be +/-. After the correction the final amount of the risk allocation matches the basic allocation.
10) The relative share is calculated using the final amount of “Total investments at fair value” as the divisor.

Note 21: Net return on investments from capital employed

ROCE, EUR, %	Net return on investments at market value [8]	Capital employed [9] 31.12.2018	Return on capital employed, %	Tuotto- % sitoutuneelle pääomalle 31.12.2017	31.12.2016	31.12.2015	31.12.2014
	EUR	EUR	%	%	%	%	%
Fixed income investments	367 190	105 657 628	0,4	5,4	4,8	2,5	4,6
Loan receivables [1]							
Bonds	372 024	104 866 589	0,4	5,5	5,0	2,5	4,6
Other financial market instruments and deposits [1] [2]	-4 835	791 039	-0,6	-0,5	-0,2	0,0	0,0
Equity investments	-2 869 864	26 024 045	-11,8	11,1	9,4	9,8	14,3
Listed equities [3]	-3 021 863	23 357 573	-13,6	9,1	9,8	10,8	14,5
Private equity investments [4]	151 999	2 666 472	6,0	30,1	4,0	0,0	0,0
Unlisted equities [5]							
Real estate investments	77 063	1 849 381	4,2	2,1	-1,1	6,9	12,4
Direct real estate investments						10,7	12,6
Real estate investment funds and collective investments	77 063	1 849 381	4,2	2,1	-1,1	-7,8	11,5
Other investments							0,0
Hedge funds [6]							
Commodities							
Other investments [7]							0,0
Total	-2 425 612	133 531 054	-1,7	6,6	5,6	4,6	7,3
Unallocated income, expenses and operating expenses	-207 296						
Net return on investments at fair value	-2 632 908	133 531 054	-1,9	6,3	5,4	4,4	7,1

1) Includes accrued interest
2) Includes cash and bank balances, and receivables and debt relating to trading in securities
3) Includes balanced funds if they cannot be allocated elsewhere
4) Includes private equity funds and mezzanine funds and also infrastructure investments
5) Includes unlisted real estate investment companies
6) Includes all types of hedge fund units irrespective of the fund's strategy
7) Includes items that cannot be allocated to other investment groups
8) Change in market value from beginning and end of reporting period less cash flows during the period.
Cash flow = difference between sales/returns and purchases/costs
9) Capital employed = market value at the beginning of the reporting period + daily/monthly time weighted cash flows

Note 22: Calculation of Key Financial Ratios

Gross premiums written	=	Insurance premium income before the share of the reinsurers
Earned premiums	=	+ Premiums written - Reinsurers' share +/- Change to provision for unearned premiums +/- Reinsurers' share of the change to provision for unearned premiums
Claims ratio, %	=	Claims incurred ――――――― Insurance premium income This key figure is calculated after the share of the reinsurers.
Expence ratio, %	=	Operating costs ――――――― Insurance premium income This key figure is calculated after the share of the reinsurers.
Combined ratio, %	=	Claims ratio, % + Expense ratio, %
Operating profit or loss	=	Profit or loss before the change to the equalisation provision and taxes
Return on total assets, % (at fair value)	=	+/- operating profit or loss + interest expences and other financial expences +/- adjustments in the revaluation reserve / current value reserve +/- change of investment value differences ――――――― + balance sheet total +/- valuation differences of investments The divider of the key figure is calculated as the average of the values of the accounting period and the previous year.
Basic own funds	=	+ Equity and reserves + Equialization provision - Intangible assets + Valuation differences of investments - Forseeable dividends and distributions - Valuation differences of technical provisions (excl. equalization * Valuation differences between Solvency II and FAS technical provisions, net of reinsurance recoverables.
Solvency ratio, %	=	Basic own funds ――――――― Solvency capital requirement (incl. And excl. Capital add-on)

SIGNATURES

Helsinki 7. February 2019

Hannu Tonteri	Karri Haaparinne
Timo Hukka	Jukka Ohls
Antti Suhonen	Tomi Yli-Kyyny

Titta Elomaa, Acting CEO

Report on the conducted audit was given out today.

Helsinki 7. February 2019

Ernst & Young Oy

Ulla Nykky
Authorized Public Accountant

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AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Vakuutusosakeyhtiö Garantia

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Vakuutusosakeyhtiö Garantia (business identity code 0944524-1) for the year ended 31 December, 2017. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the company are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in Note 7 in financial statements.

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

Most significant assessed risks of material misstatement

Below we have described our assessment of the most significant risks of material misstatement, including risks of material misstatement due to fraud, and presented a summary of our response to those risks.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

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Assessed significant risk of material misstatement	How our audit addressed the risk
Technical provisions *We refer to the Accounting principles for the financial statements and Note 12.* At the balance sheet date 31.12.2018 the value of technical provisions amounted to 95 million euro (31.12.2017: 91 million euro), which covers 97 % of the company's total liabilities and thus is the largest single liability on the company's balance sheet. The assessment of technical provisions includes management assumptions and estimates relating to future amounts to be paid and still unknown claims.	Our audit procedures included, among other things, the assessment of the process relating to the identification and evaluation of the provisions as well as identification of key controls. In connection with the audit, we also assessed the methodologies and assumptions used. We involved our own internal actuarial specialist to assist us in assessing the estimates and assumptions used.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other reporting requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 31.3.2015, and our appointment represents a total period of uninterrupted engagement of 4 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information and, in doing so, consider whether the information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 7.2.2019

Ernst & Young Oy
Authorized Public Accountant Firm

Ulla Nykky
Authorized Public Accountant