GARANTIA INSURANCE COMPANY LTD REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2015

Table of Contents

Garantia's year in brief

Garantia Insurance Company Ltd

Garantia is a private non-life insurance company specialising in guaranty insurance. Garantia was established in 1993 and it is domiciled in Helsinki. Its business practices are supervised by the Finnish Financial Supervisory Authority. Garantia's clients are companies and households operating mainly in Finland. The product selection includes corporate bond guaranties, commercial bonds and other guaranties (e.g. bond guaranties, fund guaranties) and also residential mortgage guaranties offered to consumers via partners. Based on agreements made with pension insurance companies Garantia is also responsible for public quotation of employees' pension insurance (TyEL) interest rates according to valid calculation bases approved by the Ministry of Social Affairs and Health.

Garantia is a wholly-owned subsidiary of Taaleri Plc (Taalerithedas Plc until 27.1.2016) and is part of the Taaleri Group. Taaleri is a financial group listed on the First North Finland market place on the NASDAQ OMX Helsinki exchange. Taaleri offers wealth management and financing services to institutional investors, companies and private individuals. Taaleri also engages in its own investment activities. Garantia does not have any subsidiaries or associated companies.

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

Financial Period 2015 in a nutshell

- Earnings before tax improved and were EUR 8.5 (5.3) million.
- The balance on the technical account was good. The claims ratio was 15% (4) and the combined ratio was 64% (46).
- Earned premiums declined by 11% year on year.
- Net return on investments at fair values was 4.4% (7.1).
- Standard & Poor's confirmed Garantia's credit rating on 19 June 2015 as A- with a negative outlook. The company's risk carrying capacity is strong.
- Garantia's all shares were transferred to the ownership of Taaleri Plc following an acquisition completed on 31 March 2015.
- The annual general meeting appointed a new Board of Directors for Garantia on 31 March 2015. Hannu Tonteri was elected 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.
- On 31 March 2015, the Board of Directors appointed Vesa Aho M.Sc (Econ. & Bus. Adm.) as the new CEO, with effect from 14 April 2015.

Profit and loss account and Key ratios

EUR million	**2015**	**2014**	**Change**
Earned premiums	9 849	11 071	-11 %
Claims incurred	-1 492	-412	262 %
Operating expenses	-4 778	-4 646	3 %
Balance on technical account before changes in equalisation provision	**3 579**	**6 013**	**-40 %**
Change to equalisation provision	-3 517	-6 101	-42 %
Balance on technical account	**62**	**-88**	**-171 %**
Investment income and expenses, net	8 460	5 348	58 %
Earnings before tax	**8 523**	**5 260**	**62 %**
Taxes	-1 712	-1 042	64 %
Net profit for the financial year	**6 811**	**4 218**	**61 %**
Combined ratio, %	64 %	46 %	18 pps.
Claims ratio, %	15 %	4 %	11 pps.
Expense ratio, %	49 %	42 %	7 pps.
Net return on investments at fair values, %	4,4 %	7,1 %	-2,5 pps.
Risk carrying capacity, %	1064 %	909 %	155 pps.
Solvency ratio (S2), %*	549 %	383 %	166 pps.
Average number of personnel	25	25	0

* The Solvency II regulations were not in force during the 2015 financial year and they do not fall within the sphere of statutory auditing under the Insurance Companies Act (as amended on 1 January 2016).

Report by the Board of Directors

Operating environment

The performance of the Finnish economy continued to be weak in 2015 and the level of investment was extremely low. This was also reflected in the demand for investment finance, and the volume of new pension loans taken out by companies was the lowest since 2005. The demand for pension loan guaranties was also very low throughout the year.

The demand for Garantia's residential mortgage guaranties picked up for the second year running and the company started cooperation with S-Bank. However, demand continued to remain substantially below that of a few years ago. The weak state of the economy, the challenging employment situation and the trend in real earnings all meant that the demand for housing and the willingness to move house remained low.

The volume of Garantia's commercial bonds grew slightly in 2015. The main customer sector for Garantia's commercial bonds, construction, performed well compared with the overall economic environment.

The positive trend in the stock markets of almost all developed countries over the last few years continued during 2015, but there was a nervousness during the year which was seen in the stronger exchange rate fluctuations. In the debt market, interest rates were very low throughout the year. In particular, government bonds representing a good credit risk had negative real interest rates, which was even the case for certain nominal rates for such bonds.

Insurance operations

The company's gross premium income was EUR 10.0 (11.3) million and its net premium income was 9.0 (9.8) million. Ceded reinsurance accounted for EUR 1.0 (1.4) million of the premium income total. Earned premiums amounted to EUR 9.8 (11.1) million.

The total insurance exposure was EUR 1,164 (1,338) million at the end of the year. The decline in insurance exposure resulted from customers' repayment of guaranteed loans. No new bond guaranties were issued during 2015. The insurance exposure was divided between the three largest product groups as follows: loan guaranties 37%, residential mortgage guaranties 33% and commercial bonds 22%.

Claims paid remained at a low level. The claims ratio was 15.1% (3.7). In 2015 a total of EUR 1.9 (3.1) 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 as claims of recourse was EUR 0.0 (0.6) million. A total of EUR 0.7 (2.1) million was recovered from claims paid during and prior to the financial year. EUR 0.1 (0.5) million of this concerned claims of recourse.

The company is not involved in any litigation, and no other claims have been made against the company.

However, in 2011 a claim totalling EUR 5.0 million was made against Garantia, though the company considers this to be unfounded. There were no significant changes in this matter during 2015, and the processing of the case continues.

Operating expenses grew by 3%. Operating expenses included non-recurring costs related to the reorganisation of personnel and moving to new premises.

The balance on the technical account before the change in the equalization provision was EUR 3.6 (6.0) million, and the transfer to the equalization reserve was EUR 3.5 (6.1) million. The company's expense ratio was 48.5% (42.0) and the combined ratio was 63.7% (45.7).

Investment activities

Investment activities exceeded the return targets set for 2015. The net accounting income from investment activities was EUR 8.5 (5.3) million. During the financial year, the valuation difference of investment assets declined from EUR 10.3 million to EUR 6.7 million. The net return on investments at current values was EUR 5.2 (7.6) million, or 4.4% (7.1).

Garantia sold its shares in the business premises and indoor parking facilities located in Helsingin Autotalo Oy in June 2015.

Risks 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 capacity to secure the continuity of operations. Risk-bearing capacity is based on the amount and type of equity capital, the profitability of business and qualitative factors, such as reliable governance and solvency management, and well-organised internal control and risk management.

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

Garantia updated its management and administration system and the related guidelines and documentation to conform with the Solvency II regulations and the new ownership structure. The reforms will also increase the transparency and effectiveness of risk management.

Garantia applies comprehensive risk management, and, as part of internal control, risk management is integrated as a fixed part of the company's processes. A more detailed description of Garantia's risks and risk management can be found under "Risks and risk management" in the notes to the financial statements.

Garantia's risk position remained stable in 2015. Claims incurred in relation to insurance exposure remained at a low level and were 0.13% (0.03).

Investment grade guarantees, i.e. with a rating of AAA-BBB-, made up 29.5% (28.1) of the insurance exposure, excluding residential mortgage guarantees, residual value guarantees and assumed reinsurance. The share of those with lower credit ratings of C+ or lower was 2.5% (1.6). The biggest sectors in the insurance exposure were construction at 32.6% (27.5) and manufacturing 32.5% (39.6). The proportion of guarantees relating to construction that is reinsured is 54.9% (57.7).

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 51,3 % of the Group's own funds and the exposures of a total of 7 clients exceeded the 25% exposure limit prescribed by law. The guaranties were granted in their entirety before the change in ownership. The Financial Supervisory Authority approved an action plan drawn up by Garantia to reduce the exposure of guaranties to the level required by law by 30 June 2017.

The investment portfolio (incl. deposits) totalled EUR 120 (123) million at the end of the year. Fixed income investments made up 82% (76) and equity investments 17% (23) of the investment portfolio. Fixed income investments mainly consist of investments in the bonds of Finnish companies and Nordic credit institutions with strong creditworthiness. The share of investment grade investments was 78% (83). The modified duration of the fixed income portfolio was 2.5 (2.7).

Solvency

Garantia's solvency is strong and strengthened further during 2015.

Garantia's solvency capital grew by EUR 4.2 million during the year in spite of the extra EUR 10.0 million repayment of capital in connection with the acquisition and the contraction of positive valuation differences. Solvency capital was EUR 104.8 (100.6) million at the end of the year. The company's solvency capital consists of market value adjusted restricted and unrestricted equity and the equalization provision. The equalization provision was EUR 74.8 (71.3) million at the end of the year. The company's risk carrying capacity, or ratio of solvency capital to earned premiums, was 1,064% (909).

The Solvency II regulations for insurance companies entered into force on 1 January 2016. Garantia applies the standard formula to capital adequacy calculations. Garantia's basic own funds on 31 December 2015 amounted to EUR 110.6 (109.8) million and clearly exceeded the Solvency Capital Requirement (SCR) of EUR 20.1 (28.7) million. The solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 549% (383) Garantia's own funds according to Solvency II are formed in full of unrestricted Tier 1 basic own funds. The Solvency II capital adequacy regulations were not in force during the 2015 financial year and they do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016.

Credit rating

There were no changes in Garantia's credit rating during 2015. Standard & Poor's confirmed Garantia's credit rating on 19 June 2015 as A- with a negative outlook and removed the company from its CreditWatch list.

Personnel

During the financial year, Garantia employed an average of 25 (25) people. The average age of the personnel at the end of the year was 43.8 (48.4), and their average duration of employment at Garantia was 6.6 (12) years.

Shares and Shareholders

Taaleri Plc owns 100% of Garantia Insurance Company Ltd's share capital. On 31 December 2015, the number of Garantia shares was 60,000, which was the same as the previous year.

Garantia's entire share capital was transferred to the ownership of Taaleri Plc following a transaction completed on 31 March 2015. The company's former principal owners were Finnish pension insurance companies.

Taaleri Plc and its subsidiary and associated companies form a financial and insurance conglomerate primarily engaged in insurance activities as defined in the Act on the Supervision of Financial and Insurance Conglomerates. The conglomerate's parent company is Taaleri Plc. The Taaleri Group prepares consolidated financial statements complying with International Financial Reporting Standards (IFRS). These statements include reporting on Garantia as part of the Financial Services segment.

The Taaleri Group's consolidated financial statements are available on the company's website www.taaleri.com and from the following address: Taaleri Plc, Kluuvikatu 3, 00100 Helsinki.

Management

On 31 March 2015 the annual general meeting appointed a new Board of Directors for Garantia for the next term, which lasts until the end of the following annual general meeting. Hannu Tonteri was elected 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.

Timo T. Laitinen (Chairman), Hannu Linnoinen, Esko Rytkönen (Vice Chairman), Timo Salonen and Juho Lenni-Taattola were members of the Board until 31 March 2015.

The company's Board of Directors convened 16 times during the financial year. The Board of Directors had no separate committees during the financial period.

At its meeting on 31 March 2015, the Board of Directors appointed Vesa Aho M.Sc (Econ. & Bus. Adm.) as the new Managing Director, with effect from 14 April 2015. Mikael Englund was the company's Managing Director until 31 March 2015. The Deputy Managing Director, Riitta Takala,

took care of the Managing Director's duties from 31 March 2015 until 14 April 2015. At its meeting on 25 June 2015 the Board of Directors appointed Titta Elomaa as the Deputy Managing Director.
The Management Team consisted of the Managing Director and the following members: Titta Elomaa, Tuukka Fabritius, Timo Lehikoinen and Riitta Takala (until 22 June 2015).
Kalervo Koistinen, SHV, was the company's actuary until 28 December 2015 and Janne Kaippo, SHV, has been the company's actuary since 29 December 2015.

The annual general meeting of 31 March 2015 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the responsible auditor. A unanimous decision by the shareholders on 22 April 2015 appointed KPMG Oy Ab as the company's other auditor and Authorised Public Accountant Paula Pasanen as the responsible auditor.

The annual general meeting on 31 March 2015 decided to amend the Articles of Association: the number of Board members was changed so as to be from three to seven (previously five to seven), the number of auditors was changed so as to be from one to two (previously two) and the mandatory requirement to appoint a deputy auditor was removed. In addition to this the annual general meeting removed the redemption clause. The Financial Supervisory Authority approved the amendments to the Articles of Association with a decision issued on 18 June 2015.

Garantia's internal audit is procured from external service providers as an outsourced service. In 2015, the service was provided by BDO Ltd.

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 6,810,669.52. The company's distributable profits amount to EUR 16,391,304.24 and its total distributable funds EUR 16,416,819.24. The Board of Directors proposes that the profit be transferred to the retained earnings account and that a total of EUR 3,000,000.00 from retained earnings be distributed as dividends.

Outlook for 2016

During 2015 the Finnish economy contracted for the fourth year running and overall economic activity is expected to remain subdued also in 2016.

No significant recovery in the demand for pension loans and pension loan guaranties is expected until a recovery occurs in the volume of investments and thus their financing. Demand for financing is largely dependent on refinancing, and competition for companies with good creditworthiness will remain tough.

The regulation regarding the maximum loan to value (LTV) ratio for housing loans (loan cap) will enter into force on 1 July 2016. The new regulation will have an effect on the residential mortgage guaranties market and the company is investigating its scope for action in the changing regulatory environment. The guaranty requirements related to mortgages are expected to remain at least at the level of the previous year.

The overall demand for commercial bonds is expected to grow in line with the forecast growth in the volume of construction, which will support active acquisition of new customers and the measures that were carried out to improve the service level.

The company is developing new guaranty and distribution channel solutions for business financing and investment activities.

The premium income from the new underwriting exposure of the company's current products in 2016 is forecast to be up from the previous year's figure.

The prolonged positive trend in returns on the equity markets and the very low level of interest rates will pose challenges for investment operations in 2016. Achieving the return levels of recent years will require continued growth in the United States and an acceleration of growth in Europe, as well as a continuation of the very low inflationary expectations. The uncertainty associated with economic growth in China will increase the volatility of the investment markets. Even a minor rise in interest rates will create a substantial drop in the prices of long-term fixed interest bonds.

Financial Statements

Profit and loss account

euros	Note	2015	2014	change, %
Technical Account				
Earned premiums				
Premiums written	1, 3	10 018 859,90	11 250 256,14	-10,9 %
Reinsurers' share		-1 024 927,60	-1 436 557,64	-28,7 %
Change to provision for unearned premiums		1 019 473,16	1 456 328,72	-30,0 %
Reinsurers' share		-164 652,02	-199 112,66	-17,3 %
		9 848 753,44	**11 070 914,56**	**-11,0 %**
Claims Incurred				
Claims paid		-1 459 258,79	-1 067 510,18	36,7 %
Reinsurers' share		38 504,92	498 474,31	0,0 %
Change in provision for outstanding claims		-274 124,45	680 107,08	-140,3 %
Reinsurers' share		203 223,88	-523 363,41	-138,8 %
		-1 491 654,44	**-412 292,20**	**261,8 %**
Operating expenses	5, 6, 7	-4 777 713,42	-4 645 538,31	2,8 %
Balance on technical account before change to equalisation provision		**3 579 385,58**	**6 013 084,05**	**-40,5 %**
Change to equalisation provision		-3 516 924,28	-6 100 731,45	-42,4 %
Technical Account		**62 461,30**	**-87 647,40**	**-171,3 %**
Non-technical account				
Investment income	4	9 058 130,51	5 964 701,75	51,9 %
Investment expenses	4	-597 997,33	-616 858,35	-3,1 %
Direct taxes on ordinary operations		-1 711 924,96	-1 042 073,58	64,3 %
Net profit for the financial year		6 810 669,52	4 218 122,42	61,5 %

Balance Sheet

Assets **euros**	**Note**	**31.12.2015**	**31.12.2014**
INTANGIBLE ASSETS			
Intangible rights	8	12 702,03	14 273,75
Other long-term expenditure	8	261 511,46	701 522,03
		274 213,49	**715 795,78**
INVESTMENTS	9, 10		
Land and buildings			
Real estate property and shares in property		0,00	1 224 727,08
Investments in associated companies			
Shares and participations		0,00	0,00
Other investments			
Shares and participations		19 769 510,75	24 242 462,84
Other financial instruments		87 631 415,53	84 317 172,04
		107 400 926,28	**108 559 634,88**
Total		**107 400 926,28**	**109 784 361,96**
DEBTORS			
Arising out of direct insurance operations			
From policy holders		403 202,30	337 655,05
Arising out of reinsurance operations		35 876,69	143 623,27
Other		1 251 817,72	1 316 577,90
		1 690 896,71	**1 797 856,22**
OTHER ASSETS			
Tangible assets			
Equipment		102 072,35	64 907,28
Other tangible assets		49 250,40	49 896,51
		151 322,75	**114 803,79**
Cash and bank balances		4 024 287,27	1 619 466,44
Total		**4 175 610,02**	**1 734 270,23**
PREPAYMENTS AND ACCURED INCOME			
Accured interest and rental income		1 836 553,14	1 565 219,16
Other accured income		22 595,49	20 345,16
		1 859 148,63	**1 585 564,32**
TOTAL ASSETS		**115 400 795,13**	**115 617 848,51**

Liabilities

euros	**Note**	**31.12.2015**	**31.12.2014**
SHAREHOLDERS' EQUITY AND RESERVES	11, 12		
Share capital		10 200 000,00	10 200 000,00
Reserve for invested unrestricted equity		25 515,00	10 025 715,00
Retained earnings		9 580 634,72	5 362 512,30
Profit / loss of the financial year		6 810 669,52	4 218 122,42
Total		**26 616 819,24**	**29 806 349,72**
TECHNICAL PROVISIONS			
Provision for unearned premiums		11 394 495,22	12 413 968,38
Reinsurers' share		-409 971,04	-574 623,06
		10 984 524,18	**11 839 345,32**
Claims outstanding		1 196 347,75	922 223,30
Reinsurers' share		-526 849,10	-323 625,22
		669 498,65	**598 598,08**
Equalisation provision		74 788 747,00	71 271 822,72
Total		**86 442 769,83**	**83 709 766,12**
CREDITORS			
Arising out of direct insurance operations		125 000,00	175 000,00
Arising out of reinsurance operations		355 445,24	757 590,91
Other		239 184,37	163 034,08
		719 629,61	**1 095 624,99**
ACCRUALS AND DEFERRED INCOME			
Other		1 621 576,45	1 006 107,68
		1 621 576,45	**1 006 107,68**
TOTAL LIABILITIES		**115 400 795,13**	**115 617 848,51**

Cash flow Statement

euros	2015	2014
Cash flow from operations		
Profit / loss from ordinary operations		
Profit / loss before extraordinary items	6 810 669,52	4 218 122,42
Adjustments		
Change in technical provisions	2 733 003,71	4 686 771,72
Write-downs and revaluations on investments	91 573,17	-33 057,64
Planned depreciation	228 217,76	291 499,01
Other adjustments	-5 394 806,28	-1 648 477,77
Cash flow from operations before financing items and taxes	**4 468 657,88**	**7 514 857,74**
Change in working capital		
Short-term non-interest-bearing trade receivables		
increase (-)/decrease (+)	-166 624,80	278 823,85
Short-term non-interest-bearing liabilities		
increase (+)/decrease (-)	239 473,39	-440 420,45
Cash flow from operations before financing items and taxes	**4 541 506,47**	**7 353 261,14**
Direct taxes paid	-864 048,18	-858 146,42
Cash flow before extraordinady items	**3 677 458,29**	**6 495 114,72**
Cash flow from operations	**3 677 458,29**	**6 495 114,72**
Cash flow from investments		
Placements in investments / capital gains on investments (excl. Financial assets)	8 550 716,97	-3 406 487,19
Investment and capital gains (net) related to intangible		
and tangible assets and other assets	176 645,57	-195 990,13
Cash flow from investment operations	**8 727 362,54**	**-3 602 477,32**
Cash flow from financing		
Dividends paid / interest on guaranty capital		
and other distribution of profits	-10 000 000,00	-3 000 000,00
Cash flow from financing	**-10 000 000,00**	**-3 000 000,00**
Change in financial assets	**2 404 820,83**	**-107 362,60**
Cash and bank balances at the start of the financial year	1 619 466,44	1 726 829,04
Cash and bank balances at the end of the financial year	4 024 287,27	1 619 466,44
	2 404 820,83	**-107 362,60**

Notes to the financial statements

Accounting principles for the financial statements

The financial statements have been prepared in accordance with the Accounting Act, the Finnish Limited Liability Companies Act and the 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 premium income. Those premium receivables for which it is likely that payment will not be received have been deducted from premium income as credit losses.

Valuation of intangible assets and the accrual concept rights to use computer software have been capitalised under intellectual property rights, and modernisation expenses related to shares in a real estate company and expenses related to the development of the insurance data system have been capitalised under other long-term expenditure. These have been recognised on the balance sheet at acquisition cost less planned depreciation.

Valuation of investments and receivables on the balance sheet

Shares in real estate companies have been valued at acquisition cost or fair value, whichever is lower.

Shares and holdings have been valued at acquisition cost or at fair value, if this is lower. 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 most recent private equity investment is still valued at the acquisition cost at the closing date.

In the case of short-term debt instruments, financial market instruments have been valued at the acquisition price, whereas treasury bonds and other bonds have been valued at the acquisition price, 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. Other financial market instruments have been valued at acquisition cost or fair value, whichever is lower.

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.

Account of methods for determining the fair value of investments

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 bonds is taken to be the last purchase price for the year or, if this is not available, the last trading price.

The fair value of other investments is taken to be the most probable assignment price.

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.

Account of how pensions have been provided for personnel

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.

Principles for planned depreciation

Asset	Depreciation method
Intangible assets	
IT programs	Straight-line depreciation over 5 years
Other long-term expenditure	
Modernisation expences	Straight-line depreciation over 10 years
Equipment	Reducing balance depreciation 25 %
Other tangible assets	Reducing balance depreciation 25 %

The planned depreciation corresponds to depreciation in accordance with the Finnish Business Income Tax Act.

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 premium income accrued during the financial year and during previous years for which the respective risk concerns the period following the financial year.

Provisions for outstanding claims include 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 January 2010 have been applied in the financial statements.

Notes to the profit and loss account

Note 1: Insurance premiums written

euro	2015	2014
Non-life insurance		
Direct insurance		
Domestic	9 974 871,07	11 217 221,41
Reinsurance	43 988,83	33 034,73
Insurance premiums written before the share of insurers	**10 018 859,90**	**11 250 256,14**

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 tehcnical account before the change to equalization provision

Primary insurance

euro	1	2	3	4	5	6
Guarantee						
2015	9 974 871,07	10 993 970,56	-1 732 835,54	-4 777 713,42	-947 850,82	3 535 570,79
2014	11 217 221,41	12 666 221,34	-387 738,77	-4 645 538,31	-1 660 559,40	5 972 384,86
2013	10 570 526,50	12 659 229,20	-3 163 897,63	-3 934 512,02	-1 110 080,63	4 450 738,92
Reinsurance						
2015	43 988,83	44 362,50	-547,71	0,00	0,00	43 814,80
2014	33 034,73	40 363,52	335,67	0,00	0,00	40 699,19
2013	39 748,05	37 360,34	530,11	0,00	0,00	37 890,45
Total						
2015	10 018 859,90	11 038 333,06	-1 733 383,24	-4 777 713,42	-947 850,82	3 579 385,58
2014	11 250 256,14	12 706 584,86	-387 403,10	-4 645 538,31	-1 660 559,40	6 013 084,05
2013	10 610 274,55	12 696 589,54	-3 163 367,52	-3 934 512,02	-1 110 080,63	4 488 629,37
Change in equalization provision						
2015						-3 516 924,28
2014						-6 100 731,45
2013						-4 461 182,61
Balance on technical account						
2015						62 461,30
2014						-87 647,40
2013						27 446,76

Note 3: Items deducted from the insurance premiums written

euro	2015	2014
Credit losses of insurance premium receivables	0,00	0,00

Note 4: Breakdown of investment income

euro	2015	2014
Investment income		
Income from other investment		
Dividend income	370 026,40	686 756,82
Interest income	2 172 762,73	2 302 070,51
Other income	11 298,43	22 566,59
	2 554 087,56	**3 011 393,92**
Revaluation of write-offs	245 188,49	341 295,08
Capital gains	6 258 854,46	2 612 012,75
	6 504 042,95	**2 953 307,83**
Investment income, total	**9 058 130,51**	**5 964 701,75**
Investment expenses		
Expenses from other investments	-260 235,44	-202 232,33
Interest expenses and other capital expenses	-1 000,23	-1 000,02
	-261 235,67	**-203 232,35**
Write-downs	-336 761,66	-308 237,44
Capital loss	0,00	-105 388,56
	-336 761,66	**-413 626,00**
Investment expenses, total	**-597 997,33**	**-616 858,35**
Net profit from investments	**8 460 133,18**	**5 347 843,40**

Note 5: Breakdown of operating expenses

euro	2015	2014
Insurance sales expenses	1 998 075,37	2 382 563,16
Insurance management expenses	901 186,16	825 651,51
Administrative expenses	1 878 451,89	1 437 323,64
	4 777 713,42	**4 645 538,31**

Note 6: Total operating expenses by operations

euro	2015	2014
Processing of claims	194 968,73	150 048,25
Operating costs	4 777 713,42	4 645 538,31
Investment management expenses	228 260,27	179 986,26
	5 200 942,42	**4 975 572,82**

Note 7: Auditor’s fee

euro	2015	2014
KPMG Oy Ab		
Auditor's fee	32 941,85	17 545,86
Other fees	44 221,50	52 440,36

Notes to the balance sheet

Note 8: Change in intangible and tangible assets

euro	Intangible assets	Tangible assets	Total
Acquisition cost 1 January	1 801 022,19	545 960,55	2 346 982,74
Depreciated fully during the previous year	-12 681,06	0,00	-12 681,06
Increases	6 138,00	98 369,60	104 507,60
Deductions	-903 412,86	-323 646,44	-1 227 059,30
Acquisition cost 31 December	**891 066,27**	**320 683,71**	**1 211 749,98**
Accrued depreciations 1 January	-1 085 226,41	-431 156,76	-1 516 383,17
Depreciated fully during the previous year	12 681,06	0,00	12 681,06
Accrued depreciation on deductions	633 905,80	283 947,59	917 853,39
Depreciations of the financial year	-178 213,23	-22 151,79	-200 365,02
Accrued depreciations 31 December	**-616 852,78**	**-169 360,96**	**-786 213,74**
Book value 31 December 2015	**274 213,49**	**151 322,75**	**425 536,24**

Note 9: Fair value and valuation differences of investments

euro	Remaining acquisition cost	Book value	Current value
Investments 31 December 2015			
Other investments			
Shares and units	19 769 510,75	19 769 510,75	24 582 042,58
Other financial instruments	87 631 415,53	87 631 415,53	89 505 110,00
Total	**107 400 926,28**	**107 400 926,28**	**114 087 152,58**
The remaining acquisition cost of financial instruments includes the difference between the nominal value and the acquisition value allocated as interest income or expenses	-1 481 415,54		
Valuation difference			**6 686 226,30**

Note 10: Changes in property investments

euro	Property shares
Acquisition cost 1 January	1 224 727,08
Increases	0,00
Deductions	-1 224 727,08
Acquisition cost 31 December	**0,00**
Book value 31 December 2015	**0,00**

Note 11: Change in shareholders' equity

euro		2015		2014
Restricted				
Share capital 1 January = 31 December		10 200 000,00		10 200 000,00
Unrestricted				
Reserve for invested undistricted equity 1 January	10 025 715,00			10 025 715,00
Return of Capital	-10 000 200,00	25 515,00		
Profit / loss of the previous accounting periods 1 January	9 580 634,72		8 362 512,30	
Distribution of dividends	0,00	9 580 634,72	-3 000 000,00	5 362 512,30
Profit/loss of the financial year		6 810 669,52		4 218 122,42
		16 416 819,24		**19 606 349,72**
Shareholders' equity total		**26 616 819,24**		**29 806 349,72**

Note 12: Distributable funds

euro	2015
Profit / loss of the financial year	6 810 669,52
Profit / loss of the previous financial years	9 580 634,72
Distributable capital	**16 391 304,24**
Reserve for invested unrestricted equity 1 January	25 515,00
Distributable funds total	**16 416 819,24**

Other notes

Note 13: Notes to the liability obligations

euro	2015	2014
Total gross exposures of guarantee insurance	1 164 465 749,96	1 338 338 925,93
Total gross exposures of guarantee insurance deducted with the collateral value (hair-cut)	847 307 330,50	904 989 928,64
Leasing liability agreements		
Lease of the following financial year	68 611,68	71 883,75
Leases paid later	104 116,76	44 252,96
Capital commitments	2 378 771,00	1 024 984,00

Garantia received a notification of a possible claim of EUR 5 mn on 30 Decemer 2011.
Garantia considers this claim unfounded and has therefore not recorded it in the provision of known claims in its book keeping. There has been no material change in the status of the matter and the process continues.

Note 14: Notes on personnel and members of bodies

euro	2015	2014
Personnel expenses		
Salaries and remunerations	2 786 723,68	2 294 447,83
Pension expenses	469 741,38	401 461,88
Other indirect employee costs	66 936,93	88 802,14
	3 323 401,99	**2 784 711,85**
Salaries and remunerations paid to CEO and members of the board.	676 423,79	345 503,80
Average number of employees during fiscal year	**25**	**25**

Note 15: Notes on ownership in other companies

euro	Book value	Current value
Shares and fund units		
Ishares S&P 500	3 762 578,82	5 670 300,00
Ishares Europe 600	4 681 987,31	5 461 200,00
SPDR S&P US Dividend	1 511 777,52	2 410 980,00
Db Stoxx Europe 600	2 934 516,86	2 948 575,00
	12 890 860,51	**16 491 055,00**
Share funds		
Fourton Stamina A	1 239 954,49	2 066 835,97
	1 239 954,49	**2 066 835,97**
Property funds		
Real Estate Fund Finland I Ky	302 294,82	302 294,82
CapMan Buyout X Fund B Ky	2 055 442,68	2 057 942,59
Taaleritehtaan Tonttirahasto Ky	600 000,00	600 000,00
	2 957 737,50	**2 960 237,41**
Fixed income		
Evli European Investment Grade	2 680 958,25	3 063 914,20
	2 680 958,25	**3 063 914,20**

Note 16: Notes on solvency

euro	2015	2014
Solvency margin		
Shareholder's equity after deductiong the suggested distribution of dividends	23 616 819,24	19 806 349,72
Valuation difference between the fair asset values and		
the fair values in the balance sheet	6 686 226,30	10 272 670,92
Intangible assets	-274 213,49	-715 795,78
Other items		
	30 028 832,05	**29 363 224,86**
Minimum solvency margin	3 700 000,00	3 700 000,00
Equalization provision included in the technical provision	**74 788 747,00**	**71 271 822,72**
As % of the full amount	43,0	44,0

Note 17: Risks 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 capacity to secure the continuity of operations. Risk-bearing capacity is based on the amount and type of equity capital, the profitability of business and qualitative factors, which include reliable governance and solvency management, and well-organised internal control and risk management. The principal risks associated with Garantia's business operations are credit risks arising from guaranty operations, investment risks regarding assets covering technical provisions, and strategic, operational and compliance risks.

Garantia updated its management and administration system and the related guidelines and documentation to conform with the Solvency II regulations and the new ownership structure. The reforms will also increase the transparency and effectiveness of risk management. This description is based on the updated management and administration framework, which will become fully operational during 2016.

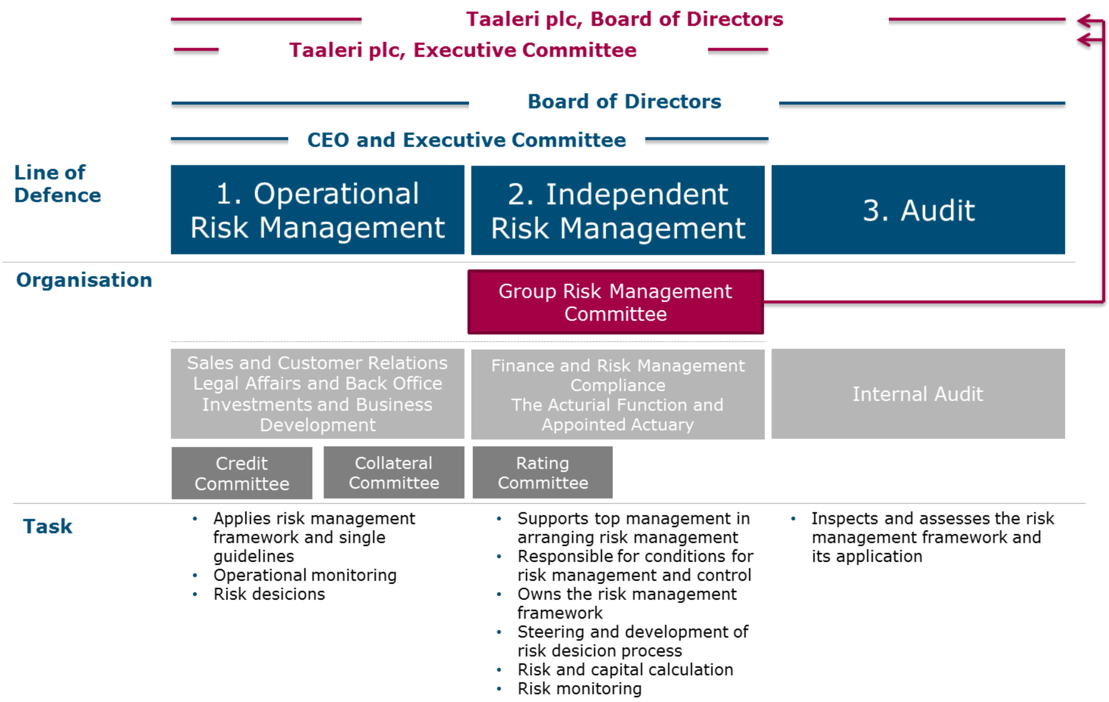
Garantia applies comprehensive risk management, and, as part of internal control, risk management is integrated as a fixed part of the company's processes. As a wholly-owned subsidiary of Taaleri Plc, Garantia observes the internal control and risk management principles of the Taaleri Group approved by Taaleri Plc's Board of Directors.

Organisation, responsibilities and control of risk management

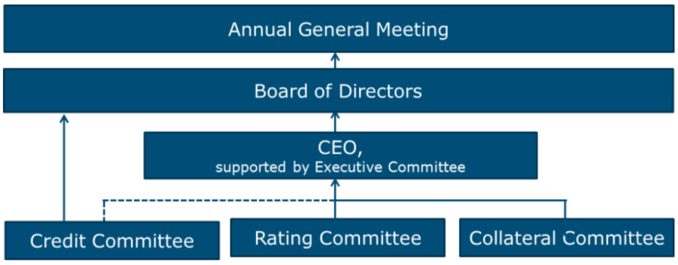
Internal control and risk management in Garantia are organised in accordance with a model in which internal control has three lines of defence. In accordance with this model, the tasks have been assigned to (1) units that take business risks in their operations by processing insurance policies, by making 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.

Garantia's Board of Directors is the supreme decision-making body in matters concerning internal control, risk management and solvency management. The Board approves the principles and policies (incl. risk appetite), organisation and decision-making responsibilities concerning internal control, risk management and solvency management, and monitors the company's risk exposure and the effectiveness of its risk management procedures.

The Board has also appointed a Credit committee, Collateral committee and a Ratings 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 responsibility of the independent Ratings committee is to approve credit ratings and to ensure the quality and effectiveness of the ratings process.



Picture 1: The organisation of Garantia's risk management



Picture 2: Decision making bodies and reporting relations

The Managing Director, supported by the Management Team, is responsible for the operational management of the risk management process and performs this task in accordance with the instructions and orders issued by the Board of Directors.

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

The independent risk management function has overall responsibility for the effectiveness of the risk management system. The task of the risk management function is to identify the risks, determine the capital required for managing the risks and business operations (incl. capital buffers), price the risks in accordance with the company's profitability and solvency targets, measure the risks and solvency position and report on them, and ensure that the risks are monitored as part of day-to-day business management. The aim of the actuarial function is to ensure that the company is able to manage the obligations laid down in the insurance policies. The actuarial function is responsible for ensuring that the actuarial methods used in the company are appropriate and that the manner in which the company's insurance premiums and technical provisions are determined is in accordance with regulatory requirements. Garantia has outsourced its actuarial function and services to an external service provider.

Internal audit assesses the adequacy and effectiveness of internal control, risk management and other aspects of the company administration and reports on its findings to the Board of Directors and the Managing Director. Garantia has outsourced its internal audit to an external service provider.

Solvency management

Garantia has moderate risk appetite. The principal means to maintain balance between risks and actual capitalisation is to ensure profitable business operations and active risk management as part of day-to-day business management. Garantia also draws up a capital plan each year ensuring that the company has adequate capital reserves for exceptional situations.

In Garantia, the basis for capitalisation is the statutory capital requirement laid down in the Solvency II directive, in addition to which the capitalisation level required by credit rating agencies for a company with AAA credit rating is also taken into account. Garantia has also set its own capitalisation target level, which is based on the company's internal economic capital model. Garantia only distributes dividends / returns capital to the owner on the condition that this does not put the (A-) credit rating at risk. The estimated dividend distribution is taken into account in medium-term solvency considerations.

Garantia assesses its business risk using risk indicators based on a Value-at-Risk model. The purpose of these indicators is to determine the amount of capital required for covering unexpected operational losses at a specific confidence level. The adequacy of Garantia's solvency capital is estimated in relation to the risk indicators. Garantia's solvency capital for 2015 is in accordance with the solvency capital requirement laid down in Solvency I, and from 2016 the company's own funds will be determined in accordance with the definition of basic own funds laid down in Solvency II.

Garantia uses the capital requirement based on the economic capital model at a confidence level of 99.9% or 99.5% as its principal Value-at-Risk based risk indicator. When assessing its capital adequacy, the company also uses the solvency capital requirement (SCR) based on the Solvency II standard formula and the capital requirement corresponding to AAA credit rating in the Standard&Poor's Insurance Capital Model (S&P TC with or without size adj.). Stress testing is utilized in determining the adequacy of the company's own funds. Garantia uses stress tests in solvency management in order to anticipate how exceptional but possible situations may affect the company's profitability and capital adequacy. The stress tests are typically carried out in connection with the own risk and solvency assessment (ORSA) and at least on a yearly basis. Stress tests are also used in long-term strategic planning and annual planning.

Garantia prepares an own risk and solvency assessment of its business operations and business strategy each year. In the report, the company assesses its overall solvency position by examining the amount of qualitative and quantitative risks in the company's risk profile in relation to its current risk appetite and the manner in which they may develop in the medium term in normal and stressed scenarios. The report also reviews how the company will be able to comply continuously with the requirements concerning technical provisions and capital adequacy. The results of the risk and solvency assessment are used in capital management, business planning and product development.

Principal risks and managing, measuring, monitoring and reporting them

1. 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 guarantees, the insurance risk mostly consists of credit risk (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 insolvency of the guaranteed counterparty (risk of insolvency) or the guaranteed counterparty may fail to fulfil a contractual obligation on time (delivery risk). In loan guaranties, 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 insolvency of the reinsurer or the party providing other counter guaranties, and the collateral value change risk, which is caused by changes in the fair value of the collateral.

The aim in the management of 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. Central to the management of the credit risks relating to guarantees is the process of underwriting insurance policies (incl. the assessment of the client's credit rating), which is controlled by the credit risk policy and reinsurance policy laid out by the Board of Directors, the Board's decision-making powers, the complementary process descriptions approved by the Management Team and the guidelines on credit risk assessment, collateral and covenants.

The company can reduce its credit risks by means of client selection and creditworthiness assessment, but also by diversification and reinsurance, by setting specific quality requirements for its reinsurance partners, by having client-specific collateral requirements and covenants, by active management of its client relationships and by continuous monitoring of changes in the clients' operations. Risk-based pricing of insurance policies is ensured by means of a pricing calculator, which takes into account operational costs, the risks of individual policies determined using the economic capital model and the targets for return on economic capital approved by the Board of Directors. In the management of credit risks in residential mortgage guaranties, Garantia mainly relies on the assessment of the criteria applied by its partner banks in the granting of mortgages, municipality-specific maximum guaranty sums, other separately specified criteria for providing guaranties and repayment programmes that are independent of the main credit facility of the residential mortgage guaranties.

The principal concentration risk in Garantia's business operations arises from the credit risk concentration risk, which itself arises from the insurance and investment exposures to the counterparties of the same risk entity. Concentration risks specific to clients/client groups are managed by determining maximum liabilities for each client/client group. Concentration risks specific to clients/client groups are measured by proportioning the liabilities to the Taaleri Group's own funds so that the large exposures, as laid down in the Capital Requirements Regulation of the EU, can be calculated and by means of the open positions of individual clients/client groups and the amount of economic capital.

Credit risks are monitored and reported to the Management Team and the Board of Directors in a monthly profit and risk report.

Guaranty decisions and risk assessment

The process of making guaranty decisions in accordance with the company's decision-making system is based on an up-to-date analysis of the creditworthiness of clients and individual projects. This in turn is based on extensive knowledge about the clients. When assessing the risks pertaining to a guaranty decision, when pricing the guaranty and when measuring the risk of the guaranty (risk capital) during the validity of the guaranty agreement, the company makes use of the economic capital model. The principal risk parameters used by Garantia are as follows: the exposure at default (EAD), probability of default (PD) relating to each guaranty, duration, and the loss given default (LGD), which depends on counter-collateral and reinsurance.

Each corporate customer has its own credit rating, the purpose of which is to group the clients in risk-based rating categories. The rating category describes the ability of the counterparty to manage its liabilities (likelihood of serious payment defaults during a period of 12 months). The probability of default (PD) describes this type of risk. Garantia uses a 21-step credit rating scale.

Credit Rating Scale

Rating	Description of the credit worthiness	Description of Credit Risk	
AAA	Extremely strong Highest rating	Lowest credit risk	
AA+ **AA** **AA-**	Very strong	Extremely low credit risk	
A+ **A** **A-**	Strong	Very low credit risk	
BBB+ **BBB** **BBB-**	Very good	Low credit risk	*AAA - BBB-* *Investment grade*
BB+ **BB** **BB-**	Good	Relatively low credit risk	
B+ **B** **B-**	Adequate	Moderate credit risk	
C+ **C** **C-**	Weak	High credit risk	
D	In default	High credit risk	
D-	In default, claim received	Default	

Picture 3: Credit rating scale

Assessing the client's ability to manage its liabilities is based on an expert evaluation of the financial and qualitative information concerning the client. An expert familiar with the client's situation prepares a rating proposal, which is considered by a Ratings committee appointed by the Board of Directors. A client must have a valid rating classification when a guaranty decision is made. The client's rating classification is reviewed at least on a yearly basis.

The assessment of the collateral used as counter-collateral for loan guaranties is on the basis of the guaranty and covenant guidelines in effect at the time. The Collateral committee appointed by the Board of Directors is responsible for assessing, classifying and maintaining the collateral. Garantia has four collateral categories.

Collateral classes

1	A recure, liquid collateral
2	A secure collateral within the collateral value
3	A collateral within the current value
4	Other security

Picture 4: Collateral classes

In its credit risk management, Garantia uses reinsurance programmes in accordance with the reinsurance policy approved by the company's Board of Directors. The company is currently using two reinsurance programmes: a facultative one to cover individual risks and a proportional one for commercial bonds (Quota share). Each calendar year, the Board of Directors approves the reinsurers used in the Quota share reinsurance programme and makes the decisions on all loan guaranty projects covered by the facultative reinsurance programme. Individual reinsurers must have at least an A credit rating provided by an external credit rating agency. The amount of indirect liabilities held by individual reinsurers is monitored and reported to the Board of Directors on a quarterly basis.

The credit committee or the Board of Directors makes the individual guaranty decisions in accordance with the company's decision-making system. The decision-making process is tiered on the basis of the exposures and economic capital relating to the client. The proposal submitted for decision is based on the creditworthiness assessment, credit rating and the guaranty proposal. The guaranty proposal contains the details of the guaranty applicant, current and future liabilities and the collateral for these, opinion of the risk management function on the proposed risk and a tariff calculation based on a risk-based pricing model.

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 premium income of the valid insurance policies assigned to future financial years is determined on a product 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 by claims experts as part of the known outstanding claims. A proportion of the premium income 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.

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. When the equalization provision is calculated, the claims ratio for the period is compared with the long-term average and on this basis the equalization provision is either increased or reduced with an impact on profit or loss. The technical provisions are not discounted.

Quantative information about insurance risk and technical provisions

Trend in claims incurred

EUR	Claims paid*	Change in provision for outstanding claims*	Claims incurred	% of insurance exposure	Claims ratio, %
2015	-1 420 754	-70 901	-1 491 654	0,128 %	15,1 %
2014	-569 036	156 744	-412 292	0,031 %	3,7 %
2013	-2 526 017	121 142	-2 404 875	0,177 %	22,2 %
2012	-1 771 918	504 293	-1 267 626	0,092 %	11,7 %
2011	-4 826 756	-753 159	-5 579 915	0,438 %	50,8 %
2010	-2 097 622	26 033	-2 071 589	0,152 %	18,7 %

* incl. Reinsurers' share

Insurance exposure by product

EUR million	2015	2014
Loan guaranties	431	574
Commercial bonds	258	256
Residential mortgage guaranties	383	412
Other guaranties	92	97
Total	**1 164**	**1 338**

Insurance exposure by credit rating*

EUR million	2015	2014
AAA - BBB-	204	233
BB+ - BB-	327	465
B+ - B-	143	120
C+ tai heikompi	17	13
Total	**690**	**831**

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

Collateral position of insurance exposure

EUR million	2015	2014
Reinsured	234	299
Collateral classes 1 and 2	83	117
Collateral classes 3 and 4	52	73
Uncovered position	795	849
Total	**1 164**	**1 338**

Insurance exposure by industry*

EUR million	2015	2014	%
Construction	225	229	32,6 %
Manufacturing	224	329	32,5 %
Machinery and equipment (incl. Repair)	60	101	8,8 %
Forestry	54	70	7,8 %
Food	46	60	6,7 %
Metal	30	56	4,3 %
Other manufacturing	34	41	4,9 %
Electricity, gas and heat	46	55	6,7 %
Professional, scientific and technical activities	43	40	6,3 %
Wholesale and retail trade	34	59	4,9 %
Other industries	118	120	17,1 %
Total	**690**	**831**	100,0 %

*Insurance exposure not including residential mortgage guaranties, assumed reinsurance and residual value insurance. The industry classifications are based on Statistics Finland's Standard Industrial Classification.

Technical provisions (FAS)

EUR million	2015	2014
Provision for unearned premiums	11,0	11,8
Provision for claims outstanding	0,7	0,6
Known provision for claims outstanding	0,2	0,1
Unknown provision for claims outstanding	0,4	0,5
Equalization provision	74,8	71,3
Total	**86,4**	**83,7**

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2015

EUR mn	0-1 years	1-2 years	2-3 years	Yli 3 years	Total
Provision for unearned premiums	4,9	2,0	1,5	2,6	11,0
Provision for claims outstanding	0,7	0,0	0,0	0,0	0,7
Total	**5,5**	**2,0**	**1,5**	**2,6**	**11,7**

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2014

EUR mn	0-1 years	1-2 years	2-3 years	Yli 3 years	Total
Provision for unearned premiums	5,8	2,0	1,5	2,5	11,8
Provision for claims outstanding	0,6	0,0	0,0	0,0	0,6
Total	**6,4**	**2,0**	**1,5**	**2,5**	**12,4**

The modified duration of the cash flow distribution of technical provisions (not including the equalization provision) is 2.2 (2.4) years.

Sensitivity analysis of Insurance operations, 31.12.2015*

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity , EUR thousand	Effect on combined ratio, %
Premium revenue	9 849	Up by 10%	473	improvement 5.79 % units
Claims incurred	1 492	Up by 10%	0	weakening 1.51 % units
Large claim, EUR 10 million		EUR 10 mil	0	weakening 101.53 % units
Operating expenses	4 778	Up by 10%	-382	weakening 4.85 % units

*Sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.

2. Investment risks

The company's investments are used for covering the technical provisions and the equity capital. Garantia's investment activities are long-term and the objective is primarily to secure capital and achieve stable and steadily increasing asset growth. Market, counterparty and liquidity risk are the risks affecting the investment activities.

Market risk means the possibility of losses resulting from fluctuations in market prices. Changes in prices affect the value of investment assets and annual returns. Equity risk, interest rate risk, currency risk, property risk and credit spread risk are the principal market risks.

Counterparty risk means the risk of insolvency pertaining to the contractual counterparty (credit risk).

Liquidity risk means that Garantia would be unable to manage its payment obligations by the due date because it does not have enough liquid assets and/or it does not have access to the markets where such assets are available (for example, the company is unable convert investments into cash as planned).

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. The investment activities are guided by the investment plan approved by the Board of Directors. The investment plan lays out the investment objectives, basic allocation and minimum and maximum level for each asset class, the limits to risk-taking, the decision-making powers and the monitoring and reporting procedures. 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.

Capital requirements for investment risks are measured on an instrument-specific basis. The risk pertaining to share instruments is measured by means of a Value-at-Risk calculation model. The credit risk pertaining to fixed income instruments is measured by means of the economic capital model, which is based on credit ratings determined by Garantia, and which takes into account the credit rating and duration of the instrument. In addition to the credit risk, consideration is given to the interest rate risk and if applicable to property and currency risks.

The risk position of the investment activities is monitored and developments are reported to the Management Team and the Board of Directors in a monthly profit and risk report.

Quantitative information on investment risks

Investment mix at fair value

EUR mn	2015	2014
Fixed income investments*	98	93
Equity investments	21	28
Land and buildings	1	2
Other investments	0	0
Total	**120**	**123**

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

Sensitivity analysis of investment activities, 31.12.2015*

Investment category	Volume at fair values, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	91,7	Change in interest rates	1 %	1,77
Equities	18,6	Market value	10 %	1,49
Private equity investme	5,7	Market value	10 %	0,45

*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.

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2015

Eur mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	3	23	0	0	27	28 %
A+ - A-	3	16	3	0	22	23 %
BBB+ - BBB-	0	6	17	2	25	26 %
BB+ tai alle	0	10	12	0	21	22 %
Not rated	0	0	0	0	0	0 %
Total	**7**	**55**	**32**	**2**	**95**	**100 %**

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2014

Eur mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	0	9	4	10	24	26 %
A+ - A-	13	8	-	-	21	24 %
BBB+ - BBB-	1	6	18	5	30	33 %
BB+ tai alle	-	3	12	-	15	17 %
Not rated	0	-	-	-	0	0 %
Total	**14**	**26**	**35**	**15**	**90**	**100 %**

* 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. Garantia's Internal Credit Rating, 2. External rating affirmed by external rating agency or 3. "Shadow rating" provided by Banks to bond investors.

3. 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 economic losses. Garantia is determined to maintain and strengthen a corporate culture that is positively disposed towards management of operational risks and internal control.

In order to manage the operational risk it is central to identify and evaluate risks as well as to ensure the adequacy of the control and management methods. The surveys of operational risks carried out by Garantia's units and functions each year involve identification and assessment of the risks and definition and monitoring of the development measures that help to reduce the risks. The company makes preparations for risks that may interfere with the continuation of its business operations by means of continuity planning and regular testing of the continuity plans. Outsourcing-related risks are managed by ensuring that the outsourcing contracts are in accordance with the outsourcing principles.

In the design and introduction of new products, the company applies the operating model approved by the Group Risk Management Committee. In accordance with this model, the risk management function takes part in the assessment of the risks of new products and operating models before they are put into use. The risks concerning knowledge of the client, money laundering and financing of terrorism are managed by means of staff training and by issuing guidelines for the staff.

The extent of the operational risks is measured by the amount of economic capital employed by operational risks, which is determined on the basis of the annual survey of operational 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 Board of Directors and the Management Team on a quarterly basis.

4. Other risks

Other risks are compliance risks and strategic risks. 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 operational risks conducted by Garantia's units each year also includes the identification, assessment and measurement 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.

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 the unsuccessful implementation of a strategy. The Management Team assesses the strategic risks faced by the company on an annual basis and decides on development measures to reduce the risks and on how these are monitored. The company determines the amount of economic capital involved in strategic risks, but this is not separately considered in the capital requirement.

Risks related to operations and their management and measurement

Risk	**Exposure**	**Management**	**Measurement, monitoring and reporting***
Insurance risk (credit risk)	-Insolvency of the guaranteed counterparty or failure to fulfil financial and/or operational obligations - Insolvency of reinsurer or issuer of countersecurity - Value fluctuations of guaranties - Concentration risk arising from the insurance and investment liabilities to counterparties of the same risk entity	- Credit risk policy and reinsurance policy (incl. risk-taking limits) and operating guidelines, eg. guaranty and covenant guidelines, rating guidelines - Guaranty decisions and risk-based pricing - Continuous rating of credit risk and rapid reaction to changes - Reinsurance - Counter-collateral and their assessment and covenants - Diversification (incl. by customer, rating class, industry, maturity) - Risk limits specific to clients / client groups for insurance underwriting and investment guaranties in total.	- Expected loss - Economic capital - Trends in gross exposure and open position using various classification factors - Monthly reporting of guaranty decisions to Board and of rating decisions to Management Team - Monthly and quarterly reporting of risk position to Management Team and Board.
Investment risk	- Fluctuation in market prices (incl. shares and interest rates) - Insolvency of counterparty - Adequacy and/or availability of liquid assets	- Investment plan - Diversification (eg. by asset class, sector, geographical area, credit rating, counterparty) - Liquidity of investments, amount of cash and account credit limit	- Economic capital - Modified duration - Market value trend based on various classification factors. - Monthly reporting to Management Team and Board.
Operational risks	- Errors arising from deficient or faulty processes, human error, system faults or errors arising from external events.	- Corporate culture that encourages risk management - Guidance and continuous training of personnel - Risk survey - Continuity plans and testing of these plans - Outsourcing principles - Operating model for new products	-Economic capital - Registering of actual risk events and near misses, corrective measures and their monitoring and reporting - reporting to the Management Team and Board quarterly (or as required)
Other risks	- Compliance with laws, decrees and regulations (compliance risk) - Changes in operating and competitive environment, slow reaction to changes, selection of a wrong strategy or unsuccessful selection of strategy (strategic risk)	- Monitoring of changes in regulation - Guidance and continuous training of personnel - Assessment of strategic risks and identification of management measures in connection with annual risk survey, and also continuous monitoring of business and operating environment as part of normal management of operations	- Economic capital excluding strategic risks - Business development in relation to targets - Reporting to Management Team and Board annually (risk survey results), quarterly (review of regulations), monthly (business performance) or as needed.

* Development of risk position is also reported quarterly to the Taaleri Group's Risk Managemet Committee

Picture 5: Risks related to operations and ther management and measurement

Key financial indicators and analyses

Note 18: Key financial indicators

	2015	2014	2013	2012	2011
Gross premiums written (before share of reinsurers), EUR	10 018 860	11 250 256	10 610 274	12 328 603	13 508 046
Claims ratio, %	15,1 %	3,7 %	22,2 %	11,7 %	50,8 %
Claims incurred without calculated interest expenses (+/-), EUR	1 491 654	-412 292	-2 404 875	-1 267 626	-5 579 914
Claims ratio without calculated interest expenses, %	15,1 %	3,7 %	22,2 %	11,7 %	50,8 %
Expense ratio, %	48,5 %	42,0 %	36,3 %	31,7 %	27,9 %
Combined ratio, %	63,7 %	45,7 %	58,5 %	43,4 %	78,7 %
Combined ratio without calculated interest expenses, %	63,7 %	45,7 %	58,5 %	43,4 %	78,7 %
Operating profit (+) or loss (-), EUR	12 039 519	11 360 927	10 655 515	9 405 559	3 979 377
Adjustments in off-balance sheet valuation differences, current value reserve and revaluation reserve (+/-), EUR	-3 586 445	2 294 523	-28 448	2 728 971	-2 425 026
Total result (+/-), EUR	8 453 074	13 655 450	10 627 067	12 134 530	1 554 351
Interest expenses and other financial expenses (+), EUR	1 000	1 000	1 062	1 682	1 682
Calculated interest expenses (+), EUR					
Return on total assets as a percentage (at fair value)	6,8 %	11,2 %	9,2 %	11,2 %	1,5 %
Net return on investments, % at fair value on capital employed (+/-)	4,4 %	7,1 %	5,9 %	6,1 %	-0,8 %
Solvency margin, EUR	30 028 832	29 363 225	32 726 268	30 990 789	27 942 021
Equalization provision, EUR	74 788 747	71 271 823	65 171 091	60 709 909	54 656 183
Solvency capital, EUR	104 817 579	100 635 048	97 897 359	91 700 698	82 598 204
Solvency capital as % of technical reserves	899,4 %	809,1 %	706,7 %	568,7 %	488,5 %
Insurance premium income over 12 months (after share of reinsurers), EUR	9 848 753	11 070 915	10 828 016	10 835 848	10 974 588
Risk carrying capacity, %	1064,3 %	909,0 %	904,1 %	846,3 %	752,6 %
Average number of personnel during the financial period	25	25	24	23	23

Note 19: Earnings analyses

euro	2015	2014	2013	2012	2011
Insurance premium income (+/-)	9 848 753	11 070 914	10 828 016	10 835 847	10 974 588
Claims incurred (-/+)	-1 491 654	-412 292	-2 404 875	-1 267 626	-5 579 915
Operating costs (-)	-4 777 713	-4 645 538	-3 934 512	-3 434 715	-3 057 419
Other technical income and expenses (+/-)	0	0	0	0	0
Balance on technical account before changes in equalization provision (+/-)	**3 579 386**	**6 013 084**	**4 488 629**	**6 133 506**	**2 337 254**
Investment income and expenses, revaluations and their adjustments and changes in value (+/-)	8 460 133	5 347 843	6 166 886	3 272 051	1 642 123
Other income and expenses (+/-)					
Share of associated companies' profit (+) or loss (-)					
Operating profit (+) or loss (-)	**12 039 519**	**11 360 927**	**10 655 515**	**9 405 558**	**3 979 377**
Change in equalization provision (-/+)	-3 516 924	-6 100 731	-4 461 182	-6 053 726	-2 338 335
Profit (+) or loss (-) before extraordinary items	**8 522 594**	**5 260 196**	**6 194 333**	**3 351 832**	**1 641 042**
Extraordinary income (+)					
Extraordinary expenses (-)					
Profit (+) or loss (-) before appropriations and taxes	**8 522 594**	**5 260 196**	**6 194 333**	**3 351 832**	**1 641 042**
Income taxes and other direct taxes (-/+)	-1 711 925	-1 042 074	-1 516 421	-818 575	-419 719
Minority shares (-)					
Profit (+) or loss (-) for the financial year	**6 810 670**	**4 218 122**	**4 677 912**	**2 533 257**	**1 221 323**

Note 20: Investment allocation at fair value

	Basic allocation				Risk allocation [8]			
	31.12.2015		31.12.2014		31.12.2015		31.12.2014	31.12.2013
	EUR million	**%**	**EUR million**	**%**	**EUR million**	**%**	**% [10]**	**% [10]**
Fixed income investments	98 429 865	82,1	92 991 521	75,5	98 429 865	82,1	75,5	69,4
Loan receivables [1]								
Bonds	94 405 577	78,7	79 372 754	64,4	94 405 577	78,7	64,4	67,9
Other financial market instruments and deposits [1] [2]	4 024 287	3,4	13 618 767	11,1	4 024 287	3,4	11,1	1,5
Equity investments	20 615 834	17,2	27 784 000	22,5	20 615 834	17,2	22,5	28,4
Listed equities [3]	18 557 891	15,5	25 774 770	20,9	18 557 891	15,5	20,9	28,4
Private equity investments [4]	2 057 943	1,7	2 009 230	1,6	2 057 943	1,7	1,6	
Unlisted equities [5]								0,0
Real estate investments	902 295	0,8	2 462 030	2,0	902 295	0,8	2,0	2,2
Direct real estate investments	0	0,0	2 078 880	1,7	0	0,0	1,7	1,8
Real estate investment funds and collective investments	902 295	0,8	383 150	0,3	902 295	0,8	0,3	0,4
Other investments	0	0,0	4 168	0,0	0	0,0	0,0	0,0
Hedge funds [6]								
Commodities								
Other investments [7]	0	0,0	4 168	0,0	0	0,0	0,0	0,0
Total	119 947 993	100,0	123 241 719	100,0	119 947 993	100,0	100,0	100,0
Effect of derivatives [9]								
Total investments at fair values	119 947 993	100,0	123 241 719	100,0	119 947 993	100,0	100,0	100,0
Modified duration of bond portfolio	2,5							

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

	Net return on investments at market value [8] 31.12.2015	Capital employed [9]	Return on capital employed, %	Return on capital employed (ROCE), % 31.12.2014	31.12.2013	31.12.2012	31.12.2011
ROCE, EUR, %	**EUR**	**EUR**	**%**	**%**	**%**	**%**	**%**
Fixed income investments	2 107 312	94 589 689	2,5	4,6	1,8	5,4	2,7
Loan receivables [1]							
Bonds	2 106 642	92 289 019	2,5	4,6	1,8	5,4	2,7
Other financial market instruments and deposits [1] [2]	670	2 300 670	0,0	0,0	0,0		
Equity investments	3 199 804	21 346 672	9,8	14,3	20,2	12,0	-9,1
Listed equities [3]	3 197 304	19 332 967	10,8	14,5	20,2	12,0	-9,1
Private equity investments [4]	2 500	2 013 705	0,0	0,0			
Unlisted equities [5]							
Real estate investments	90 765	1 499 664	6,9	12,4	0,1	0,9	0,1
Direct real estate investments	111 657	1 039 440	10,7	12,6	0,2		
Real estate investment funds and collective investments	-20 891	460 224	-7,8	11,5	-0,2	3,1	-0,1
Other investments		2 084		0,0	0,0	0,0	3,2
Hedge funds [6]							
Commodities							
Other investments [7]		2 084		0,0	0,0		
Total	5 397 882	117 438 109	4,6	7,3	6,1	6,3	-0,6
Unallocated income, expenses and operating expenses	-228 260						
Net return on investments at fair value	5 169 622	117 438 109	4,4	7,1	5,9	6,1	-0,8

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
Claims ratio, %	Claims incurred ------------------------------------ x 100 Insurance premium income This key figure is calculated after the share of the reinsurers.
Expense ratio, % =	Operating costs ------------------------------------ x 100 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, extraordinary items and taxes
Return on total assets, % = (at fair value)	+/- operating profit or loss + interest expences and other financial expences + calculated interest expences +/- adjustments in the revaluation reserve / current value reserve +/- change of investment value differences -- x + balance sheet total - technical reserves for unit-linked insurance +/- 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.
Solvency margin, % =	+ shareholders equity after deducting the suggested distribution of profits + accured appropriations +/- valuation differences investments +/- imputed tax liability + subordinated loan (by permission of the Financial Supervisory Authority) - intangible assets +/- other regulatory items
Equalisation provision = in EUR	The solvency margin and equalisation provision have been defined in the insurance company legistation and in more detail by decree and regulations of the ministry
Solvency Capital =	Solvency margin + Equalization provision + Minority share
Solvency Capital as % of = technical reserves	Solvency capital -- x 100 Technical provisions - Equalization provision Technical provisions are calculated after the share of the reinsurers.
Risk carrying capacity, % =	Solvency capital -- x 100 12-month earned premiums Earned premiums are calculated for the past 12 months after the share of the reinsurers.
Solvency ratio (S2), % =	Basic own funds -- x 100 Solvency capital requirement

Signatures for report by the board of directors and financial statements

Helsinki 18. February 2016

Hannu Tonteri	Juhani Elomaa
Timo Hukka	Jukka Ohls
Antti Suhonen	Tomi Yli-Kyyny

Vesa Aho
CEO

Report on the conducted audit was given out today

Helsinki 23.February 2016

KPMG Oy Ab	Ernst & Young Oy
Paula Pasanen Authorized Public Accountant	Ulla Nykky Authorized Public Accountant

Auditors report

For the shareholders' meeting of Garantia Insurance Company Ltd

We have audited the accounts, financial statements, report by the Board of Directors and administration of the Garantia Insurance Company Ltd fot the financial year 1 January 2015 – 31 December 2015. The financial statement includes the balance sheet, income statement, cash flow statement and appendices.

Responsibilities of the Board of Directors and the CEO

Board of Directors and the CEO are responsible for preparing the financial statement and the report by the Board of Directors, and for providing correct and sufficient information according to the regulations related to preparation of the financial statements and the report by the Board of Directors valid in Finland. The Board of Directors is responsible for arranging appropriate monitoring of accounts and financial administration, and the CEO is responsible ensuring that the company's accounts comply with legal provisions and that the financial administration is arranged in a reliable manner.

Responsibilities of the auditor

It is our responsibility to submit a report on the financial statements and the report by the Board of Directors based on the audit we have conducted. The Auditing Act provides that we comply with the principles of our occupational ethic. We have conducted the audit according to Finland's good auditing practice. According to the good auditing practice, we must plan and conduct the auditing in order to be reasonable certain that there are no material errors in the financial statements or the report by the Board of Directors, and that the members of the Board of Directors or the CEO have not committed an action or negligence that could lead to company's liability for damages, or that they have not violated the Companies Act, the Insurance Companies Act or the Articles of Association. The audit includes acquiring auditing evidence concerning the figures and other information in the financial statements and the report by the Board of Directors. The choice of action is based on the auditor's judgement, which includes evaluating the risk for material errors due to malpractice or faulty actions. When evaluating these risks, the auditor has to take into account the internal control, which is significant in the company in order to prepare a financial statement and the report by the Board of Directors which provide correct and sufficient information. The auditor evaluates the internal control in order to be able to plan appropriate auditing operations when considering the circumstances but not with the purpose of reporting on the effectiveness of the company's internal control. In addition, the auditing includes the evaluation of the appropriateness of the applied conducting principles of the audit, the fairness of the evaluations related to the accounts made by the operating management and the general representation method.

To our knowledge, we have acquired a sufficient amount of appropriate auditing evidence to support our statement.

Statement

As our statement we announce that the financial statements and the report by the Board of Directors provide correct and sufficient information on the company's result of operations and financial position according to the requirements related to preparing a financial statement and the report by the Board of Directors valid in Finland. The information in the report by the Board of Directors and in the financial statement contains no discrepancy.

Helsinki, 23. February 2016

KPMG Oy Ab

Paula Pasanen
Authorized Public Accountant

Ernst & Young Oy

Ulla Nykky
Authorized Public Accountant