

**GARANTIA INSURANCE COMPANY
LTD - REPORT BY THE BOARD OF
DIRECTORS AND FINANCIAL
STATEMENTS 2019**



GARANTIA
SECURING OWNERSHIP

Garantia Insurance Company

The mission of Garantia is to improve capital efficiency. Our goal is to modernize collateral practices and provide our customers with easy and cost-effective guarantee solutions and new business opportunities through digital channels.

We are a specialised non-life credit and guaranty insurance company supervised by the Finnish Financial Supervisory Authority, and we have extensive experience in the financial sector. We collaborate closely with our customers and partners and build long-lasting customer relationships. We increase the trust between different parties and thus promote the generation of business transactions. Our customers are Finnish companies and consumers.

Our competitive advantages are based on a broad network for cooperation and partnership, solutions tailored for individual customers and a scalable way of working. On 11 September 2019, the international credit rating agency Standard & Poor's confirmed Garantia's rating as A- with a stable rating outlook, which is a testament to the reliability and strong solvency of our operations.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on NASDAQ OMX Helsinki. Taaleri Group's business consists of three segments: Wealth Management, Financing and Energy. Taaleri offers 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 2019 IN BRIEF

Strong growth in insurance operations continued

- Gross premiums written increased by 13% to EUR 19.6 (17.4) million and earned premiums grew by 8% from EUR 12.3 million to EUR 13.2 million. The insurance exposure grew 10.2%.
- The balance on the technical account before changes to the equalization provision decreased to EUR 5.9 (8.1) million due to increases in claims incurred and operating expenses. In an exception from the norm, claims incurred were negative during the comparison period, returning closer to the normal level during the financial year. Operating expenses grew as a result of investments in business development that were carried out.
- The claims ratio was 12.2% (-6.4), the expense ratio was 43.4% (40.3) and the combined ratio was 55.7% (34.0).
- Earnings before taxes amounted to EUR 13.8 (9.2) million. Earnings were positively influenced especially by the year-on-year increase in net income from investments, which totalled EUR 6.3 million (1.9).
- The return on investments improved due to the favourable performance of investment markets. Return on investments at fair value was 8.1% (-1.7).
- Solvency remained strong despite the growth in business volume. The solvency ratio was 232% (233) at the end of the financial year.
- On 11 September 2019, S&P confirmed Garantia's financial strength rating as A- with a stable outlook.

Key figures

EUR thousands	2019	2018	Change
Gross premiums written	19,627	17,381	13 %
Other items *	-6,384	-5,099	25 %
Earned premiums	13,242	12,282	8 %
Claims incurred	-1,618	783	-
Operating expenses	-5,752	-4,954	16 %
Balance on technical account before changes in equalisation provision	5,873	8,110	-28 %
Change in equalisation provision	1,618	-783	-
Balance on technical account	7,491	7,327	2 %
Investment income and expenses, net	6,266	1,897	230 %
Other income and expenses	14	1	1725 %
Earnings before tax	13,771	9,225	49 %
Claims ratio, %	12.2 %	-6.4 %	18.6 pp
Expense ratio, %	43.4 %	40.3 %	3.1 pp
Combined ratio, %	55.7 %	34.0 %	21.7 pp
Return on investments at fair value, %	8.1 %	-1.7 %	9.8 pp
Solvency ratio (S2), %**	231.8 %	233.4 %	-1.6 pp
Total insurance exposure, EUR bn.	1.84	1.67	10.2 %
Average number of personnel	25	25	0 pers.
Credit rating (S&P)	A-	A-	-

The figures used for result comparison are those for the corresponding periods in 2018. The comparison data used for balance sheet and cross-section items are the data for the end of 2018 unless otherwise indicated.

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

**) Solvency II regulations do not fall within the scope of statutory auditing under the Insurance Companies Act in force since 1 January 2016. The Solvency II capital adequacy figures have not been audited.

BOARD OF DIRECTORS' REPORT

Operating environment

Finland's economy was clearly on the rise in 2019. GDP growth even accelerated towards the end of the year, driven by good export performance and growth in private consumption. Corporate revenues grew. However, the national unemployment rate did not decrease anymore during the year, and the employment rate did not significantly improve as in previous years. The economy's investment appetite trend was also moderate. Private investment remained at the previous year's level, and public investment declined slightly from the previous year.

Private consumption, which forms the basis of economic growth, was again supported by consumers' improved purchasing power and record-low interest rates. Employees' real earnings increased and short-term Euribor interest rates, which are generally used as the reference rate of household loans, fell even further below zero. The average rate of new housing loans declined as a result of low reference rates and increased competition between banks for housing loan customers. The growth of the total volume of housing loans continued, but on the other hand, the housing market became more polarised as housing prices increased only in the Helsinki metropolitan area and in the other important growth centres. In other parts of Finland, housing prices and the number of transactions declined on average.

A working group set by the Ministry of Finance submitted a proposal in October 2019 for measures aiming to restrict the indebtedness of households. The proposal includes a proposition to tie the maximum amount of a household's credits to annual income. The proposal also suggests limiting the housing loan repayment period to 25 years, and limitations on housing company loans. The working group also recommends the adoption of a positive credit register. The government proposal regarding the legislative dossier is expected to be submitted to parliament in autumn 2020.

The financing conditions of Finnish companies remained favourable in 2019. Companies took out more new loans than in the previous year and the total volume of banks' business loans, which still constitute the majority of Finnish companies' debt financing, grew substantially. Availability of finance was even exceptionally good for creditworthy companies, and the competition for corporate finance was fierce. Finnish companies' access to finance is supported by their good profitability on average and strong financial position.

The year 2019 was also favourable on the investment markets. The tightening of US monetary policy carried out in 2018 ended, and the US Federal Reserve lowered the Federal Funds Rate three times in 2019. Central bank official interest rates were also lowered in Europe. Expectations of a reduction in interest rates raised share prices, and the broad S&P 500 Index, which describes the state of the US equity market, again rose to a new record level at the end of the year.

According to the Ministry of Finance, at the end of 2019, Finland's national economy was in a period that is typical of a maturing business cycle. Economic growth will slow down in the coming years as global economic growth temporarily slows down. In the global economy, uncertainty is fuelled by the increase in the risks of trade disputes and geopolitical conflicts, for example. Finland's economic growth will slow down, but will remain at around 1% thanks to domestic demand in the mid-to-long term. However, the slowing economic growth will be felt as a waning of exports and companies' investment rate.

Insurance operations

Garantia's gross premiums written increased by 12.9% to EUR 19.6 (17.4) million during the financial year. Ceded reinsurance accounted for EUR 1.0 (1.0) million of the premiums written total, which means that net premiums written (premiums written with the reinsurers' share deducted) increased by 13.9% to EUR 18.6 (16.3) million. The majority of the strong growth in premiums written was attributable to residential mortgage guaranties, the demand for which was strong throughout the year. Low market interest rates kept demand for corporate pension loan guaranties tied to employees' pension insurance (TyEL) reference rates at a moderate level, and the cooling of the construction sector business cycle reduced the demand for commercial bonds. Earned premiums grew by 8% during the financial year.

The insurance exposure grew by 10.2% and was EUR 1,837 (1,667) million at the end of the year. Residential mortgage guaranties accounted for 44.5% (39.3) of the total exposure, commercial bonds 29.1% (30.8), corporate loan guaranties 19.7% (22.1) and other guaranties 6.7% (7.8).

During the financial period, Garantia guaranteed its fourth multi-issuer bond. Three medium-sized Finnish companies were the issuers of the five-year bond totalling EUR 40 million. Multi-issuer bonds offer medium-sized companies cost-effective access to the capital markets. The previous multi-issuer bonds guaranteed by Garantia were issued in 2013, 2014 and 2018.

Claims incurred totalled EUR 1.6 (-0.8¹) million during the financial period. Claims paid and the provision for future claims outstanding both increased, but the claims ratio remained low at 12.2% (-6.4). The ratio of claims incurred against the gross exposure of the insurance portfolio was low at 0.09% (-0.05). The majority of the claims incurred during the financial period were related to commercial bonds, while claims related to other product groups remained at a low level. The growth in claims incurred was partly explained by the fact that, in an exception from the norm, claims incurred were negative during the comparison period.

Claims incurred included EUR 1.0 (0.8) million in gross claims paid. On the other hand, EUR 0.6 (1.2) million was recovered from claims paid during and prior to the financial year, in addition to which the reinsurers' share of the claims paid was EUR 0.4 (0.2) million. The net outstanding claims provision in the balance sheet after accounting for the reinsurers' share increased by EUR 1.3 million (fell by EUR 0.4 million), increasing claims incurred. Garantia did not have any claims of recourse based on insurance compensation payments in its balance sheet at the end of the financial year or comparison period.

Operating expenses grew by 16% to EUR 5.8 (5.0) million during the financial year. The growth was primarily a result of measures taken to develop business operations. The expense ratio was 43.4% (40.1).

The balance on the technical account fell to EUR 5.9 (8.1) million before changes to the equalisation provision, and the combined ratio rose to 55.7% (34.0). The decline in the balance on the technical account was a result of the growth in claims incurred and operating expenses. The equalization provision decreased by EUR 1.6 (-0.8) million and the balance on the technical account came to EUR 7.5 (7.3) million.

Investment operations

In contrast with estimates, 2019 was a good year on the investment markets. The equity markets rose despite fears of slowing US economic growth after the Federal Reserve lowered the federal funds rate several times. Corporate bond risk premiums contracted, bringing good returns to fixed income investors. Uncertainties such as the trade war between the USA and China and Britain's exit from the EU seemed to have eased off. In general, nearly all asset classes reached positive returns.

Garantia's net return on investments recognised in profit and loss amounted to EUR 6.3 (1.9) million and mostly comprised fixed-income returns, sales profits and reversals of impairments made in previous years. The fair values of investments rose substantially. The valuation difference between the fair value and the book value of investment assets was EUR 6.4 (1.8) million at the end of December.

The return on investments at fair value without operating expenses allocated to investment activities was 8.1% (-1.7). Net investment income at fair value was EUR 10.8 (-2.6) million, or 8.0% (-1.9).

Garantia's investment portfolio (incl. cash and bank balances) at fair value was EUR 150.8 (134.4) million at the end of the year.

Responsibility

Garantia's responsible operations are guided by Taaleri's responsibility policy to the extent applicable. Responsibility is an integral part of the Taaleri Group's strategy. The impacts of operations and their connection with global development are brought forth through the UN Sustainable Development Goals (SDG). In Garantia's operations, through guaranties in collaboration with our partners we improve the availability of finance for companies and private persons (SDG 9: Sustainable industry, innovation and infrastructure). Garantia implements responsible operating methods and complies with good governance and the principles of responsible investment in all its operations. Garantia complies with the UN Principles for Responsible Investment (UNPRI) and is committed to taking into account the ESG (environmental, social, governance) impacts related to society and to the good governance of the companies it invests in in its investment operations.

¹ In the 2018 financial year, the amount recovered from claims paid previously exceeded the amount of claims paid, meaning that claims incurred had a positive impact on profit.

Risks and risk management

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

Garantia's risk position remained stable in 2019. The growth of the total insurance exposure was mainly attributable to the highly dispersed mortgage guaranty portfolio, whose historic claims ratio is low. The share of investment grade exposures (exposures with a rating between AAA and BBB-) made up 12.6% (10.7) of the corporate insurance portfolio, while exposures with a rating of at least BB- accounted for 72.4% (79.5). The slight weakening of the rating distribution was caused by a reduction in the creditworthiness of customer companies in the construction sector. However, the share of exposures with weak credit ratings of C+ or lower remained low and was 1.7% (1.7). The principal industry sectors in the corporate insurance exposure were construction at 50.9% (51.8) and manufacturing at 21.0% (21.6). The proportion of reinsured construction guaranties was 55.3% (53.5).

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 accounted for 21.2% (22.3) of the Taaleri Group's own funds.

The risk level of investment activities was retained at a moderate level. At the end of the year, fixed income investments made up 84.4% (87.4), equity investments 14.4% (11.1) (incl. private equity investments) and real estate investments 1.2% (1.4) 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 proportion of investment grade fixed income investments (excl. fixed income funds) was 54.5% (51.2). The modified duration of bond investments was 3.3 (3.4).

Solvency

Garantia's solvency remained strong. Garantia's basic own funds amounted to EUR 112.7 (103.3) million at the end of the financial year and the solvency capital requirement was EUR 48.6 (44.2) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 231.8% (233.4).

Basic own funds grew as a result of an increase in the net profit for the financial year and in the fair value of investment assets. The increase in the value of investment assets caused a corresponding increase in the solvency capital requirement for market risk.

The standard parameters of the Solvency II standard formula's insurance risk module were revised, effective from 1 January 2020. If the new parameters had been applied on 31 December 2019, Garantia's solvency ratio would have been 219.3% at the end of the financial year.

Solvency, EUR thousands	31.12.2019	31.12.2018
Basic own funds	112,681	103,281
Solvency capital requirement		
Market risk	23,704	19,934
Non-life underwriting risk	21,019	21,271
Counterparty default risk	278	137
Operational risk	420	395
Diversification effect and adjustment for loss-absorbing capacity	-16,665	-15,299
Total	28,756	26,437
Capital add-on	19,848	17,812
Total	48,604	44,249
Amount of own funds in excess of the solvency capital requirement	64,077	59,033
Solvency ratio, %	231.8 %	233.4 %

Garantia's own funds consist fully 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 calculation technical provisions. 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.

Garantia's solvency capital requirement has included a capital add-on set by the Financial Supervisory Authority as of 30 June 2018. The Financial Supervisory Authority assesses the amount of the capital add-on at least once a year. The Financial Supervisory Authority previously adjusted its decision regarding the capital add-on on 17 June 2019, when the capital add-on was set at EUR 19.8 (17.8²) million. The updated add-on is included in the company's solvency capital requirement as of 30 June 2019.

In its decision regarding the capital add-on, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk 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 approach is not appropriate in Garantia's case.

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.

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) affirmed Garantia Insurance Company's financial strength rating (FSR) and the company's financial enhancement rating (FER) as A- with a stable rating outlook on 11 September 2019.

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 38.8 (39.5), and their average duration of employment at Garantia was 6.7 (5.6) years. Women made up 34.8% (40.3) of the personnel and men 65.2% (59.7).

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 2019, the number of Garantia shares was 60,000 and shareholders' equity was EUR 10,200,000. The company has one share class.

Incentive programmes

Synthetic options have been granted to Garantia personnel as part of the parent company Taaleri Plc's equity-based incentive programmes. Further information on the equity-based incentive programme can be found in note 13 in the notes to the financial statements.

Management and governance

The company's Board of Directors was composed of Hannu Tonteri (Chairman of the Board of Directors), Karri Haaparinne, Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny (1 January - 22 February) during the financial year. The term of the members of the Board of Directors lasts until the end of the following Annual General Meeting. The Annual General Meeting was held on 22 February 2019.

The company's Board of Directors convened 11 times during the financial year. The Board of Directors had no separate committees during the financial period.

² The capital add-on that was in force until 30 June 2018 in parentheses.

On 20 June 2019 Garantia's Board of Directors appointed Deputy CEO Titta Elomaa as the new CEO as of 1 July 2019. She has been responsible for the duties of the CEO since September 2018. The company's management team consisted of Titta Elomaa, Tuukka Fabritius, Martti Purhonen (until 14 November), Niina Pullinen (until 28 September), Timo Lehikoinen (as of 1 December) and Henrik Allonen (as of 1 November) during the financial year.

The annual general meeting held on 22 February 2019 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 2019 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 2019 the service was provided by PricewaterhouseCoopers Oy.

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 10,987,490.46, and the company's distributable funds amounted to EUR 32,143,059.53. The Board of Directors proposes that the profit be transferred to the retained earnings account and that a total of EUR 6,000,000.00 from retained earnings be distributed as dividends.

Outlook for 2020

During autumn 2019 Garantia's Board of Directors confirmed a new strategy for the company for the years 2020-2022. At the core of the strategy is increasing capital efficiency and changing the traditional market practices regarding the use of collaterals for the benefit of customers. During the strategy period, Garantia will actively seek new business opportunities related to guaranty insurance for consumer and corporate customers in order to complement current product areas. Our competitive advantage on the market is derived from a broad collaboration and partnership network, our customer-oriented approach, strong solvency and competent risk selection. The confirmed strategy includes financial objectives related to profitability, solvency and credit rating.

As part of the new strategy for 2020-2022, the company decided to discontinue underwriting new commercial bonds for construction sector customers as of 1 January 2020. Commercial bonds in total accounted for around 29% of the company's total insurance exposure on 31 December 2019. Most of the commercial bond exposures are related to the construction sector. The aim of the arrangement and the associated cost savings measures is to improve Garantia's profitability as of 2020.

Finland's economic growth is expected to slow down slightly in the wake of the global economy, and to remain at around 1% in 2020. According to estimates by the Ministry of Finance, private investment will not increase further, export growth will slow down, and economic growth will be increasingly based on private consumption and public investments. The public sector will remain in a deficit in the coming years due to the government programme's increased spending, and the level of public debt will gradually start to increase again. However, interest rates will remain low, and a rising wage rate will increase consumers' purchasing power.

From an economic point of view, the conditions for a successful 2020 are quite good despite the anticipated economic cooling. Demand for residential mortgage guaranties has remained at a good level, and demand for corporate bond guaranties is also showing signs of recovery. Demand for corporate pension loans tied to employees' pension insurance (TyEL) interest rates generally picks up in a slowing business cycle because of the attractiveness of the loans' long maturity. The profitability of Garantia's insurance operations is expected to remain good. However, as in previous years, the performance of the investment markets and net income from investment operations will have a substantial impact on the company's net profit for the financial year.

FINANCIAL STATEMENTS

Profit and loss account

euro	Note	2019	2018	change, %
Technical Account				
Earned premiums				
Premiums written	1, 2, 3	19,626,678	17,381,102	12.9 %
Reinsurers' share		-1,009,063	-1,034,599	-2.5 %
Change in provision for unearned premiums		-5,629,033	-4,205,119	33.9 %
Reinsurers' share		253,605	140,380	
		13,242,186	12,281,764	7.8 %
Claims incurred				
Claims paid		-738,507	186,412	-496.2 %
Reinsurers' share		402,760	241,078	67.1 %
Change in provision for outstanding claims		-3,084,070	1,170,473	-363.5 %
Reinsurers' share		1,802,056	-815,249	-321.0 %
		-1,617,762	782,714	-306.7 %
Operating expenses	5, 6, 7, 8	-5,751,598	-4,954,290	16.1 %
Balance on technical account before change to equalisation provision		5,872,826	8,110,188	-27.6 %
Change in equalisation provision		1,617,762	-782,714	-306.7 %
Balance on Technical Account		7,490,588	7,327,474	2.2 %
Non-technical account				
Investment income	4	7,332,992	6,711,979	9.3 %
Investment expenses	4	-1,066,633	-4,815,224	-77.8 %
Other income and expenses		14,040	769	
Direct taxes on ordinary operations		-2,783,497	-1,939,288	43.5 %
Net profit for the financial year		10,987,490	7,285,711	50.8 %

Balance sheet

Assets euro	Note	31.12.2019	31.12.2018	change, %
INTANGIBLE ASSETS				
Intangible rights	8	24,125	30,157	-20.0 %
Goodwill	8	326,786	380,035	-14.0 %
Other long-term expenditure	8	6,018	7,523	-20.0 %
		356,930	417,714	-14.6 %
INVESTMENTS				
	9			
Real estate investments				
Real estate investment funds and collective investments		1,639,900	1,829,900	-10.4 %
		1,639,900	1,829,900	-10.4 %
Other investments				
Shares and participations		18,267,699	14,011,891	30.4 %
Debt securities		122,384,220	114,151,352	7.2 %
		140,651,919	128,163,243	9.7 %
Total		142,291,819	129,993,143	9.5 %
RECEIVABLES				
Arising out of direct insurance operations				
From policy holders		1,334,979	669,136	99.5 %
Arising out of reinsurance operations		139,056	0	-
Other		0	0	-
		1,474,035	669,136	120.3 %
OTHER ASSETS				
Tangible assets	8			
Machinery and equipment		15,635	20,846	-25.0 %
Other tangible assets		48,365	48,365	0.0 %
		64,000	69,211	-7.5 %
Cash and bank balances		607,525	918,439	-33.9 %
Total		671,525	987,650	-32.0 %
PREPAYMENTS AND ACCRUED INCOME				
Accrued interest and rental income		1,509,235	1,653,541	-8.7 %
Other accrued income		31,757	403,013	-92.1 %
		1,540,992	2,056,553	-25.1 %
TOTAL ASSETS		146,335,301	134,124,197	9.1 %

Equity and liabilities				
euro	Note	31.12.2019	31.12.2018	change, %
SHAREHOLDERS' EQUITY AND RESERVES 10, 11				
Share capital		10,200,000	10,200,000	0.0 %
Reserve for invested unrestricted equity				
Retained earnings		21,155,569	18,869,858	12.1 %
Profit / loss for the financial year		10,987,490	7,285,711	50.8 %
Total		42,343,060	36,355,569	16.5 %
TECHNICAL PROVISIONS				
Provision for unearned premiums		26,751,856	21,122,823	26.6 %
Reinsurers' share		-797,289	-543,684	46.6 %
		25,954,567	20,579,139	26.1 %
Claims outstanding	12	4,964,468	1,880,398	164.0 %
Reinsurers' share		-2,391,528	-589,472	305.7 %
		2,572,940	1,290,926	99.3 %
Equalisation provision		71,700,643	73,318,405	-2.2 %
Total		100,228,151	95,188,470	5.3 %
PAYABLES				
Arising out of direct insurance operations		60,506	875	6818.3 %
Arising out of reinsurance operations		526,358	288,994	82.1 %
Other		196,464	170,851	15.0 %
		783,328	460,719	70.0 %
ACCRUALS AND DEFERRED INCOME				
Other		2,980,763	2,119,439	40.6 %
		2,980,763	2,119,439	40.6 %
TOTAL EQUITY AND LIABILITIES		146,335,301	134,124,197	9.1 %

Cash flow statement

euro	2019	2018
Cash flow from operations		
Profit / loss from ordinary operations	10,987,490	7,285,711
Adjustments		
Change in technical provisions	5,039,681	4,492,229
Write-downs and revaluations of investments	-2,416,790	3,283,935
Planned depreciation	88,754	61,768
Other adjustments	1,668,081	258,358
Cash flow from operations before changes in working capital	15,367,217	15,382,000
Change in working capital		
Short-term non-interest-bearing trade receivables increase (-) / decrease (+)	-289,338	133,371
Short-term non-interest-bearing liabilities increase (+) / decrease (-)	1,183,933	-2,055,838
Cash flow from operations before financing items and taxes	16,261,811	13,459,534
Interest paid and payments for other financing expenses of operating activities	0	0
Direct taxes paid	-2,279,509	-2,272,445
Cash flow from operations	13,982,302	11,187,089
Cash flow from investments		
Net investments in financial assets (excl. cash and bank balances)	-9,270,457	-5,298,262
Net investments in intangible and tangible assets and other assets	-22,758	-417,715
Cash flow from investment operations	-9,293,215	-5,715,977
Cash flow from financing		
Dividends paid and other distribution of profits	-5,000,000	-5,000,000
Cash flow from financing	-5,000,000	-5,000,000
Change in cash and bank balances	-310,914	471,112
Cash and bank balances at the beginning of the financial year	918,439	447,327
Cash and bank balances at the end of the financial year	607,525	918,439
	-310,914	471,112

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

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 Credit and 15 Suretyship. On the basis of its authorisation, the company may also transact the reinsurance business of these non-life insurances. Garantia does not have any subsidiaries. Garantia is domiciled in Helsinki and its registered visiting address is Kasarmikatu 21 B, 00130 Helsinki, and its registered postal address is PO Box 600, 00101 Helsinki. The company also has a business location in Turku. A copy of Garantia's financial statements 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 Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on NASDAQ OMX Helsinki. Taaleri Group's business consists of three segments: Wealth Management, Financing and Energy. Taaleri's operations are supervised by the Finnish Financial Supervisory Authority. Taaleri Group prepares consolidated financial statements complying with the International Financial Reporting Standards (IFRS). These financial 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 as well as the decrees pertaining to them, 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 fees and shares of profit of ceded reinsurance and the fees of the quoting service for employees' pension insurance (TyEL) interest rates are recognised under operating expenses as a deduction.

Valuation of intangible assets and the accrual concept

Rights to use computer software, the goodwill generated from the business acquisition and merger carried out in 2018 have been capitalised under intellectual property rights, and modernisation expenses related to the development expenditure of the insurance data system has 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 five (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 reversals of impairments made have been reversed through profit or loss in so far as the fair value of the investment at the closing date exceeded the impaired acquisition cost. Reversals of impairments are recognised only up to the original acquisition cost.

The fair value of listed shares is taken to be the final available bid 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 and mutual 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 bonds, financial market instruments have been valued at the acquisition cost, which is steadily adjusted towards the nominal value on a bond-specific basis over its maturity. If the fair value of a bond is lower than its acquisition cost less prior impairments, a further impairment is recognised to adjust the acquisition cost through profit or loss.

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

Premium receivables and other receivables have been valued at the lower of nominal value or 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 Varma 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 remuneration 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 three (3) years after the end of the earnings year. The financial instrument in both the short- and long-term remuneration scheme is cash. The amount of the variable remuneration is booked 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	2019	2018
Non-life insurance		
Direct insurance		
Domestic	19,626,678	17,381,102
Reinsurance	0	0
Insurance premiums written before the share of insurers	19,626,678	17,381,102

Note 2: Items 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 expenses 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

Direct insurance

euro	1	2	3	4	5	6
Guarantees						
2019	19,626,678	14,011,195	-3,822,578	-5,915,755	1,613,514	5,886,376
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						
2019	0	-13,550	0	0	0	-13,550
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						
2019	19,626,678	13,997,645	-3,822,578	-5,915,755	1,613,514	5,872,826
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

2019	1,617,762
2018	-782,714
2017	1,078,907
2016	1,174,149

Balance on technical account

2019	7,490,588
2018	7,327,474
2017	5,307,373
2016	4,500,800

Note 3: Items deducted from the insurance premiums written

euro	2019	2018
Credit losses of insurance premium receivables	90,472	0

Note 4: Breakdown of net investment income

euro	2019	2018
Investment income		
Income from real estate investments		
Other income	0	163
	0	163
Income from other investments		
Dividend income	89,701	148,801
Interest income	3,317,339	3,168,867
Other income	103,051	57,707
	3,510,090	3,375,376
Reversal of impairments	3,172,986	1,190,808
Gain on sale of investments	649,917	2,145,632
	3,822,903	3,336,440
Investment income, total	7,332,992	6,711,979
Investment expenses		
Expenses from real estate investments	0	0
Expenses from other investments	-270,949	-207,935
Interest expenses and other financial expenses	-1,000	-1,000
	-271,949	-208,935
Impairments	-756,195	-4,474,743
Loss on sale of investments	-38,489	-131,545
	-794,684	-4,606,288
Investment expenses, total	-1,066,633	-4,815,224
Net profit from investments	6,266,359	1,896,756

Note 5: Operating expenses in the profit and loss account

euro	2019	2018
Insurance sales expenses	2,692,704	2,273,498
Insurance management expenses	1,651,332	1,233,919
Administrative expenses	1,571,718	1,579,959
Commissions and profit participation, ceded reinsurance	-164,156	-133,087
	5,751,598	4,954,290

Note 6: Total operating expenses by function

euro	2019	2018
Processing of claims	256,876	230,529
Operating expenses	5,751,598	4,954,290
Investment management expenses	170,356	194,327
	6,178,830	5,379,146

Note 7: Auditor's fees

euro	2019	2018
Ernst & Young Oy		
Auditing fees	29,947	22,262
Other fees	0	2,108

Notes to the balance sheet

Note 8: Changes in intangible and tangible assets

euro	Intangible assets	Tangible assets	Total
Acquisition cost 1 January	572,921	300,176	873,097
Depreciated fully during the previous year	-155,206	-194,600	-349,807
Increases	22,758		22,758
Deductions			0
Acquisition cost 31 December	440,472	105,576	546,048
Accumulated depreciation 1 January	-155,206	-230,964	-386,171
Depreciated fully during the previous year	155,206	194,600	349,806
Accrued depreciation on deductions			0
Depreciation of the financial year	-83,543	-5,212	-88,754
Accumulated depreciation 31 December	-83,543	-41,576	-125,119
Book value 31 December	356,930	64,000	420,929

Note 9: Fair value and valuation differences of investments

euro	Remaining acquisition cost	Book value	Fair value
Investments 31 December			
Real estate investments			
Real estate investment funds and collective investments	1,639,900	1,639,900	1,821,296
Other investments			
Shares and other equity instruments	18,267,699	18,267,699	21,703,485
Other financial instruments	122,384,220	122,384,220	125,137,502
Total	142,291,819	142,291,819	148,662,283

The remaining acquisition cost of financial instruments includes the difference between the nominal value and the acquisition value allocated as interest income or expenses

184,220

Valuation difference
6,370,464

Note 10: Changes in shareholders' equity

euro	2019		2018	
Restricted				
Share capital 1 January = 31 December		10,200,000		10,200,000
Unrestricted				
Reserve for invested undistricted equity 1 January	0		0	
Returns of capital	<u>0</u>	0	<u>0</u>	0
Profit / loss from previous accounting periods 1 January	26,155,569		23,869,858	
Distribution of dividends	<u>-5,000,000</u>	21,155,569	<u>-5,000,000</u>	18,869,858
Profit/loss for the financial year		10,987,490		7,285,711
		32,143,060		26,155,569
Shareholders' equity total		42,343,060		36,355,569

Share capital of Garantia Insurance Company Ltd is fully owned by Taaleri Oyj (business ID 2234823-5, registered domicile Helsinki). As of 31 December 2019 Garantia's share capital consisted of 60 000 shares. The company has a single series of shares.

Note 11: Distributable funds

euro	2019	2018
Profit / loss for the financial year	10,987,490.46	7,285,711.00
Profit / loss from previous accounting periods	21,155,569.07	18,869,858.07
Distributable capital	32,143,059.53	26,155,569.07
Reserve for invested unrestricted equity	0.00	0.00
Distributable funds total	32,143,059.53	26,155,569.07

Note 12: Provision for claims outstanding

	2019	2018
Loan and guarantee insurance		
euro	832,463	1,060,834
% of claims outstanding 1 January	72.2 %	64.4 %

Section 10 (4)(1) Ministry of Social Affairs and Health (decree governing pension institutions, STMtpA 614/2008): If there is a material 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 the provision for claims outstanding is reported after the reinsurers' share (net).

Other notes

Note 13: Commitments

euroa	2019	2018
Total gross exposure from guarantee insurance	1,837,468,162	1,666,514,055
Total gross exposure from guarantee insurance after deducting the value of collaterals	1,438,629,768	1,271,229,002
Lease liabilities from rental of premises		
Leases payable during the next financial year	229,960	204,349
Leases payable after the next financial year	479,084	611,878
Other lease liabilities		
Leases payable during the next financial year	68,981	69,019
Leases payable after the next financial year	60,851	77,459
Capital commitments related to investment operations	3,131,059	4,281,668

Lease liabilities from rental of premises include Garantia Insurance Company's share of the lease liability 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 Pension fund 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 for outstanding claims.

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, in accordance with the Finnish accounting system, booked an expense 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 books these remuneration programmes in the consolidated IFRS financial statements under shareholder's equity.

On 28 October 2015, the Board of Directors of Taaleri Plc decided on an equity-based incentive system for key persons in the Group. Under the incentive programme, key persons received synthetic options and any bonus will be paid in cash in 2019-2020. Bonuses paid under the incentive programme correspond at the time of granting to a maximum of approximately 800,000 options based on the price increase of Taaleri Plc's shares, including the portion 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 2019 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 programme for key persons in the 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 Group Executive Team, and in the 2018-2021 earnings period the target group includes 11 key persons. The possible bonus paid under the programme for the earnings period is based on the compound earnings of Taaleri Plc's share. The total bonuses paid for the 2017-2020 earnings period correspond to the value of no

more than 180,000 Taaleri Plc shares, for the 2018-2021 earnings period no more than 240,000 Taaleri Plc shares, and for the 2019-2022 earnings period no more than 225,000 Taaleri Plc shares, including the portion paid in cash. A total of 117,300 shares have been allocated to Garantia personnel, of which 62,400 shares were in circulation at the end of the 2019 financial year. The bonuses are paid partly in company shares and partly in cash. The purpose of the cash portion is partly to cover the taxes and tax-like charges payable by key persons on the bonus. The costs accumulated in the Taaleri Group 2019 financial statements (IFRS) from the shares granted to Garantia's personnel were EUR 3,118.85.

Note 14: Personnel and members of corporate bodies

euro	2019	2018
Personnel expenses		
Salaries and other remuneration	3,185,114	2,460,014
Pension expenses	488,160	475,787
Other indirect employee expenses	95,882	6,654
	3,769,156	2,942,455
Salaries and remunerations paid to		
CEO	244,987	268,209
Members of the board of directors	148,000	168,000
Average number of personnel during financial year	25	25

Note 15: Holdings in other companies

euro	Book value	Fair value
Shares and funds		
iShares S&P 500 EUR Hedged Ucits	7,418,714	9,144,574
iShares Core MSCI Japan	906,426	956,040
iShares S&P 500 B Ucits	3,518,825	4,086,902
Db Stoxx Europe 600	3,529,211	3,815,465
SPDR MSCI EM Asia UCITS ETF	1,000,900	1,025,310
	16,374,076	19,028,291
Private equity funds		
CapMan Buyout X Fund B Ky	300	657,428
HL Large Buyout Club Fund	1,893,323	2,017,767
	1,893,623	2,675,194
Real estate property funds		
Taaleri Tonttirahasto Ky	1,639,900	1,821,296
	1,639,900	1,821,296
TOTAL	19,907,599	23,524,781

Note 16: Related party loans and collateral and commitments given in favour of related parties and related party transactions

Garantia purchased the entire share capital of Suomen Vuokravastuu Oy (SVV) on 31 August 2018. Suomen Vuokravastuu Oy was merged into Garantia in an absorption merger on 31 December 2018. The acquisition of the shares was a related party transaction, as the main shareholder of SVV was a relative of a member of the Board of Directors of Garantia of that time. The transaction was implemented on normal commercial terms, and an appraisal of SVV's fair value was carried out by an independent expert before the transaction.

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 a percentage of each year's premiums written. The initial sale price was EUR 350,000 and the additional earn-out accumulated on the premiums written for 2019 was EUR 22,000. The initial sale price and the additional earn-out for 2019 have been capitalised on the balance sheet as goodwill. The goodwill is depreciated on a straight-line basis over five (5) years. The estimated total sale price on the closing date was EUR 678,000. The estimate is based on the estimate by Garantia's management of the development of the premiums written. The actual development may diverge significantly from the estimate.

Note 17: Risks and risk management

Garantia's values, Code of Conduct, strategy and business objectives form the basis for the company's risk and solvency management. The purpose of risk management is to support the achievement of the company's targets 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 material 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.

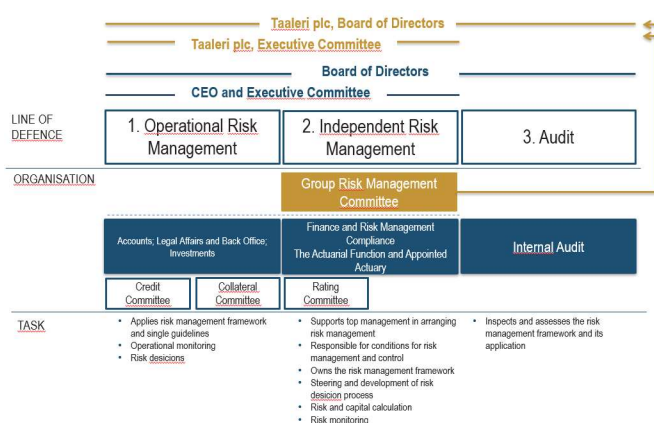


Figure 1: The organisation of Garantia's risk management Figure 2: Decision-making bodies and reporting relations

The Group Risk Management Committee of Taaleri Group is responsible for the functioning and effectiveness of the Group's risk management process. The independent Group Risk Management Committee 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 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 Board of Directors, 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, a 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 underwriting, claims and investment decisions. 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 Managing Director 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 Managing Director.

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, and management and administration processes (system of governance). 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 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 an internal estimate capital requirement (an estimate that is based on the company's internal 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 risk-taking limits and risk indicators. The Board of Directors approves the risk-taking limits and 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 (concentration risks concerning reinsurance) and the investment plan (risk-taking limits concerning insurance 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 and 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 S&P's Insurance Capital Model. In addition to Value-at-Risk-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 Executive Committee 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, or underwriting 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 loan guaranties, 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 beneficiary of the guaranty). 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). 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 the insurance risk, i.e. the credit risk in guaranty insurance, 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 the decision-making system confirmed by the Board of Directors, and the complementary processes and guidelines on credit risk assessment, distribution channel auditing, pricing, collateral and covenants approved by the Executive Committee. The risk management function monitors the functioning and quality of the company's 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 annual planning.

The amount of insurance risk (credit risk) is measured by the amount of the company's internal economic capital model, the Solvency Capital Requirement (SCR) and the Standard & Poor's insurance capital model. The insurance risk's economic capital is defined separately for each contract with an internal ratings-based approach according to Basel II which considers the exposure at default, 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. In addition to economic capital, the credit risk specific to clients and groups of connected clients are also assessed on the basis of the rating class, gross and net insurance exposure, the amount and type of collateral, amount of uncovered exposure, covenants and possible risk client status classification of the client or group of connected clients. The credit

risk of insurance exposure is assessed on the basis of gross exposure, amount and distribution of uncovered exposure and economic capital by product groups, rating class and industry. Other criteria for assessing the credit risk of insurance exposure include the average maturity of exposure and the ratio of claims incurred against earned premiums and insurance exposure. The insurance risk position is monitored and reported to the Executive Committee and the Board of Directors every month.

Quantitative information on insurance risks

Trend in claims incurred EUR thousand	Claims paid*	Change in provision for outstanding claims*	Claims incurred	% of insurance exposure	Claims ratio, %
2019	-336	-1,282	-1,618	0.09 %	12.2 %
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 %

*) Claims paid include the share of reinsurers and operating expenses allocated to claims operations.

Change in provision for outstanding claims includes the share of reinsurers.

Total insurance exposure by product EUR million	2019	2018
Corporate loan guaranties	362	368
Commercial bonds	534	513
Residential mortgage guaranties	818	655
Other guaranties	123	130
Total	1,837	1,667

Total insurance exposure by collateral type EUR million	2019	2018
Reinsured	326	290
Covered by collateral classes 1 and 2	73	105
Covered by collateral classes 3 and 4	130	147
Uncovered position	1,309	1,124
Total	1,837	1,667

Collateral classes: 1 = secure, liquid collateral, 2 = secure collateral within collateral haircut value, 3 = collateral within fair value, 4 = Other collateral or security.

Corporate insurance exposure by credit rating * EUR million	2019	2018
AAA...BBB-	121	101
BB+...BB-	572	648
B+...B-	248	177
C+ or weaker	16	16
Total	958	941

*) Total insurance exposure excl. residential mortgage guaranties, assumed reinsurance and residual value insurance.

Corporate insurance exposure by industry * EUR million	2019	2018
Construction	488	487
Manufacturing	201	203
Machinery and equipment (incl. repair)	93	50
Chemicals	22	47
Metals	37	46
Food	30	36
Other	18	25
Wholesale and retail trade	58	37
Finance and insurance	58	71
Services	35	34
Transport and logistics	28	16
Water supply and waste management	26	30
Other industries	64	63
Total	958	941

The industry classification is based on the classification taxonomy of Statistics Finland.

*) Total insurance exposure excl. residential mortgage guaranties, assumed reinsurance and residual value insurance.

Sensitivity analysis of insurance operations, 31.12.2019 *

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premiums earned	13,212	increases 10 %	1,321	improves 5,0 pp
Claims incurred	1,618	increases 10 %	0	weakens 1,2 pp
Large claim, EUR 10 million	0	EUR 10 mn.	0	weakens 75,7 pp
Operating expenses	5,752	increases 10 %	-575	weakens 4,4 pp

* Herkkyysanalyysi perustuu Vakuutusosakeyhtiö Garantian FAS-tilinpäätökseen.

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, %
Premiums earned	12,282	increases 10 %	983	improves 3,09 pp
Claims incurred	-783	increases 10 %	0	weakens 0,64 pp
Large claim, EUR 10 million	0	EUR 10 mn.	0	weakens 81,4 pp
Operating expenses	4,954	increases 10 %	-396	weakens 4,03 pp

*) The sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.

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 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 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	2019	2018
Provision for unearned premiums	25,955	20,579
Provision for claims outstanding	2,573	1,291
Provision for known claims outstanding	1,642	474
Provision for unknown claims outstanding	931	817
Equalization provision	71,701	73,318
Total	100,228	95,188

* incl. reinsurers' share

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2019					
EUR thousand	0-1 years	1-2 years	2-3 years	Over 3 years	Total
Provision for unearned premiums	8,965	5,103	3,801	8,084	25,955
Provision for claims outstanding	2,573				2,573
Total	11,538	5,103	3,801	8,084	28,528

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

The duration of the cash flow distribution of technical provision excluding equalization provision is 2,7 (2,5) 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. 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 observes the principle of prudence defined in the Insurance Companies Act in its investment activities. Funds are only invested into 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 parties.

Investment risks are managed through effective diversification of the investments by asset class, sector, geographical area, credit rating and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily execution of investment operations, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment operations and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with 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 an internal ratings-based method according to Basel II, which considers the amount of investment, the instrument's credit rating, the loss given default and modified duration. In addition to economic capital, investment risks are measured on the basis of asset class, country, credit rating, counterparty, duration, interest rate sensitivity and the amount of foreign currency denominated investments. The investment risk position is monitored and reported to the Executive Committee and the Board of Directors monthly.

Quantitative information on investment risks

Investments by asset class at fair value				
EUR million	2019	%	2018	%
Fixed income investments *	127.3	84.4 %	117.5	87.4 %
Equity investments	21.7	14.4 %	14.9	11.1 %
Real estate investments	1.8	1.2 %	1.9	1.4 %
Other investments	0.0	0.0 %	0.0	0.0 %
Total	150.8	100.0 %	134.4	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 2019						
EUR million	0-1 yrs.	1-3 yrs.	3-5 yrs.	Over 5 yrs.	Total	%
AAA...AA-	0.2	3.8	-	4.6	8.5	6.7 %
A+...A-	0.4	-	14.8	1.1	16.3	12.8 %
BBB+...BBB-	-	2.1	27.8	14.6	44.5	35.0 %
BB+ tai alle	10.3	22.4	25.1	-	57.9	45.5 %
Yhteensä	10.9	28.3	67.7	20.3	127.3	100.0 %

Fixed-income portfolio (excl. bond funds) by maturity * and credit rating ** 31 Dec 2018						
EUR million	0-1 v.	1-3 v.	3-5 v.	Yli 5 v.	Yhteensä	%
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+ tai alle	2.5	21.3	20.3	13.2	57.4	48.8 %
Yhteensä	3.4	37.2	56.4	20.6	117.5	100.0 %

*) Maturity date is the end of the term to maturity. If the instrument includes a call option, maturity is the first possible call date.

**) The rating of an instrument is an external rating agency issuer or senior debt rating, or if not available, Garantia's internal credit rating.

Sensitivity analysis of investment activities, 31.12.2019 *

Investment category	Investments at fair value, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	127.3	Change in interest rates	1.0 %	3.32
Equities	19.0	Market value	10.0 %	1.52
Private equity	4.5	Market value	10.0 %	0.36

Sensitivity analysis of investment activities, 31.12.2018 *

Investment category	Investments at fair value, 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	4.5	Market value	10.0 %	0.36

*) 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 risk

Operational risk means 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 amount of the Solvency Capital Requirement and of economic capital, which is determined on the basis of the annual risk survey. 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 Executive Committee 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 prerequisites for carrying out business operations.

The principal method in the management of strategic risks is 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 they 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 groups 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 and/or 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 analysis

Note 18: Key financial indicators

	2019	2018	2017	2016	2015	2014	2013
Gross premiums written (before share of reinsurers), EUR	19,626,678	17,381,102	15,235,465	12,217,588	10,018,860	11,250,256	10,610,274
Claims ratio, %	12.2 %	-6.4 %	10.1 %	12.4 %	15.1 %	3.7 %	22.2 %
Claims incurred without computational interest expenses (+/-), EUR	1,617,762	-782,714	1,078,907	1,174,149	1,491,654	-412,292	-2,404,875
Claims ratio without computational interest expenses, %	12.2 %	-6.4 %	10.1 %	12.4 %	15.1 %	3.7 %	22.2 %
Expense ratio, %	43.4 %	40.3 %	50.1 %	52.5 %	48.5 %	42.0 %	36.3 %
Combined ratio, %	55.7 %	34.0 %	60.3 %	64.9 %	63.7 %	45.7 %	58.5 %
Combined ratio without computational interest expenses, %	55.7 %	34.0 %	60.3 %	64.9 %	63.7 %	45.7 %	58.5 %
Operating profit (+) or loss (-), EUR	12,153,226	10,007,713	15,689,515	6,538,812	12,039,519	11,360,927	10,655,515
Adjustments in off-balance sheet valuation differences, current value reserve and revaluation reserve (+/-), EUR	4,531,751	-4,514,824	-3,542,746	3,210,059	-3,586,445	2,294,523	-28,448
Total result (+/-), EUR	16,684,977	5,492,889	12,146,769	9,748,871	8,453,074	13,655,450	10,627,067
Interest expenses and other financial expenses (+), EUR	1,000	1,000	751	1,000	1,000	1,000	1,062
Calculated interest expenses (+), EUR							
Return on total assets as a percentage (at fair value)	11.6 %	4.0 %	9.2 %	7.7 %	6.8 %	11.2 %	9.2 %
Net return on investments, % at fair value on capital employed (+/-)	8.0 %	-1.9 %	6.3 %	5.4 %	4.4 %	7.1 %	5.9 %
Equalization provision, EUR	71,700,643	73,318,405	72,535,691	73,614,597	74,788,747	71,271,823	65,171,091
Average number of personnel during the financial year	25	25	24	22	25	25	24

Note 19: Earnings analysis

euro	2019	2018	2017	2016	2015	2014	2013
Insurance premium income (+/-)	13,242,186	12,281,764	10,637,765	9,467,030	9,848,753	11,070,914	10,828,016
Claims incurred (-/+)	-1,617,762	782,714	-1,078,907	-1,174,149	-1,491,654	-412,292	-2,404,875
Operating expenses (-)	-5,751,598	-4,954,290	-5,330,391	-4,966,231	-4,777,713	-4,645,538	-3,934,512
Other technical income and expenses (+/-)	0	0	0	0	0	0	0
Balance on technical account before changes in equalization provision (+/-)	5,872,826	8,110,188	4,228,467	3,326,650	3,579,386	6,013,084	4,488,629
Investment income and expenses, revaluations and their adjustments and other changes in value (+/-)	6,266,359	1,896,756	11,457,795	3,212,162	8,460,133	5,347,843	6,166,886
Other income and expenses (+/-)	14,040	769	3,253	0	0	0	0
Share of associated companies' profit (+) or loss (-)	0	0	0	0	0	0	0
Operating profit (+) or loss (-)	12,153,226	10,007,713	15,689,515	6,538,812	12,039,519	11,360,927	10,655,515
Change in equalization provision (-/+)	1,617,762	-782,714	1,078,907	1,174,149	-3,516,924	-6,100,731	-4,461,182
Profit (+) or loss (-) before extraordinary items	13,770,988	9,224,999	16,768,422	7,712,961	8,522,594	5,260,196	6,194,333
Income taxes and other direct taxes (-/+)	-2,783,497	-1,939,288	-3,454,376	-1,573,968	-1,711,925	-1,042,074	-1,516,421
Minority shares (-)	0	0	0	0	0	0	0
Profit (+) or loss (-) for the financial year	10,987,490	7,285,711	13,314,045	6,138,993	6,810,670	4,218,122	4,677,912

Note 20: Investment allocation at fair value

	Basic allocation				Risk allocation ^{a)}		
	31.12.2019		31.12.2018		31.12.2019	31.12.2018	
	EUR	%	EUR	%	EUR	%	% ¹⁰⁾
Fixed income investments	127,254,263	84.4	117,519,620	87.4	127,254,263	84.4	87.4
Loan receivables ¹⁾							
Bonds	126,646,737	84.0	116,601,181	86.8	126,646,737	84.0	86.8
Other financial instruments and deposits ^{1) 2)}	607,525	0.4	918,439	0.7	607,525	0.4	0.7
Equity investments	21,703,485	14.4	14,938,542	11.1	21,703,485	14.4	11.1
Listed equities ³⁾	19,028,291	12.6	12,342,091	9.2	19,028,291	12.6	9.2
Private equity investments ⁴⁾	2,675,194	1.8	2,596,452	1.9	2,675,194	1.8	1.9
Unlisted equities ⁵⁾							
Real estate investments	1,821,296	1.2	1,945,676	1.4	1,821,296	1.2	1.4
Direct real estate investments		0.0	0	0.0		0.0	0.0
Real estate investment funds and collective investments	1,821,296	1.2	1,945,676	1.4	1,821,296	1.2	1.4
Other investments	0	0.0	0	0.0	0	0.0	0.0
Hedge funds ⁶⁾							
Commodities							
Other investments ⁷⁾							
Total	150,779,043	100.0	134,403,838	100.0	150,779,043	100.0	100.0
Effect of derivatives ⁹⁾							
Total investments at fair value	150,779,043	100.0	134,403,838	100.0	150,779,043	100.0	100.0
Modified duration of the bond portfolio	3.3		3.4				

1) Includes accrued interest

2) Includes cash and bank balances, and receivables and payables relating to trading of 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 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

	Net return on Capital investments employed ^{a)} at fair value ^{a)}		Net return on investments, %	Net return on investments, %				
	2019			2018	2017	2016	2015	
	EUR	EUR	%	%	%	%	%	
Fixed income investments	7,369,553	117,678,746	6.3	0.4	5.4	4.8	2.5	
Loan receivables ¹⁾								
Bonds	7,371,605	116,561,032	6.4	0.4	5.5	5.0	2.5	
Other financial instruments and deposits ^{1) 2)}	-2,052	1,117,714	-0.1	-0.6	-0.5	-0.2	0.0	
Equity investments	3,547,907	15,600,206	22.5	-11.8	11.1	9.4	9.8	
Listed equities ³⁾	3,581,168	12,822,831	27.4	-13.6	9.1	9.8	10.8	
Private equity investments ⁴⁾	-33,261	2,777,375	-1.1	6.0	30.1	4.0	0.0	
Unlisted equities ⁵⁾								
Real estate investments	65,620	1,860,624	3.6	4.2	2.1	-1.1	6.9	
Direct real estate investments							10.7	
Real estate investment funds and collective investments	65,620	1,860,624	3.6	4.2	2.1	-1.1	-7.8	
Other investments								
Hedge funds ⁶⁾								
Commodities								
Other investments ⁷⁾								
Total	10,983,080	135,139,576	8.1	-1.7	6.6	5.6	4.6	
Unallocated income, expenses and operating expenses	-192,929							
Net return on investments at fair value	10,790,151	135,139,576	8.0	-1.9	6.3	5.4	4.4	

1) Includes accrued interest.

2) Includes cash and bank balances, and receivables and payables relating to trading of 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 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 reinsurers
Earned premiums	=	+ Premiums written - Reinsurers' share +/- Change in provision for unearned premiums +/- Reinsurers' share of the change in provision for unearned premiums
Claims ratio, %	=	$\frac{\text{Claims incurred}}{\text{Insurance premium income}}$ <p>Claims ratio is calculated after deducting the share of reinsurers from premium income.</p>
Expense ratio, %	=	$\frac{\text{Operating expenses}}{\text{Insurance premium income}}$ <p>Expense ratio is calculated after deducting the share of reinsurers from premium income.</p>
Combined ratio, %	=	Claims ratio, % + Expense ratio, %
Operating profit or loss	=	Profit or loss before the change in equalisation provision and taxes
Return on total assets, % (at fair value)	=	+/- Operating profit or loss + Interest expenses and other financial expenses +/- Change in revaluation reserve / fair value reserve $\frac{\text{+/- Change in valuation difference of investments}}{\text{+ Balance sheet total}}$ +/- Valuation difference of investments <p>The divider is calculated as the average of the values of the accounting period and previous period.</p>
Basic own funds	=	+ Equity and reserves + Equalization provision - Intangible assets + Valuation differences of investments - Forseeable dividends and distributions - Valuation differences of technical provisions (excl. equalization provision) * <p>*) Valuation differences between Solvency II and FAS technical provisions, net of reinsurance recoverables.</p>
Solvency ratio, %	=	$\frac{\text{Basic own funds}}{\text{Solvency capital requirement}}$

SIGNATURES

Helsinki, 6 February 2020

Hannu Tonteri

Karri Haaparinne

Timo Hukka

Jukka Ohls

Antti Suhonen

Titta Elomaa, CEO

A report on the conducted audit has been issued today.

Helsinki, 6 February 2020

Ernst & Young Oy

Ulla Nykky
Authorised Public Accountant