GARANTIA INSURANCE COMPANY
REPORT BY THE BOARD OF DIRECTORS
AND
FINANCIAL STATEMENTS 2020

GARANTIA

Garantia Insurance Company

The mission of Garantia is to promote capital efficiency. Our goal is to modernize inefficient collateral practices for the benefit of our customers and to provide our customers with easy and cost-effective guaranty 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 14 October 2020, 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 the Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on Nasdaq OMX Helsinki. The Taaleri Group comprises three business areas: Wealth Management, Insurance 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 2020 IN BRIEF

Best insurance result in company history

- Gross premiums written decreased by 3.3% to EUR 19.0 (19.6) million while earned premiums grew by 12.4% to EUR 14.9 (13.2) million.
- The total guaranty insurance exposure remained near the level of the end of the previous year and was EUR 1.82 (1.84) billion.
- The balance on the technical account before changes in the equalisation provision improved to EUR 9.3 (5.9) million. The improvement in the profitability of insurance operations was a result of growth in earned premiums, decline in claims incurred, and lower operating expenses than in the previous year.
- Claims incurred totalled EUR 0.6 (1.6) million during the financial year. The volume of claims incurred remained low during the financial year. The claims ratio was 4.0% (12.2).
- Operating expenses decreased by 12.5% and the expense ratio decreased to 34% (43). The combined ratio fell to 38% (56).
- Earnings before tax amounted to EUR 13.6 (13.8) million. Earnings were increased by the improved profitability of insurance operations and decreased by net investment income, which was lower than in the previous year.
- Investment return at fair value was, given the chosen level of risk, moderate and stood at 1.8% (8.1).
- Solvency remained strong. The solvency ratio was 229% (232) at the end of the financial year.
- On 14 October 2020, S&P confirmed Garantia's credit rating as A- with a stable outlook.

Key Figures

EUR thousand	2020	2019	Change
Gross premiums written	**18,988**	**19,627**	**-3.3 %**
Other items [1]	-4,104	-6,384	-35.7 %
Earned premiums	**14,885**	**13,242**	**12.4 %**
Claims incurred	-592	-1,618	-63.4 %
Operating expenses	-5,030	-5,752	-12.5 %
Balance on technical account before changes in equalisation provision	**9,263**	**5,873**	**57.7 %**
Change in equalisation provision	592	1,618	-63.4 %
Balance on technical account	**9,855**	**7,491**	**31.6 %**
Investment income and expenses, net	3,716	6,266	-40.7 %
Other income and expenses	33	14	133.6 %
Earnings before tax	**13,604**	**13,771**	**-1.2 %**
Claims ratio, %	4.0 %	12.2 %	-8.2 pp
Expense ratio, %	33.8 %	43.4 %	-9.6 pp
Combined ratio, %	37.8 %	55.7 %	-17.9 pp
Return on investments at fair value, %	1.8 %	8.1 %	-6.3 pp
Solvency ratio (S2), % [2]	229.4 %	231.8 %	-2.4 pp
Total insurance exposure, EUR bn.	1.82	1.84	-1.1 %
Average number of personnel	21	25	-4 pers.
Credit rating (S&P)	A-	A-	-

The figures used for result comparison are those for the corresponding periods in 2019. The comparison data used for balance sheet and cross-section items are the data for the end of 2019 unless otherwise indicated.

[1] Reinsurers' share of premiums written, change in provision for unearned premiums and reinsurers' share of change in provision for unearned premiums.

[2] Solvency II regulations do not fall within the scope of statutory auditing under the Insurance Companies' Act, and hence, the solvency figures have not been audited.

BOARD OF DIRECTORS' REPORT

Operating environment

The trend of the Finnish national economy was determined by the coronavirus pandemic, which spread globally in 2020. The effects of the pandemic on the Finnish economy started to become visible in the first quarter, and in the second quarter GDP contracted by 6.2% in relation to the corresponding period of 2019. Although the economy showed signs of recovery from the third quarter onwards, the full-year GDP declined by 3–4% from the previous year according to estimates.

The economic impacts of the pandemic crisis were varied in Finland. The crisis had direct impacts on private consumption, for example, which declined steeply during the second quarter. The unemployment rate also rose rapidly as companies furloughed and laid off staff. According to data from the end of November, Finland's unemployment rate was 8.1%, while at the beginning of the year it was 6.7%.

The pandemic crisis did not have a substantial impact on the housing market. Housing sales temporarily slowed down in the spring as news of the pandemic spread, but the slowdown was temporary, and the market rapidly returned to the normal level during the summer. Housing sales volumes were good as a whole during the year, and the good momentum was also visible in housing prices, which increased. The rise in house prices accelerated towards the end of the year, and at the end of November, the average housing price per square metre in the secondary market was 5.2% higher than at the corresponding time in the previous year. The positive development of the housing market was visible in the volume of new mortgage loans taken out by households, which exceeded the level of the previous year. Banks' competition for housing loan customers remained tough. The favourable development of the housing market was supported by good consumer purchasing power in view of the circumstances, interest rates having remained low, and the ready availability of housing loans. Finnish mortgage holders' ability to service debts continued to be good during the pandemic crisis. With its June macroprudential decision, the Financial Supervisory Authority raised the statutory maximum loan-to-value ratio for other than first-time buyers from 85% to 90%, which had a stimulative effect on demand for housing loans.

The corporate operating environment also saw opposing trends. The revenues of Finnish companies fell substantially in the spring as the export markets quietened down and the state of emergency declared by the government and the other measures to prevent the spread of the coronavirus reduced economic activity. However, serious economic difficulties and waves of bankruptcies were avoided. During the first three quarters, even fewer applications for corporate restructuring and bankruptcy were submitted than in the corresponding period of the previous year, although the amendments made to bankruptcy legislation during the spring also had an impact on the situation. The most serious economic impacts of the pandemic crisis and the related restrictive measures during the year were reflected mainly in small and medium-sized service sector enterprises, while the economic impacts of the crisis on larger manufacturing, trade and construction sector enterprises remained more moderate. Companies' good performance under the circumstances was influenced by Finnish companies' generally strong financial position, companies' proven ability to adjust their operations, and the public sector's support measures aimed at the corporate sector. During the year, companies were granted state support for business costs and other public financing, for example. Employers' pension insurance contributions were reduced, and payment extensions were granted for taxes and other public payments.

Demand for business financing was exceptionally brisk during the spring and the volume of new business loans granted by banks increased sharply on the previous year. Demand was driven mainly by companies' desire to secure their financial position by extending the maturities of financing and by growing liquidity reserves. The availability of business financing remained good during the year and companies' financing costs remained inexpensive. However, towards the end of the year, demand for financing decreased as economic uncertainty restricted corporate investment.

The investment markets were unstable during the year. As the coronavirus pandemic spread during the spring, share prices decreased substantially and the risk premiums of debt instruments widened. The S&P 500 Index, which describes the performance of the US equity market, and which in turn is central to the global economy, touched its lowest point of the year in March, when the index was down 31% from the level at the beginning of the year. As a result of the broad monetary policy stimulus measures in the USA and Europe and positive news about the development of a coronavirus vaccine, equity performance improved, and at the end of the year, the index had already climbed 16% above the level of the beginning of the year. As a consequence of the monetary policy stimulus, market interest rates declined further during the year and short-term Euribor rates, which are generally used as the reference rate of loans in Finland, continued to be firmly below zero.

Insurance operations

Garantia's gross premiums written decreased by 3.3% to EUR 19.0 (19.6) million during the financial year. The decline in premiums written was a result of the company's strategic decision to discontinue underwriting new commercial bonds for construction sector customers as of 1 January 2020. However, the development of premiums written in other product groups was favourable. With respect to premiums written on residential mortgage guaranties, the year turned out to be successful as a result of the housing market performing well and a new distribution channel opening at the end of the year. Demand for corporate loan guaranties was supported by demand for business financing picking up in the spring.

The total guaranty insurance exposure contracted by 1.1% and was EUR 1,817 (1,837) million at the end of the year. Of the total guaranty insurance exposure at the end of the year, 54% (45) consisted of consumer exposures and 46% (55) consisted of corporate exposures. During the financial year, the volume of consumer exposures surpassed the volume of corporate exposures for the first time. Consumer exposures include residential mortgage guaranties and rent guaranties granted to households. Corporate exposures include corporate loan guaranties, commercial bonds and other business-related guaranties.

On 22 September 2020, Garantia published a new partnership concerning the distribution of its residential mortgage guaranties. The underwriting of guaranties to OP Financial Group's mortgage loan customers commenced in the beginning of October.

Earned premiums grew by 12.4% during the financial year and amounted to EUR 14.9 (13.2) million.

Claims incurred decreased and totalled EUR 0.6 (1.6) million during the financial year. The claims ratio decreased to 4.0% (12.2). The ratio of claims incurred against the total guaranty insurance exposure was 0.03% (0.09). No substantial individual guaranty insurance claims occurred during the year and the volume of claims incurred remained low despite the weak performance of the general economy. Garantia did not have any recourse receivables from insurance claims paid on its balance sheet at the end of the financial year.

Operating expenses declined by 12.5% to EUR 5.0 (5.8) million during the financial year. The decline in operating expenses was primarily the result of efficiency improvement measures in line with the strategy and a reduction in personnel expenses. The expense ratio was 33.8% (43.4).

The balance on the technical account before changes in the equalisation provision strengthened to EUR 9.3 (5.9) million, and the combined ratio fell to 37.8% (55.7). The profitability of insurance operations was boosted by the increase in earned premiums, claims incurred having remained low and the contraction of operating expenses from the previous year. The equalisation provision was decreased by EUR 0.6 (1.6) million and thus the balance on the technical account came to EUR 9.9 (7.5) million.

Investment operations

The year 2020 was eventful on the investment markets as a result of the pandemic crisis. In the first quarter, equity prices declined, and the liquidity of the corporate bond market weakened substantially amid spreading economic uncertainty. In the second and third quarters, the increase in central banks' quantitative easing and the accumulation of information regarding the coronavirus restored market conditions to a near-normal state. The substantial global political tensions in the fourth quarter regarding the US presidential elections and Britain's exit from the EU did not shake the positive performance of the year-end. As a whole, the year turned out to be satisfactory for investment operations in view of the circumstances.

Garantia's net investment income recognised in profit and loss amounted to EUR 3.7 (6.3) million and mostly comprised fixed income returns and sales gains. Net impairments recognised in net investment income were slightly negative. The valuation difference between the fair value and the book value of investment assets was EUR 5.2 (6.4) million at the end of December.

Investment return at fair value excluding operating expenses from investment activities was 1.8% (8.1). Net investment income on capital employed at fair value was EUR 2.6 (10.8) million, or 1.7% (8.0).

Garantia's investment portfolio (incl. cash and bank balances and accrued interest) at fair value was EUR 159.5 (150.8) 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 though 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, among others (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.

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 operations.

Garantia's risk position remained stable in 2020. The total guaranty insurance exposure remained near the level of the end of the previous year. The proportion of consumer exposures in the total guaranty insurance exposure increased and the proportion of corporate exposures decreased.

The share of investment grade exposures (exposures with a rating between AAA and BBB-) made up 15.6% (12.6) of the corporate insurance portfolio, while exposures with a rating of at least BB- accounted for 73.2% (72.4). The share of guaranties with weak credit ratings of C+ or lower increased slightly due to rating downgrades of existing exposure and was 3.7% (1.7). The principal sectors in the corporate insurance portfolio were construction at 35.4% (50.9) and manufacturing at 24.7% (21.0). No other individual sector's share exceeded 10%. The share of reinsured construction guaranties was 44.8% (55.3).

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 19.8% (21.2) of the Taaleri Group's own funds.

The risk level of investment operations was lowered slightly from the previous year. At the end of the year, fixed income investments made up 86.4% (84.4), equity and private equity investments 12.5% (14.4) and real estate investments 1.1% (1.2) 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 was 66.5% (54.5). The modified duration of bond investments was 3.5 (3.3).

Solvency

Garantia's solvency remained near the previous year's level. The company's basic own funds amounted to EUR 114.1 (112.7) million at the end of the financial year and the solvency capital requirement was EUR 49.7 (48.6) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 229.4% (231.8).

Basic own funds grew as a result of the net profit for the financial year. Basic own funds include, as a deduction, the expected dividend distribution, the amount of which increased on the previous year.

The increase in the solvency capital requirement resulted from increases in the capital requirements for underwriting and market risks. The increase in the capital requirements for underwriting risk was to a large extent a consequence of the changes to the Solvency II standard parameters for solvency calculation, which entered into force on 1 January 2020. If the new standard parameters had been applied on 31 December 2019, Garantia's solvency ratio would have been 219.3% at the end of the 2019 financial year. During the financial year, the growth of the solvency capital requirement was restricted by an increase in diversification benefits and in loss-absorbing capacity and the reduction of the capital add-on set on the company.

Solvency

EUR thousand	2020	2019
Basic own funds	**114,076**	**112,681**
Solvency capital requirement		
Market risk	25,005	23,704
Non-life underwriting risk	28,645	21,019
Counterparty default risk	267	278
Operational risk	468	420
Diversification effect and adjustment for loss-absorbing capacity	-19,929	-16,665
Total	**34,456**	**28,756**
Capital add-on	15,265	19,848
Total	**49,722**	**48,604**
Amount of own funds in excess of the solvency capital requirement	64,354	64,077
Solvency ratio, %	229.4 %	231.8 %

Garantia's basic own funds consist fully of unrestricted Tier 1 basic own funds. Garantia does not apply 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 of technical provisions. Garantia applies the standard formula in the calculation of the solvency capital requirement. 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 29 May 2020, when the amount of the add-on was set at EUR 15.3 (19.8[1]) million. The updated capital add-on is included in the company's solvency capital requirement as of 30 June 2020. In 2020, when making the add-on decision, the Financial Supervisory Authority acknowledged, for the first time, the capital requirement for insurance risk calculated as per Garantia's own economic capital model.

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 by more than 15%, and therefore the preconditions for raising the company's capital requirement continue to exist. According to the Financial Supervisory Authority's estimate, there have been no substantial changes in the company's risk profile since the previous decision made on 17 June 2019. The Financial Supervisory Authority also reiterated that the requirement to use the internal model is not currently appropriate in Garantia's case.

Garantia's solvency and financial condition report for 2020 in accordance with Chapter 8 a of the Insurance Companies Act is published on the company's website, www.garantia.fi, in accordance with the timetable prescribed by regulation. The report is also available at the following address: Garantia Insurance Company Ltd, Kasarmikatu 21 B, 00130 Helsinki.

[1] The capital add-on that was in force as of 30 June 2019 in parentheses.

The Solvency II capital adequacy regulations do not fall within the scope of statutory auditing under the Insurance Companies Act. Therefore, the Solvency II capital adequacy figures have not been audited.

Credit rating

Standard & Poor's Global Ratings (S&P) confirmed Garantia Insurance Company's Issuer Credit Rating (ICR), Financial Strength Rating (FSR) and the company's Financial Enhancement Rating (FER) on its capacity and willingness to meet its commitment on an obligation as A- with a stable rating outlook on 14 October 2020.

Personnel

During the financial year, Garantia employed an average of 21 (25) people. The average age of the personnel at the end of the year was 37.7 (38.8), and their average duration of employment at Garantia was 6.9 (6.7) years. Women made up 48.8% (34.8) of the personnel and men 51.2% (65.2).

Shares and shareholders

Taaleri Plc (Business ID 2234823-5, registered domicile Helsinki) owns the entire share capital of Garantia Insurance Company Ltd. On 31 December 2020, 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: Commitments, in the notes to the financial statements.

Management and governance

The company's Board of Directors was composed of Hannu Tonteri (Chairman), Karri Haaparinne (Vice Chairman), Timo Hukka, Kenneth Kaarnimo (as of 22 February), Jukka Ohls (until 21 February) and Antti Suhonen 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 21 February 2020.

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

Titta Elomaa was the company's Managing Director during the financial year. The company's management team consisted of Titta Elomaa, Tuukka Fabritius, Henrik Allonen, Timo Lehikoinen and Minja Jokinen (until 30 September).

The annual general meeting held on 21 February 2020 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the principally responsible auditor.

Garantia procures its Actuarial Function and Appointed Actuary from an external service provider as an outsourced service. In 2020 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 2020 the service was provided by PricewaterhouseCoopers Oy.

Significant events after the end of the financial year

The company signed an excess loss cover-type portfolio reinsurance agreement regarding residential mortgage guaranties that entered into force on 1 January 2021. The reinsurance covers the majority of the company's residential mortgage guaranty portfolio and it compensates claims exceeding Garantia's own retention up to the agreed sum insured. The arrangement does not have a substantial impact on the company's net profit for the financial year or on its financial position.

Garantia has not had any other significant events after the end of the financial year.

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 10,742,035.27, and the company's distributable funds amounted to EUR 36,885,094.80. The Board of Directors proposes that the profit be transferred to the retained earnings account and that a total of EUR 10,000,000.00 from retained earnings be distributed as dividends.

Outlook for 2021

At the core of Garantia's confirmed strategy is increasing capital efficiency and changing traditional market collateral practices 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 targets related to premiums written, profitability, solvency and credit rating.

Finland's near-term economic outlook is heavily dependent on the development of the coronavirus pandemic. According to forecasts by the Ministry of Finance, the economy will grow by 2.5% in 2021. The forecasts assume that the economy will start to recover as the uncertainty related to the pandemic dissipates during the year.

Garantia's strong solvency enables the growing of business also in uncertain times. The company's premiums written are forecast to grow during the 2021 financial year and the profitability of insurance operations is expected to remain good. The development of claims incurred, and net investment income will have a key impact on Garantia's profitability. The development of claims incurred depends on the performance of the creditworthiness of Finnish consumers and companies, and net investment income is mainly affected by the general performance of the investment market.

FINANCIAL STATEMENTS

Profit and loss account

EUR	Note	2020	2019	Change, %
Technical Account				
Earned premiums				
Premiums written	1, 2, 3	18,988,434	19,626,678	-3.3 %
Reinsurers' share		-243,357	-1,009,063	-75.9 %
Change in provision for unearned premiums		-3,395,458	-5,629,033	-39.7 %
Reinsurers' share		-464,822	253,605	-283.3 %
		14,884,796	**13,242,186**	**12.4 %**
Claims incurred				
Claims paid		-1,401,546	-738,507	89.8 %
Reinsurers' share		546,877	402,760	35.8 %
Change in provision for unearned premiums		591,592	-3,084,070	-119.2 %
Reinsurers' share		-328,503	1,802,056	-118.2 %
		-591,579	**-1,617,762**	**-63.4 %**
Operating expenses	5, 6, 7, 8	-5,029,933	-5,751,598	-12.5 %
Balance on technical account before change to equalisation provision		**9,263,283**	**5,872,826**	**57.7 %**
Change in equalisation provision		591,579	1,617,762	-63.4 %
Balance on Technical Account		**9,854,863**	**7,490,588**	**31.6 %**
Non-technical account				
Investment income	4	15,782,227	7,332,992	115.2 %
Investment expenses	4	-12,066,133	-1,066,633	1031.2 %
Other income and expenses		32,798	14,040	133.6 %
Direct taxes on ordinary operations		-2,861,720	-2,783,497	2.8 %
Net profit for the financial year		**10,742,035**	**10,987,490**	**-2.2 %**

Balance sheet

Assets EUR	Note	31 Dec 2020	31 Dec 2019	Change, %
Intangible assets				
Intangible rights	8	18,094	24,125	-25.0 %
Goodwill	8	310,248	326,786	-5.1 %
Other long-term expenditure	8	4,514	6,018	-25.0 %
		332,856	**356,930**	**-6.7 %**
Investments	9			
Real estate investments				
Real estate investment funds and collective investments		1,525,900	1,639,900	-7.0 %
		1,525,900	**1,639,900**	**-7.0 %**
Other investments				
Shares and participations		17,528,001	18,267,699	-4.0 %
Debt securities		132,440,137	122,384,220	8.2 %
		149,968,138	**140,651,919**	**6.6 %**
Total		**151,494,038**	**142,291,819**	**6.5 %**
Receivables				
Arising out of direct insurance operations				
From policy holders		1,244,365	1,334,979	-6.8 %
Arising out of reinsurance operations		64,994	139,056	-53.3 %
Other		0	0	-
		1,309,359	**1,474,035**	**-11.2 %**
Other assets				
Tangible assets	8			
Machinery and equipment		11,089	15,635	-29.1 %
Other tangible assets		48,365	48,365	0.0 %
		59,454	**64,000**	**-7.1 %**
Cash and bank balances		1,278,861	607,525	110.5 %
Total		**1,338,316**	**671,525**	**99.3 %**
Prepayments and accrued income				
Accrued interest and rental income		1,466,911	1,509,235	-2.8 %
Other accrued income		23,333	31,757	-26.5 %
		1,490,245	**1,540,992**	**-3.3 %**
TOTAL ASSETS		**155,964,813**	**146,335,301**	**6.6 %**

Equity and liabilities EUR	Note	31 Dec 2020	31 Dec 2019	Change, %
Shareholders' equity and reserves	10, 11			
Share capital		10,200,000	10,200,000	0.0 %
Retained earnings		26,143,060	21,155,569	23.6 %
Profit / loss for the financial year		10,742,035	10,987,490	-2.2 %
Total		**47,085,095**	**42,343,060**	**11.2 %**
Technical provisions				
Provisions for unearned premiums		30,147,315	26,751,856	12.7 %
Reinsurers' share		-332,467	-797,289	-58.3 %
		29,814,848	**25,954,567**	**14.9 %**
Claims outstanding	12	4,372,876	4,964,468	-11.9 %
Reinsurers' share		-2,063,025	-2,391,528	-13.7 %
		2,309,850	**2,572,940**	**-10.2 %**
Equalisation provision		71,109,064	71,700,643	-0.8 %
Total		**103,233,762**	**100,228,151**	**3.0 %**
Payables				
Arising out of direct insurance operations		55,822	60,506	-7.7 %
Arising out of reinsurance operations		99,905	526,358	-81.0 %
Other		194,057	196,464	-1.2 %
		349,784	**783,328**	**-55.3 %**
Accruals and deferred income				
Other		5,296,172	2,980,763	77.7 %
		5,296,172	**2,980,763**	**77.7 %**
TOTAL EQUITY AND LIABILITIES		**155,964,813**	**146,335,301**	**6.6 %**

Cash flow statement

EUR	2020	2019
Cash flow from operations		
Profit / loss from ordinary operations	10,742,035	10,987,490
Adjustments		
Change in technical provisions	3,005,611	5,039,681
Write-downs and revaluations of investments	1,318,567	-2,416,790
Planned depreciation	92,640	88,754
Other adjustments	-1,943,033	1,668,081
Cash flow from operations before changes in working capital	**13,215,820**	**15,367,217**
Changes in working capital		
Short-term non-interest-bearing trade receivables increase (-) / decrease (+)	215,424	-289,338
Short-term non-interest-bearing liabilities increase (+) / decrease (-)	1,881,865	1,183,933
Cash flow from operations before financing items and taxes	**15,313,110**	**16,261,811**
Interest paid and payments for other financing expenses of operating activities	0	0
Direct taxes paid	-110,868	-2,279,509
Cash flow from operations	**15,202,242**	**13,982,302**
Cash flow from investments		
Net investments in financial assets (excl. cash and bank balances)	-8,466,885	-9,270,457
Net investments in intangible and tangible assets and other assets	-64,021	-22,758
Cash flow from investment operations	**-8,530,906**	**-9,293,215**
Cash flow from financing		
Dividends paid and other distribution of profits	-6,000,000	-5,000,000
Cash flow from financing	**-6,000,000**	**-5,000,000**
Change in cash and bank balances	**671,336**	**-310,914**
Cash and bank balances at the beginning of the financial year	607,525	918,439
Cash and bank balances at the end of the financial year	1,278,861	607,525
	671,336	**-310,914**

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 the Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on Nasdaq OMX Helsinki. The Taaleri Group comprises three business areas: Wealth Management, Insurance and Energy. Taaleri's operations are supervised by the Finnish Financial Supervisory Authority. The Taaleri Group prepares consolidated financial statements complying with the International Financial Reporting Standards (IFRS). These statements include reporting on Garantia as part of the Insurance 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 year 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 and the goodwill generated from the business acquisition and merger carried out in 2018 have been capitalised under intangible rights, and modernisation expenses related to the development of the insurance data system have been capitalised under other long-term expenditure. Intangible assets are valued at acquisition cost less depreciation according to plan and any impairments. Intangible assets are depreciated on a straight-line basis over 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 with the company.

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, subject to certain conditions. The financial instrument in both the short- and long-term remuneration scheme is cash. The amount of the variable remuneration is entered as operating expenses for the earnings year on an accrual basis, and as deferred salaries under accrued expenses until the compensation has been paid.

Direct taxes

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

Other liabilities

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

Technical provisions

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

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

The calculation bases for the equalisation 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

EUR	2020	2019
Non-life insurance		
Direct insurance		
Domestic	18,988,434	19,626,678
Reinsurance	0	0
Insurance premiums written before the share of insurers	**18,988,434**	**19,626,678**

Note 2. Profit per insurance class

Columns
1 = Insurance premiums written before the share of the reinsurers
2 = Insurance premiums earned before the share of the reinsurers
3 = Claims incurred before the share of the reinsurers
4 = Operating 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 equalisation provision

Direct insurance

EUR	1	2	3	4	5	6
Guarantees						
2020	18,988,434	15,559,978	-809,954	-5,029,933	-489,804	9,230,286
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						
2020	0	32,997	0	0	0	32,997
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						
2020	18,988,434	15,592,975	-809,954	-5,029,933	-489,804	9,263,283
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 equalisation provision	
2020	591,579
2019	1,617,762
2018	-782,714
2017	1,078,907
2016	1,174,149
Balance on technical account	
2020	9,854,863
2019	7,490,588
2018	7,327,474
2017	5,307,373
2016	4,500,800

Note 3. Items deducted from insurance premiums written

EUR	2020	2019
Credit losses of insurance premium receivables	14,210	90,472

Note 4. Breakdown of investment income

EUR	2020	2019
Investment income		
Income from real estate investments		
Other income	0	0
	0	**0**
Income from other investments		
Dividend income	0	89,701
Interest income	3,377,817	3,317,339
Other income	50,549	103,051
	3,428,366	**3,510,090**
Reversal of impairments	9,829,565	3,172,986
Gain on sale of investments	2,524,296	649,917
	12,353,860	**3,822,903**
Investment income, total	**15,782,227**	**7,332,992**
Investment expenses		
Expenses from real estate investments	0	0
Expenses from other investments	-453,675	-270,949
Interest expenses and other financial expenses	-1,000	-1,000

	-454,675	**-271,949**
Impairments	-11,148,132	-756,195
Loss on sale of investments	-463,327	-38,489
	-11,611,458	**-794,684**
Investment expenses, total	**-12,066,133**	**-1,066,633**
Net profit from investments	**3,716,094**	**6,266,359**

Note 5. Breakdown of operating expenses

EUR	2020	2019
Insurance sales expenses	1,770,052	2,692,704
Insurance management expenses	745,091	1,651,332
Administrative expenses	2,514,790	1,571,718
Commissions and profit participation, ceded reinsurance	0	-164,156
Total	**5,029,933**	**5,751,598**

Note 6. Total operating expenses by activity

EUR	2020	2019
Processing of claims	321,138	256,876
Operating expenses	5,029,933	5,751,598
Investment management expenses	173,277	170,356
Total	**5,524,348**	**6,178,830**

Note 7. Auditor's fees

EUR	2020	2019
Ernst & Young Oy		
Auditing fees	36,988	29,947
Other fees	1,488	0

Notes to the balance sheet

Note 8. Changes in intangible and tangible assets

EUR	Intangible assets	Tangible assets	Total
Acquisition cost 1 January	440,472	105,576	546,048
Depreciated fully during the previous year			0
Increases	64,021		64,021
Deductions			0
Acquisition cost 31 December	**504,493**	**105,576**	**610,069**
Accumulated depreciation 1 January	-83,543	-41,576	-125,119
Depreciated fully during the previous year			0
Accrued depreciation on deductions			0
Depreciation of the financial year	-88,094	-4,545	-92,639
Accumulated depreciation 31 December	**-171,637**	**-46,121**	**-217,758**
Book value 31 December	**332,856**	**59,454**	**392,310**

Note 9. Fair value and valuation difference of investments

EUR	Remaining acquisition cost	Book value	Fair value
Investments 31 December			
Real estate investments			
Real estate investment funds and collective investments	1,525,900	1,525,900	1,783,734
Other investments			
Shares and other equity instruments	17,733,832	17,528,001	19,950,906
Other financial instruments	133,141,730	132,440,137	134,970,359
Total	**152,401,462**	**151,494,038**	**156,704,999**
The remaining acquisition cost of financial instruments includes the difference between the nominal value and the acquisition cost allocated as interest income or expenses	-57,563		
Valuation difference			**5,210,961**

Note 10. Changes in shareholders' equity

EUR		2020		2019
Restricted				
Share capital 1 January = 31 December		10,200,000		10,200,000
Unrestricted				
Profit / loss from previous accounting periods 1 January	32,143,060		26,155,569	
Distribution of dividends	-6,000,000	26,143,060	-5,000,000	21,155,569
Profit/loss for the financial year		10,742,035		10,987,490
		36,885,095		**32,143,060**
Shareholders' equity total		**47,085,095**		**42,343,060**

Share capital of Garantia Insurance Company Ltd is fully owned by Taaleri Oyj (business ID 2234823-5, registered domicile Helsinki). As of 31 December 2020, Garantia's share capital consisted of 60 000 shares. The company has a single series of shares.

Note 11. Distributable funds

EUR	2020	2019
Profit / loss for the financial year	10,742,035.27	10,987,490.46
Profit / loss from previous accounting periods	26,143,059.53	21,155,569.07
Distributable profits total	**36,885,094.80**	**32,143,059.53**
Reserve for invested unrestricted equity	0.00	0.00
Distributable funds total	**36,885,094.80**	**32,143,059.53**

Note 12. Claims outstanding

Adequacy of claims provisions by insurance class

	2020	2019
Loan and guarantee insurance		
euro	958,085	932,463
% of claims outstanding 1 January	37.2 %	72.2 %

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

EUR	2020	2019
Total gross exposure from guarantee insurance	1,816,526,993	1,837,468,162
Total gross exposure from guarantee insurance after deducting the value of collaterals	1,574,807,792	1,438,629,768
Lease liabilities from rental of premises		
Leases payable during the next financial year	178,174	229,960
Leases payable after the next financial year	249,124	479,084
Other lease liabilities		
Leases payable during the next financial year	68,733	68,981
Leases payable after the next financial year	41,373	60,851
Capital commitments related to investment operations	2,291,008	3,131,059

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

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court on 29 December 2017. 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 Insurance 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.

The Taaleri Group has a long-term remuneration scheme for the personnel, based on which the participating persons can receive a bonus paid partly as Taaleri shares and/or partly as cash for their work performance during the earning and commitment period. Garantia has not, 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 programme for key persons in the Group. Under the incentive programme, key persons were granted synthetic options connected to the Taaleri Plc share. The reward generated in the incentive programme based on synthetic options is paid in cash. A total of 110,000 synthetic options were granted to Garantia's personnel. The incentive programme became due for payment and the options lapsed on 31 December 2020. The costs accumulated in the Taaleri Group financial statements (IFRS) from the options granted to Garantia's personnel were EUR 0.00 for the 2020 financial year and cumulatively they are 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 set for each criterion at the beginning of an earnings period. In the 2017–2020 earnings period, the target group of the programme included approximately 10 key persons. In the 2018–2021 earnings period, the target group of the programme includes 11 key persons, and in the 2019–2022 earnings period the target group includes 19 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 shares, and for the 2019–2022 earnings period no more than 225,000 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 2020 financial year. The bonuses generated on the basis of the programme 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 financial statements (IFRS) from the shares granted to Garantia's personnel were EUR 13,893.15 during the 2020 financial year and cumulatively they are EUR 17,012.00.

Note 14. Notes on personnel and members of corporate bodies

EUR	2020	2019
Personnel expenses		
Salaries and other remuneration	2,677,313	3,185,114
Pension expenses	391,876	488,160
Other indirect employee expenses	52,511	95,882
	3,121,700	**3,769,156**
Salaries and remunerations paid to		
CEO	365,779	244,987
Members of the board of directors	144,000	148,000
Average number of personnel during financial year	**21**	**25**

Note 15. Notes on ownership in other companies

EUR	Book value	Fair value
Shares and funds		
iShares S&P 500 EUR Hedged Ucits	2,853,888	3,946,737
iShares Core MSCI Japan	906,426	995,208
iShares S&P 500 B Ucits	3,888,056	3,896,168
Db Stoxx Europe 600	4,488,361	4,721,125
SPDR MSCI EM Asia UCITS ETF	2,012,153	2,058,213
	14,148,884	**15,617,451**
Private equity funds		
CapMan Buyout X Fund B Ky	111,196	537,151
HL Large Buyout Club Fund	2,267,921	2,773,970
Taaleri Impakti Erikoisrahasto	1,000,000	1,022,334
	3,379,117	**4,333,455**

Real estate property funds		
Taaleri Tonttirahasto Ky	1,525,900	1,783,734
	1,525,900	**1,783,734**
TOTAL	**19,053,901**	**21,734,640**

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 the 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 at the time 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 for 2019–2020 totalled EUR 85,000. The initial sale price and the additional earn-out including transfer tax have been capitalised in 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 657,000. The estimate is based on the estimate by Garantia's management of the development of the premiums written in the rent guaranty business. 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

Garantia's internal control and risk management are organised according to the Three Lines of Defence model. In accordance with this model, the tasks have been assigned to: (1) units that take business risks in their operations by processing insurance policies and investments, 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.

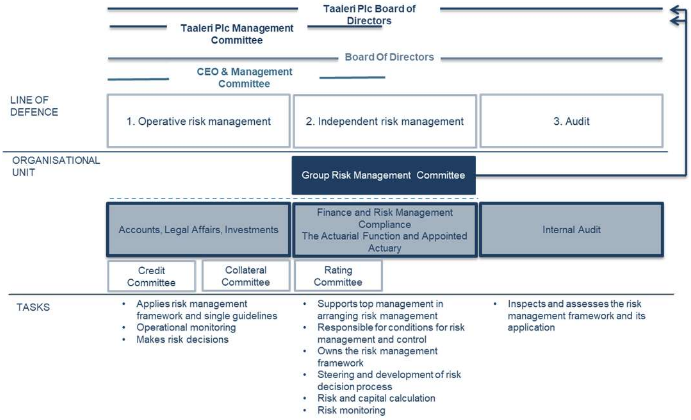

Figure 1: The organisation of Garantia's risk management

Figure 2: Decision-making bodies and reporting relations

The Group Risk Management Committee of the 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 the Taaleri Group's Management Team and Taaleri Plc's Board of Directors.

Garantia's Board of Directors is the supreme decision-making body in matters concerning Garantia's internal control, risk management and solvency management. The Board approves the principles and policies (incl. the risk-taking limits) concerning internal control and risk management and their organisation and monitors and controls their effectiveness and the development of the risk and solvency position. Garantia's 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, 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 rating 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 an 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 the Taaleri Group strategy. Profit and solvency scenarios, and stress tests, risk survey results, and a risk and solvency assessment are used to define the company's goals, projects supporting achievement of these goals and risk appetite. Every year the actuary presents the statements required by the Insurance Companies Act to the Board of Directors to support operational planning. The strategy and annual plan, including the company's own risk and solvency assessment, are confirmed by the company's Board of Directors, and the entire personnel is 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 internally estimated capital requirement (an estimate that is based on the company's internal economic capital model, defined at a confidence level of 99.5%). Garantia distributes dividends or returns capital to the owner only to the extent that this does not put the A- credit rating or the company's internally set solvency target 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, restricting dividend distribution 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 and equity, 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 99.5%. 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 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 the 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 a 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 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 in accordance with Basel II which considers the amount of exposure, the instrument's credit rating which describes probability of default (PD), its duration, and the loss given default (LGD), which depends on counter-collateral, recovery 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 is also assessed on the basis of credit rating, 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 the insurance exposure is assessed on the basis of gross exposure, amount and distribution of uncovered exposure and economic capital by product groups, credit rating 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

Sensitivity analysis of insurance operations, 31 Dec 2020

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premiums earned	14,885	increases 10 %	1,191	improves 3.4 pp
Claims incurred	592	increases 10 %	0	weakens 0.4 pp
Large claim, EUR 10 million	0	EUR 10 mn.	0	weakens 67.2 pp
Operating expenses	5,030	increases 10 %	-402	weakens 3.4 pp

Sensitivity analysis of insurance operations, 31 Dec 2019

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premiums earned	13,242	increases 10 %	1,059	improves 5.1 pp
Claims incurred	1,618	increases 10 %	0	weakens 1.2 pp
Large claim, EUR 10 million	0	EUR 10 mn.	0	weakens 75.5 pp
Operating expenses	5,752	increases 10 %	-460	weakens 4.3 pp

Trend in claims incurred

EUR thousand	Claims paid	Change in provision for outstanding claims	Claims incurred	% of insurance exposure	Claims ratio, %
2020	-855	263	-592	0.03 %	4.0 %
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, recovery of claims and operating expenses allocated to claims operations. Change in provision for outstanding claims includes the share of reinsurers.

Total insurance exposure by product group

EUR million	2020	2019
Consumer exposure	972	828
Corporate exposure	844	1,009
Total	**1,817**	**1,837**

Consumer exposure includes residential mortgage guaranties and rental guaranties in which the insurance risk consists of the credit risk of households. Corporate exposure includes corporate loan guaranties, commercial bonds and other guaranties. In corporate exposures, the insurance risk consists of the credit risks of companies and other organisations.

Corporate insurance exposure by credit rating

	2020	2019
AAA...BBB-	126	121
BB+...BB-	462	572
B+...B-	186	248
C+ or weaker	30	16
Rated exposure total	**803**	**958**
Other exposure	41	51
Corporate exposure total	**844**	**1,009**

Corporate insurance exposure by industry

	2020	2019
Construction	285	488
Manufacturing	198	201
Machinery and equipment (incl. repair)	81	93
Chemicals	21	22
Metals	43	37
Food	25	30
Other	29	18
Wholesale and retail trade	65	58
Finance and insurance	60	58
Transport and logistics	57	28
Water supply and waste management	33	26
Services	22	35
Other industries	83	64
Rated exposure total	**803**	**958**
Other exposure	41	51
Corporate exposure total	**844**	**1,009**

Other exposure includes guaranty insurance policies in which the insurance risk is not directly dependent on the counterparty's creditworthiness or sector, and therefore these are not rated. The industry classification is based on Statistics Finland's Standard Industrial Classification.

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 insurance contract level. 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 equalisation provision is to balance the impact of years with exceptional technical results. The equalisation provision acts as a buffer, especially against growth in claims incurred. In Garantia's calculation bases for the equalisation provision, an amount corresponding to the claims incurred for the period in question of the provision is recognised annually into profit and loss until the equalisation provision reaches the target amount. In the long term the equalisation 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

EUR thousand	2020	2019
Provision for unearned premiums	29,815	25,955
Provision for claims outstanding	2,310	2,573
Provision for known claims outstanding	1,373	1,642
Provision for unknown claims outstanding	937	931
Equalisation provision	71,109	71,701
Total	**103,234**	**100,228**

The reinsurers' share has been deducted from the provision for unearned premiums and the provision for outstanding claims.

Provision for unearned premiums and claims outstanding by estimated maturity, 31 Dec 2020

EUR thousand	0-1 years	1-2 years	2-3 years	Over 3 years	Total
Provision for unearned premiums	10,000	5,852	4,523	9,439	**29,815**
Provision for claims outstanding	2,310				**2,310**
Total	**12,310**	**5,852**	**4,523**	**9,439**	**32,125**

Provision for unearned premiums and claims outstanding by estimated maturity, 31.12.2019

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**

The duration of the cash flow distribution of technical provisions (excluding the equalisation provision) is 2.7 (2.7) 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 in years with exceptionally high claims. Garantia's investment activities are long-term in nature, and the objective is primarily to secure capital and achieve stable and steadily increasing asset growth. Market risks, credit and counterparty 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 and counterparty 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-bearing instruments and risk-free interest-bearing 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 in the type of assets where the company is able to identify, measure, monitor, manage, control and report the related risks. Investment activities should aim to ensure the security, convertibility into cash, rate of return and availability from location of investments, and to consider the nature of insurance agreements and the interests of the insured party.

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 approach 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	2020	%	2019	%
Fixed income investments	137.7	86.4 %	127.3	84.4 %
Equity investments	20.0	12.5 %	21.7	14.4 %
Real estate investments	1.8	1.1 %	1.8	1.2 %
Other investments	0.0	0.0 %	0.0	0.0 %
Total	**159.5**	**100.0 %**	**150.8**	**100.0 %**

Fixed income investments include cash and bank balances. Fixed income investments include mainly bonds issued by Finnish companies and Nordic credit institutions.

Fixed-income portfolio by maturity and credit rating, 31 Dec 2020

EUR million	0-1 yrs.	1-3 yrs.	3-5 yrs.	Over 5 yrs.	Total	%
AAA...AA-	0.5	-	4.6	-	5.1	**3.7 %**
A+...A-	0.8	8.1	6.5	2.8	18.3	**13.3 %**
BBB+...BBB-	-	12.1	21.0	28.2	61.3	**44.5 %**
BB+ or weaker	5.7	23.4	18.9	5.1	53.1	**38.6 %**
Total	**7.0**	**43.6**	**51.0**	**36.1**	**137.7**	**100.0 %**

Fixed-income portfolio 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+ or weaker	10.3	22.4	25.1	-	57.9	**45.5 %**
Total	**10.9**	**28.3**	**67.7**	**20.3**	**127.3**	**100.0 %**

Maturity is expressed until the end of maturity. If the instrument includes a call option, the maturity is expressed until the first possible call date. Credit rating is primarily based on an issuer rating provided by an external credit rating agency or the credit rating of a senior debt security. If an external rating is not available, Garantia's internal credit rating is used.

Sensitivity analysis of investment activities, 31 Dec 2020

Investment category	Investments at fair value, EUR million	Risk parameter	Change (+/-)	Effect on equity, EUR million (+/-)
Bonds	137.7	Change in interest rates	1.0 %	3.8
Equities	15.6	Market value	10.0 %	1.2
Private equity	6.1	Market value	10.0 %	0.5

Sensitivity analysis of investment activities, 31 Dec 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 %	3.3
Equities	19.0	Market value	10.0 %	1.5
Private equity	4.5	Market value	10.0 %	0.4

The effect of changes on calculations is the assumed market valuation before and after the change.

Operational risks

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 (SCR) and of economic capital, which is determined on the basis of the annual risk survey. Actual risk events and near misses are also 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 operational 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 a systematic and continuous operational planning and monitoring process which makes it possible to identify and assess potential risks in the operating, competitive and regulatory environment and to update the strategy and manage the measures launched to manage risks. Reputational risk is managed in an anticipatory and long-term way by conforming with Garantia's values, observing regulation and the Code of Conduct confirmed by the Board of Directors and by openly communicating with different stakeholders in an impartial way. Strategic risks are monitored and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

Compliance risks are the risks pertaining to legal or administrative consequences, economic losses or loss of reputation that result from the failure of the company to comply with laws, decrees or other regulations applicable to its operations. Legislative changes are actively monitored, and ongoing legislative 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 risk exposures with a loss potential which is large enough, upon materialisation, to threaten the solvency or financial position of insurance and reinsurance companies. 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 EU Capital Requirements Regulation 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. Garantia’s liquidity risk is limited as premiums written are 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 principal measures in liquidity risk management are sufficient amount of cash for managing daily payments and the liquidity of the investment portfolio.

Note 18. Key financial indicators

		2020	2019	2018	2017	2016
Gross premiums written (before share of reinsurers)	€	18,988,434	19,626,678	17,381,102	15,235,465	12,217,588
Claims ratio	%	4.0 %	12.2 %	-6.4 %	10.1 %	12.4 %
Claims incurred without computational interest expenses (+/-)	€	591,579	1,617,762	-782,714	1,078,907	1,174,149
Claims ratio without computational interest expenses	%	4.0 %	12.2 %	-6.4 %	10.1 %	12.4 %
Operating profit (+) or loss (-)	%	33.8 %	43.4 %	40.3 %	50.1 %	52.5 %
Combined ratio	%	37.8 %	55.7 %	34.0 %	60.3 %	64.9 %
Combined ratio without computational interest expenses	%	37.8 %	55.7 %	34.0 %	60.3 %	64.9 %
Operating profit (+) or loss (-)	€	13,012,175	12,153,226	10,007,713	15,689,515	6,538,812
Adjustments in off-balance sheet valuation differences, current value reserve and revaluation reserve (+/-)	€	-1,159,605	4,531,751	-4,514,824	-3,542,746	3,210,059
Total result (+/-)	€	11,852,570	16,684,977	5,492,889	12,146,769	9,748,871
Interest expenses and other financial expenses (+)	€	1,000	1,000	1,000	751	1,000

Calculated interest expenses (+)	€					
Return on total assets (at fair value)	%	7.6 %	11.6 %	4.0 %	9.2 %	7.7 %
Net return on investments at fair value on capital employed (+/)	%	1.7 %	8.0 %	-1.9 %	6.3 %	5.4 %
Equalisation provision	€	71,109,064	71,700,643	73,318,405	72,535,691	73,614,597
Average number of personnel during the financial year		21	25	25	24	22

Note 19. Earnings analysis

EUR	2020	2019	2018	2017	2016
Earned premiums (+/-)	14,884,796	13,242,186	12,281,764	10,637,765	9,467,030
Claims incurred (-/+)	-591,579	-1,617,762	782,714	-1,078,907	-1,174,149
Operating expenses (-)	-5,029,933	-5,751,598	-4,954,290	-5,330,391	-4,966,231
Other technical income and expenses (+/-)	0	0	0	0	0
Balance on technical account before change in equalisation provision (+/-)	**9,263,283**	**5,872,826**	**8,110,188**	**4,228,467**	**3,326,650**
Investment income and expenses, revaluations and their adjustments and other changes in value (+/-)	3,716,094	6,266,359	1,896,756	11,457,795	3,212,162
Other income and expenses (+/-)	32,798	14,040	769	3,253	0
Share of associated companies' profit (+) or loss (-)	0	0	0	0	0
Operating profit (+) or loss (-)	**13,012,175**	**12,153,226**	**10,007,713**	**15,689,515**	**6,538,812**
Change in equalisation provision (-/+)	591,579	1,617,762	-782,714	1,078,907	1,174,149
Profit (+) or loss (-) before extraordinary items	**13,603,755**	**13,770,988**	**9,224,999**	**16,768,422**	**7,712,961**
Income taxes and other direct taxes (-/+)	-2,861,720	-2,783,497	-1,939,288	-3,454,376	-1,573,968
Minority shares (-)	0	0	0	0	0
Profit (+) or loss (-) for the financial year	**10,742,035**	**10,987,490**	**7,285,711**	**13,314,045**	**6,138,993**

Note 20. Investment allocation at fair value

	Basic allocation				Risk allocation 8)			
	31 Dec 2020		31 Dec 2019		31 Dec 2020		31 Dec 2019	
	in euros	%	in euros	%	in euros	%	in euros	% 10)
Fixed income investments	**137,716,132**	**86.4**	**127,254,263**	**84.4**	**137,716,132**	**86.4**	**127,254,263**	**84.4**
Loan receivables 1)								
Bonds	136,437,270	85.6	126,646,737	84.0	136,437,270	85.6	126,646,737	84.0
Other financial instruments and deposits 1) 2)	1,278,861	0.8	607,525	0.4	1,278,861	0.8	607,525	0.4
Equity investments	**19,950,906**	**12.5**	**21,703,485**	**14.4**	**19,950,906**	**12.5**	**21,703,485**	**14.4**
Listed equities 3)	15,617,451	9.8	19,028,291	12.6	15,617,451	9.8	19,028,291	12.6
Private equity investments 4)	4,333,455	2.7	2,675,194	1.8	4,333,455	2.7	2,675,194	1.8
Unlisted equities 5)								
Real estate investments	**1,783,734**	**1.1**	**1,821,296**	**1.2**	**1,783,734**	**1.1**	**1,821,296**	**1.2**
Direct real estate investments								
Real estate investment funds and collective investments	1,783,734	1.1	1,821,296	1.2	1,783,734	1.1	1,821,296	1.2
Other investments	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**
Hedge funds 6)								
Commodities								
Other investments 7)								
Total	**159,450,772**	**100.0**	**150,779,043**	**100.0**	**159,450,772**	**100.0**	**150,779,043**	**100.0**
Effect of derivatives 9)								
Total investments at fair value	**159,450,772**	**100.0**	**150,779,043**	**100.0**	**159,450,772**	**100.0**	**150,779,043**	**100.0**
Modified duration of the bond portfolio	3.5		3.3					

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 investment

	Net return on investments at fair value	Capital employed [9]	Net return on investments, %	Net return on investments, %			
		2020		2019	2018	2017	2016
	in euros	in euros	%	%	%	%	%
Fixed income investments	**3,219,336**	**130,069,488**	**2.5**	**6.3**	**0.4**	**5.4**	**4.8**
Loan receivables [1]							
Bonds	3,227,867	126,170,922	2.6	6.3	0.4	5.5	5.0
Other financial instruments and deposits [1] [2]	-8,530	3,898,566	-0.2	-0.2	-0.6	-0.5	-0.2
Equity investments	**-546,309**	**19,188,640**	**-2.8**	**22.7**	**-11.8**	**11.1**	**9.4**
Listed equities [3]	-513,228	16,017,638	-3.2	27.9	-13.6	9.1	9.8
Private equity investments [4]	-33,081	3,171,001	-1.0	-1.2	6.0	30.1	4.0
Unlisted equities [5]							
Real estate investments	**76,438**	**1,771,558**	**4.3**	**3.5**	**4.2**	**2.1**	**-1.1**
Direct real estate investments							
Real estate investment funds and collective investments	76,438	1,771,558	4.3	3.5	4.2	2.1	-1.1
Other investments							
Hedge funds [6]							
Commodities							
Other investments [7]							
Total	**2,749,465**	**151,029,686**	**1.8**	**8.1**	**-1.7**	**6.6**	**5.6**
Unallocated income, expenses and operating expenses	-198,548						
Net return on investments at fair value	**2,550,917**	**151,029,686**	**1.7**	**8.0**	**-1.9**	**6.3**	**5.4**

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, %	=	Claims incurred ―――――――― Earned premiums Claims ratio is calculated after deducting the share of reinsurers from earned premiums.
Expense ratio, %	=	Operating expenses ―――――――― Earned premiums Expense ratio is calculated after deducting the share of reinsurers from earned premiums.
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 +/- Change in valuation difference of investments ―――――――― + Balance sheet total +/- Valuation difference of investments The divider is calculated as the average of the values of the accounting period and previous period.
Basic own funds	=	+ Equity and reserves + Equalisation provision - Intangible assets + Valuation differences of investments - Foreseeable dividends and distributions - Valuation differences of technical provisions (excl. equalisation provision) * *) Valuation differences between Solvency II and FAS technical provisions, net of reinsurance recoverables.
Solvency ratio, %	=	Basic own funds ―――――――― Solvency capital requirement

SIGNATURES

Helsinki, 4 February 2021

Hannu Tonteri

Karri Haaparinne

Timo Hukka

Kenneth Kaarnimo

Antti Suhonen

Titta Elomaa, CEO

A report on the conducted audit has been issued today.

Helsinki, 4 February 2021

Ernst & Young Oy

Ulla Nykky

Authorised Public Accountant