GARANTIA INSURANCE COMPANY LTD
REPORT BY THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2017

GARANTIA

SECURING OWNERSHIP

SISÄLLYS

GARANTIA'S YEAR 2017 IN BRIEF

Garantia Insurance Company Ltd

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

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

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

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

Strong growth, good profitability and excellent investment result

- Garantia's premiums written increased 25% on the comparison period and came to EUR 15.2 million (12.2). The insurance exposure grew 13%.
- The balance on the technical account was good and claims incurred remained on a low level. The claims ratio was 10.4% (12.4) and the combined ratio was 60.3% (64.9).
- Earnings before tax were EUR 16.8 (7.7) million due to higher return on investments recognised in profit and loss than in the comparison period.
- The return on investments at fair value was 6.6% (5.8).
- Solvency remained strong and the solvency ratio was 393.6% (435.4)
- On 19 December 2017, S&P confirmed Garantia's financial strength rating A- with a stable rating outlook.

Profit and loss account and key ratios

EUR t	2017	2016	Change
Gross premiums written	**15 235**	**12 218**	**25 %**
Other items*	-4 598	-2 751	67 %
Earned premiums	**10 638**	**9 467**	**12 %**
Claims incurred	-1 079	-1 174	-8 %
Operating expenses	-5 330	-4 966	7 %
Balance on technical account before changes in equalisation provision	**4 228**	**3 327**	**27 %**
Change to equalisation provision	1 079	1 174	-8 %
Balance on technical account	**5 307**	**4 501**	**18 %**
Investment income and expenses, net	11 458	3 212	257 %
Other income and expences	3	0	-
Earnings before tax	**16 768**	**7 713**	**117 %**
Combined ratio, %	60,3 %	64,9 %	-4,6 pp
Claims ratio, %	10,1 %	12,4 %	-2,3 pp
Expense ratio, %	50,1 %	52,5 %	-2,3 pp
Return on investments at fair value, %	6,6 %	5,8 %	0,8 pp
Solvency ratio (S2), %**	393,6 %	435,4 %	-41,7 pp
Total insurance exposure, EUR bn	1,49	1,32	13 %
Average number of personnel	24	22	+ 3
Financial strength rating (S&P)	A-	A-	-

The figures used for result comparison are those for the corresponding periods in 2016. The comparison data used for the balance sheet and cross-section items are the data for the end of 2016 unless otherwise indicated.

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

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

REPORT BY THE BOARD OF DIRECTORS

Operating environment

The Finnish economy continued to grow in 2017. Domestic demand continued to be strong, especially with the increase in private investments. Export growth was boosted by continued good growth in key export markets and the improvement in Finland's cost competitiveness. Services and construction have already been showing signs of the improving cycle for a longer time, but now also in manufacturing, capacity utilisation has risen, profitability has improved and investment has taken a strong upturn, boosted by low interest rates. The improvement in the employment rate and consumer purchasing power and the low interest rate led to an increase in household consumption.

The availability of financing continued to be excellent for Finnish companies. While companies have more varied sources of financing, the banking sector is still clearly the main source of financing in Finland. However, TyEL premium lending by employment pension companies declined in January-September by EUR 0.2 billion and was EUR 0.8 billion on 30 September 2017. Construction continued at a heated pace and at the end of the year, its level exceeded the pre-financial crisis level, maintaining the good level of demand for commercial bonds. The housing market was busy, especially in growth centres, increasing demand for residential mortgages and their guaranties. In January-November households took out new mortgages worth almost EUR 16.8 billion and banks' volume of housing loans denominated in euros grew from EUR 94.1 billion (31st December 2016) to EUR 96.0 billion (30th November 2017).

2017 was a very good year for investing because global economic growth was broad-based and exceeded what had been anticipated. New historical records were reached in the United States in wide share indices, and due to increase in share prices, the valuations are on a high level in historical comparison. Good return on equities was boosted by strong earnings development and low expected returns from other asset classes. European government bonds with the highest credit rating yielded -1.4% and only higher risk corporate bonds generated good yield thanks to narrower credit risk premiums. In the early part of the year the investment market and operating environment were affected by increased political risk especially in Europe and the United States. Tensions mitigated towards the end of the year, however, the Trump administration was able to win approval for its long-awaited corporate tax reform in Congress.

Insurance operations

Gross premiums written (including the reinsurers' share) increased 24.7% to EUR 15.2 (12.2) million. Ceded reinsurance accounted for EUR 1.0 (0.8) million of the premiums written total, which means that net premiums written (with the reinsurers' share deducted) increased by 24.7% to EUR 14.2 (11.4) million. Strong growth in the construction sector and a busy housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. The new sales in corporate loan guaranties continued to grow, but despite low interest rates, demand for corporate loan guaranties remained at a low level. Earned premiums grew by 12.4% to EUR 10.6 (9.5) million.

The insurance exposure grew 13.0% and was EUR 1,491 (1,320) million at the end of the year. Residential mortgage guaranties accounted for 38.9% (35.4) of the total exposure, commercial bonds 31.0% (26.7), loan guaranties 24.5% (30.9) and other guaranties 5.7% (7.1).

Claims paid remained at an exceptionally low level. The claims ratio was 10.1% (12.4) and claims incurred in relation to the insurance exposure was 0.07% (0.09). In 2017 a total of EUR 0.6 (1.2) million in claims were paid and about 85.1% of these were for residential mortgage guaranties, 9.9% for loan guaranties and 5.0% for commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.0 (0.2) million. A total of EUR 0.9 (0.6) million was recovered from claims paid during and prior to the financial year. EUR 0.3 (0.2) million of this concerned claims of recourse. The net outstanding claims provision in the balance sheet (with the reinsurers' share deducted) increased to EUR 1.6 (0.9) million on 31 December 2017, increasing claims incurred by EUR 0.7 million.

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Pension fund act (1164/1992, as amended), related to which Garantia originally received a claim on 30 December 2011. 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.

Operating expenses grew by 7.3% to EUR 5.3 (5.0) million as a result of increased personnel costs. The company's expense ratio strengthened to 50.1% (52.5) and the combined ratio increased to 60.3% (64.9) due to the strong growth of earned premiums.

The balance on the technical account before the change to the equalization provision increased 27.1% and was EUR 4.3 (3.3) million. The equalization provision declined by EUR 1.1 (1.2) million, so the balance on the technical account increased to EUR 5.3 (4.5) million.

Investment activities

Net return on investments recognised in profit and loss was EUR 11.5 (3.2) million and comprised fixed-income returns and sales profits that were substantially higher than in the comparison period. As a result of the sales, the valuation difference of investment assets decreased slightly and were EUR 6.4 (9.9) million at the end of December.

The investment income at fair value (excl. the cash and bank balances balance sheet item, and income, expenses and operating expenses from investment activities unallocated to investment types) was 6.6% (5.8). Net investment income from capital employed at fair value was EUR 7.9 (6.5) million, or 6.3% (5.4).

The investment portfolio (incl. cash and bank balances) was EUR 134 (127) million at the end of the year.

Risks and Risk Management

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

Garantia's risk position remained stable in 2017. Investment portfolio growth took place in dispersed mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. Investment grade guaranties, i.e. with a rating of AAA–BBB-, made up 21.3% (21.4) of the insurance exposure, excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance. The share of those with lower credit ratings of C+ or lower remained low and was 2.7% (2.8). The principal sectors in the insurance exposure were construction at 43.7% (37.4) and manufacturing at 24.6% (25.5). The proportion of construction guaranties that are reinsured is 55.0% (52.1).

As part of the Taaleri Group, Garantia is subject to the regulations on large exposures as defined in the EU Capital Requirements Regulation. At the end of the year, Garantia's largest individual exposure was 20.8% (38.9) of the Taaleri Group's own funds.

The risk level of investment activities was raised moderately when the share of finance-sector fixed income investments was reduced, and the share of corporate-sector fixed income investments and equities was increased to secure the return level. Fixed income investments made up 76.0% (79.1), equity investments 22.7% (20.1) (incl. private equity investments) and other investments 1.3% (0.8) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies with strong creditworthiness. The proportion of investment-grade fixed income investments (excl. fixed income funds) was 54.0% (70.5). The modified duration of the fixed income investments was 3.7 (3.0).

Solvency

Garantia's solvency remained strong. Garantia's own funds amounted to EUR 106.8 (100.9) million and clearly exceeded the Solvency Capital Requirement (SCR) of EUR 27.1 (23.2) million. The solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 393.9% (435.4). The increase in the Solvency Capital Requirement resulted from a growth in the insurance risk and market risk related to investments.

Solvency, EUR t	31.12.2017	31.12.2016
Own funds	106 802	100 929
Solvency Capital Requirement		
Market risk	24 786	20 608
Non-life underwriting risk	17 112	15 202
Counterparty default risk	257	361
Operational risk	347	311
Diversification effect and adjustment for loss-absorbing capacity	-15 369	-13 300
Total	27 132	23 182
Amoun of own funds in excess of the solvency capital requirement	79 670	77 747
Solvency ratio, %	393,6 %	435,4 %

Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds. Garantia does not use the matching adjustment or the volatility adjustment in the technical provisions calculation. Garantia applies the standard formula for the Solvency Capital Requirement calculation. Garantia does not apply the transition arrangements of technical provisions or market risk calculations.

On 27 November 2017 the Financial Supervisory Authority announced that it will start procedures concerning an increase of Garantia's capital requirement (Insurance Companies Act, Chapter 25, section 4). The final figure for Garantia's solvency capital requirement is still being assessed by the Financial Supervisory Authority. The view of the executive management is that Garantia's solvency will remain strong despite a possible increase in the Solvency Capital Requirement for insurance risk.

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

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

Credit rating

Standard & Poor's Credit Market Services Ltd (S&P) confirmed Garantia Insurance Company Ltd's financial strength rating as A- with a stable rating outlook on 19 December 2017.

Personnel

During the financial year, Garantia employed an average of 24 (22) people. The average age of the personnel at the end of the year was 42.0 (42.3), and their average duration of employment at Garantia was 6.6 (6,1) years on 31 December 2017. Women made up 47.8% (43.5) of the personnel and men 52.2% (56.5).

Shares and shareholders

Taaleri Plc (Business ID 2234823-5, registered domicile Helsinki) owns 100% of Garantia Insurance Company Ltd's share capital. On 31 December 2017, the number of Garantia shares was 60,000 and shareholders' equity was EUR 10,200,000.

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

The Taaleri Group's consolidated financial statements are available on the company's website www.taaleri.com and from 19th February 2018 from the following address: Taaleri Plc, Kasarmikatu 21 B, 00130 Helsinki.

Incentive schemes

Synthetic options have been granted to Garantia personnel as part of the parent company Taaleri Plc's share-based incentive scheme. Further information on the share-based incentive scheme can be found in note 13. Notes to the liability obligations, in the notes to the financial statements.

Management

The annual general meeting held on 9 March 2017 elected Hannu Tonteri as Chairman of the Board of Directors and Juhani Elomaa (Vice Chairman), Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny as members of the Board. All were re-elected to their positions. The term of the members of the Board of Directors lasts until the end of the following annual general meeting.

The company's Board of Directors convened 19 times during the financial year. The Board of Directors had no separate committees during the financial period.

During the financial year, Vesa Aho M.Sc (Econ. & Bus. Adm.) was the company's CEO and Titta Elomaa M.Sc (Econ. & Bus. Adm.) was the Deputy CEO. The Management Team consisted of the CEO, the Deputy CEO, Tuukka Fabritius, Martti Purhonen and Niina Pullinen. No changes took place in the composition of the Management Team in the financial period.

The annual general meeting of 9 March 2017 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the responsible auditor.

Garantia procures its Actuarial Function and Appointed Actuary from an external service provider as an outsourced service. In 2017 the service was provided by Kaippio & Kaippio Oy with actuary SHV Janne Kaippio as the appointed actuary.

Garantia's internal audit is procured from external service providers as an outsourced service. In 2017 the service was provided by PricewaterhouseCoopers Oy.

Extraordinary distributions of funds

On 8 December 2017, an extraordinary general meeting decided on an extraordinary distribution of funds totalling EUR 5,000,000. Of the total, EUR 25,515.00 came from the invested unrestricted equity fund and EUR 4,974,485.00 from the retained earnings account.

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 13,314,045.19, and the company's distributable profits amounted to EUR 23,869,858.07. The Board of Directors proposes that the profit be transferred to the retained earnings account and that no dividends be distributed at the end of 2017 due to the extraordinary distribution of funds.

Outlook for 2018

The positive trend in the Finnish economy is expected to continue in 2018. The solid economic growth of Finland's trading partners is accelerating exports, monetary policy is keeping interest rate levels low and an improving employment rate is keeping consumer confidence strong.

Corporate investments will continue to increase in 2018. Changes in monetary policy will impact on interest rates but the financial markets will remain excessively liquid. This means that the availability of financing will continue to be good for Finnish businesses. This will keep corporate loan margins narrow and price competition tight, particularly in the case of companies with good creditworthiness. Improving employment, low interest rates and strong consumer confidence will keep the housing market brisk, and demand for guarantees related to housing mortgages is expected to remain on the 2017 level at least. The growth in construction is anticipated to continue and to support demand for commercial bonds also in 2018.

The Bank of Finland and the Financial Supervisory Authority have for some time been concerned about the level of household indebtedness and they have used this to justify the need for an income-based loan cap and to place a limit on guarantees accepted in the calculation of the maximum loan to value ratio. A potential regulatory change may hence have a significant impact on Garantia's ability to offer residential mortgage guarantees in the future.

As a result of global economic growth, returns from equities may outpace the returns from other asset classes in 2018. Interest rates are so low in the euro area that good or even reasonable yields can no longer be expected from investment-grade corporate bonds because the premium paid on a good grade of credit risk is now minimal. Euro area government bond rates are still at zero and even the slightest tick upwards will result in a loss of earnings because the bonds are very high-priced. Central banks' measures to tighten monetary policy will lead to a repricing of fixed-income investments, which may also have immediate effect on other asset classes. The US tax reform will speed up economic growth in the country and its tax cuts may cause added pressure to an increase of short and long interest rates. It is therefore likely that the monetary policy of the US Federal Reserve will tighten next year more than would have without the tax reform.

Finland's economic growth, an active customer-oriented approach and products developed together with Taaleri create a good foundation for continued growth. Garantia will continue to develop new guaranty solutions tailored to customers' needs and to expand its service offering together with its customers and partners.

FINANCIAL STATEMENTS

Profit and loss account

euro	Note	2017	2016	change, %
Technical Account				
Earned premiums				
Premiums written	1, 2, 3	15 235 465	12 217 588	24,7 %
Reinsurers' share		-1 008 260	-810 122	24,5 %
Change to provision for unearned premiums		-3 668 696	-1 854 513	97,8 %
Reinsurers' share		79 255	-85 922	
		10 637 765	**9 467 031**	**12,4 %**
Claims Incurred				
Claims paid		-363 828	-1 038 302	-65,0 %
Reinsurers' share		21 097	104 627	-79,8 %
Change in provision for outstanding claims		-1 754 096	-100 427	1646,6 %
Reinsurers' share		1 017 920	-140 048	-826,8 %
		-1 078 907	**-1 174 149**	**-8,1 %**
Operating expenses	5, 6, 7	-5 330 391	-4 966 231	7,3 %
Balance on technical account before change to equalisation provision		**4 228 467**	**3 326 650**	**27,1 %**
Change to equalisation provision		1 078 907	1 174 149	-8,1 %
Balance on Technical Account		**5 307 373**	**4 500 800**	**17,9 %**
Non-technical account				
Investment income	4	12 583 249	4 664 641	169,8 %
Investment expenses	4	-1 125 453	-1 452 480	-22,5 %
Other income and expences		3 253	0	
Direct taxes on ordinary operations		-3 454 376	-1 573 968	119,5 %
Net profit for the financial year		13 314 045	6 138 994	116,9 %

Balance sheet

Assets euro	Note	31.12.2017	31.12.2016	change, %
INTANGIBLE ASSETS				
Intangible rights	8	2 662	4 992	-46,7 %
Other long-term expenditure	8	28 745	91 008	-68,4 %
		31 407	**96 000**	**-67,3 %**
INVESTMENTS	9			
Other investments				
Shares and participations		28 564 749	23 142 072	23,4 %
Other financial instruments		97 399 980	90 424 224	7,7 %
		125 964 728	**113 566 296**	**10,9 %**
Total		**125 964 728**	**113 566 296**	**10,9 %**
DEBTORS				
Arising out of direct insurance operations				
From policy holders		522 668	634 736	-17,7 %
Arising out of reinsurance operations		36 066	136 197	-73,5 %
Other		900 938	1 257 798	-28,4 %
		1 459 672	**2 028 731**	**-28,1 %**
OTHER ASSETS				
Tangible assets				
Equipment		51 207	76 554	-33,1 %
Other tangible assets		48 365	49 250	-1,8 %
		99 572	**125 805**	**-20,9 %**
Cash and bank balances		447 327	2 410 436	-81,4 %
Total		**546 899**	**2 536 241**	**-78,4 %**
PREPAYMENTS AND ACCURED INCOME				
Accured interest and rental income		1 381 152	1 530 068	-9,7 %
Other accured income		18 237	98 059	-81,4 %
		1 399 389	**1 628 128**	**-14,0 %**
TOTAL ASSETS		**129 402 095**	**119 855 396**	**8,0 %**

Liabilities euro	Note	31.12.2017	31.12.2016	change, %
SHAREHOLDERS' EQUITY AND RESERVES	10, 11			
Share capital		10 200 000	10 200 000	0,0 %
Reserve for invested unrestricted equity		0	25 515	-100,0 %
Retained earnings		10 555 813	13 391 304	-21,2 %
Profit / loss of the financial year		13 314 045	6 138 994	116,9 %
Total		**34 069 858**	**29 755 813**	**14,5 %**
TECHNICAL PROVISIONS				
Provision for unearned premiums		16 917 704	13 249 008	27,7 %
Reinsurers' share		-403 304	-324 049	24,5 %
		16 514 400	**12 924 959**	**27,8 %**
Claims outstanding	12	3 050 871	1 296 775	135,3 %
Reinsurers' share		-1 404 721	-386 801	263,2 %
		1 646 150	**909 973**	**80,9 %**
Equalisation provision		72 535 691	73 614 598	-1,5 %
Total		**90 696 241**	**87 449 531**	**3,7 %**
CREDITORS				
Arising out of direct insurance operations		54 622	75 000	-27,2 %
Arising out of reinsurance operations		313 145	377 005	-16,9 %
Other		239 425	180 977	32,3 %
		607 193	**632 982**	**-4,1 %**
ACCRUALS AND DEFERRED INCOME				
Other		4 028 803	2 017 071	99,7 %
		4 028 803	**2 017 071**	**99,7 %**
TOTAL LIABILITIES		**129 402 095**	**119 855 396**	**8,0 %**

Cash flow statement

euro	2017	2016
Cash flow from operations		
Profit / loss from ordinary operations	13 314 045	6 138 994
Adjustments		
Change in technical provisions	3 246 711	1 006 761
Write-downs and revaluations on investments	140 068	146 317
Planned depreciation	83 214	203 731
Other adjustments	-6 851 256	348 291
Cash flow from operations before financing items and taxes	**9 932 782**	**7 844 094**
Change in working capital		
Short-term non-interest-bearing trade receivables		
increase (-)/decrease (+)	797 798	-106 814
Short-term non-interest-bearing liabilities		
increase (+)/decrease (-)	1 985 943	308 847
Cash flow from operations before financing items and taxes	**12 716 523**	**8 046 127**
Intrest paid and payments for other financing		
expences of operating activities	0	0
Direct taxes paid	-1 909 228	-1 063 472
Cash flow from operations	**10 807 295**	**6 982 654**
Cash flow from investments		
Placements in investments / capital gains on investments (excl. l	-3 778 016	-5 596 505
Investment and capital gains (net) related to intangible		
and tangible assets and other assets	7 611	0
Cash flow from investment operations	**-3 770 405**	**-5 596 505**
Cash flow from financing		
Dividends paid / interest on guaranty capital		
and other distribution of profits	-9 000 000	-3 000 000
Cash flow from financing	**-9 000 000**	**-3 000 000**
Change in financial assets	**-1 963 110**	**-1 613 851**
Cash and bank balances at the start of the financial year	2 410 436	4 024 287
Cash and bank balances at the end of the financial year	447 327	2 410 436
	-1 963 110	**-1 613 851**

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles for the financial statements

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

Insurance premiums

Insurance premiums for the premium contribution periods that began during the financial period as agreed in the insurance contracts have been recognised as 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.

Valuation of intangible assets and the accrual concept

Rights to use computer software have been capitalised under intellectual property rights, and modernisation expenses related to the development of the insurance system have been capitalised under other long-term expenditure. These have been recognised on the balance sheet at acquisition cost less planned depreciation.

Valuation of investments and receivables on the balance sheet

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

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

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

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

Account of methods for determining the fair value of investments

The fair value of listed shares is taken to be the final available purchase price during continuous trading at the closing date or, if this is not available, the last trading price.

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

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

Items denominated in foreign currencies

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

Account of how pensions have been provided for personnel

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

Principles for planned depreciation

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

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

Direct taxes

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

Other liabilities

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

Technical provisions

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

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

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

Notes to the profit and loss account

Note 1: Insurance premiums written

euro	2017	2016
Non-life insurance		
Direct insurance		
Domestic	15 235 465	12 215 790
Reinsurance	0	1 798
Insurance premiums written before the share of insurers	**15 235 465**	**12 217 588**

Note 2: Profit per insurance class

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

Primary insurance

euro	1	2	3	4	5	6
Guarantee						
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	-1 140 838	-4 966 231	-931 465	3 284 160
2015	9 974 871	10 993 971	-1 731 184	-4 777 713	-947 851	3 537 223
Reinsurance						
2017	0	38 526	90	0	0	38 616
2016	1 798	40 381	2 110	0	0	42 490
2015	43 989	44 363	-2 199	0	0	42 163
Total						
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
2015	10 018 860	11 038 333	-1 733 383	-4 777 713	-947 851	3 579 386
Change in equalization provision						
2017						1 078 907
2016						1 174 149
2015						-3 516 924
Balance on technical account						
2017						5 307 373
2016						4 500 800
2015						62 461

Note 3: Items deducted from the insurance premiums written

euro	2017	2016
Credit losses of insurance premium receivables	1 556	0

Note 4: Breakdown of investment income

euro	2017	2016
Investment income		
Income from other investment		
Dividend income	299 159	314 693
Interest income	2 967 396	2 617 353
Other income	17 051	6 185
	3 283 606	**2 938 232**
Revaluation of write-offs	539 159	917 863
Capital gains	8 760 484	808 547
	9 299 643	**1 726 410**
Investment income, total	**12 583 249**	**4 664 641**
Investment expenses		
Expenses from other investments	-445 476	-293 934
Interest expenses and other capital expenses	-751	-1 000
	-446 226	**-294 934**
Write-downs	-679 227	-1 064 180
Capital loss	0	-93 365
	-679 227	**-1 157 545**
Investment expenses, total	**-1 125 453**	**-1 452 480**
Net profit from investments	**11 457 795**	**3 212 162**

Note 5: Breakdown of operating costs

euro	2017	2016
Insurance sales expenses	2 382 234	2 076 106
Insurance management expenses	1 150 349	1 102 049
Administrative expenses	1 797 808	1 788 077
	5 330 391	**4 966 231**

Note 6: Total operating costs by operations

euro	2017	2016
Processing of claims	258 894	420 717
Operating costs	5 330 391	4 966 231
Investment management expenses	411 269	255 798
	6 000 554	**5 642 747**

Note 7: Auditor’s fee

euro	2017	2016
KPMG Oy Ab and Ernst & Young Oy		
Auditor's fee	44 692	47 367
Other fees	0	0

Notes to the balance sheet

Note 8: Change in intangible and tangible assets

euro	Intangible assets	Tangible assets	Total
Acquisition cost 1 January	891 066	271 433	1 162 500
Depreciated fully during the previous year	-547 966	0	-547 966
Increases	0	0	0
Deductions	0	-6 726	-6 726
Acquisition cost 31 December	**343 101**	**264 707**	**607 808**
Accrued depreciations 1 January	-795 066	-194 879	-989 945
Depreciated fully during the previous year	547 966	0	547 966
Accrued depreciation on deductions	0	-1 552	-1 552
Depreciations of the financial year	-64 593	-17 069	-81 662
Accrued depreciations 31 December	**-311 694**	**-213 500**	**-525 194**
Book value 31 December	**31 407**	**51 207**	**82 614**

Note 9: Fair value and valuation differences of investments

euro	Remaining acquisition cost	Book value	Current value
Investments 31 December 2016			
Other investments			
Shares and units	28 564 749	28 564 749	32 239 695
Other financial instruments	97 399 980	97 399 980	100 078 573
Total	**125 964 728**	**125 964 728**	**132 318 268**
The remaining acquisition cost of financial instruments includes the difference between the nominal value and the acquisition value allocated as interest income or expenses	-914 980		
Valuation difference			**6 353 539**

Note 10: Change in shareholders’ equity

euro		2017		2016
Restricted				
Share capital 1 January = 31 December		10 200 000		10 200 000
Unrestricted				
Reserve for invested undistricted equity 1 January	25 515			25 515
Return of Capital	-25 515	0		
Profit / loss of the previous accounting periods 1 January	19 530 298		16 391 304	
Distribution of dividends	-8 974 485	10 555 813	-3 000 000	13 391 304
Profit/loss of the financial year		13 314 045		6 138 994
		23 869 858		**19 555 813**
Shareholders' equity total		**34 069 858**		**29 755 813**

Taaleri Plc (Business ID 2234823-5, registered domicile Helsinki) owns 100% of Garantia Insurance Company Ltd’s share capital. On 31 December 2017, the number of Garantia shares was 60,000 and shareholders’ equity was EUR 10,200,000.

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

The Taaleri Group’s consolidated financial statements are available on the company’s website www.taaleri.com and from 19th February 2018 from the following address: Taaleri Plc, Kasarmikatu 21 B, 00130 Helsinki.

Note 11: Distributable funds

euro	2017	2016
Profit / loss of the financial year	13 314 045	6 138 994
Profit / loss of the previous accounting periods	10 555 813	13 391 304
Distributable capital	**23 869 858**	**19 530 298**
Reserve for invested unrestricted equity 1 January	0	25 515
Distributable funds total	**23 869 858**	**19 555 813**

Note 12: Provision for claims outstanding

	2017	2016
Loan and guarantee		
euro	537 873	495 670
% of claims outstanding 1 January	59.1%	74.0%

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

Other notes

Note 13: Notes to the liability obligations

euro	2017	2016
Total gross exposures of guarantee insurance	1 491 279 483	1 319 745 597
Total gross exposure of guarantee insurance deducted with the collateral value (hair cut)	1 145 926 632	1 007 858 311
Rental liabilities		
Rents of the following financial year	205 858	150 249
Rents paid later	761 427	34 752
Leasing liability agreements		
Lease of the following financial year	73 348	56 462
Leases paid later	55 251	45 698
Capital commitments	5 268 501	1 649 024

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

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Pension fund act (1164/1992, as amended), related to which Garantia originally received a claim on 30 December 2011. 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.

Synthetic options have been granted to Garantia personnel as part of the parent company Taaleri Plc's share-based incentive programmes. In accordance with Finnish accounting legislation, no provision has been entered in Garantia's financial statements for the synthetic options.

On 28 October 2015, the Board of Directors of Taaleri Plc decided on a share-based incentive system for key persons in the Group. Under the incentive scheme, key persons are issued synthetic option rights and potential bonus will be paid in cash in 2019–2020. At the time of granting the bonuses paid based on the incentive scheme will correspond to the value increase of total of no more than approximately 800,000 Taaleri Plc's shares, including the part paid in cash. On the basis of the 2015 synthetic option right programme, Garantia personnel have been granted 110,000 new rights based on the increase in share price, including the portion paid in cash. The number of synthetic options in circulation was 110,000 at the end of the financial period for Garantia's personnel. The costs accumulated in the Taaleri Group 2017 financial statements (IFRS) from the options granted to Garantia's personnel were EUR 122,069.80.

On 30 October 2017, the Board of Directors of Taaleri Plc decided on an incentive scheme for key persons in the Taaleri Group. The programme consists of three three-year earnings periods: 1 November 2017–31 October 2020, 1 November 2018–31 October 2021 and 1 November 2019–31 October 2022. The Board decides on the earnings criteria applied in the programme and the goals for set for each criterion at the beginning of an earnings period. In the 2017–2020 earnings period, the target group of the programme includes approximately 10 key persons, including the members of the Taaleri Group Management Team. The possible bonus paid under the scheme for the 2017–2020 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 180,000 Taaleri Plc shares, including the portion paid in cash. Of these, 22,500 are allocated to Garantia personnel. The bonuses are paid partly in company shares and partly in cash. The purpose of the cash portion is to cover the taxes and tax-like charges payable by key persons on the bonus. The costs accumulated in the Taaleri Group 2017 financial statements (IFRS) from the options granted to Garantia's personnel were EUR 5,437.38.

Note 14: Personnel and members of bodies

euro	2017	2016
Personnel expenses		
Salaries and remunerations	3 362 701	2 957 407
Pension expenses	463 215	381 247
Other indirect employee costs	202 521	234 519
	4 028 437	**3 573 173**
Salaries and remunerations paid to		
CEO	264 048	259 888
Members of the board of directors	168 000	167 000
Average number of employees during fiscal year	**24**	**22**

Note 15: Ownerhip in other companies

euro	Book value	Current value
Shares and fund units		
IShares S&P 500 Hedged	7 418 714	7 852 635
Ishares Europe 600	3 735 442	4 514 680
Db X-Trackers Dax Ucits	3 983 622	4 339 410
Ishares S&P 500	3 142 604	3 473 595
Db Stoxx Europe 600	2 904 424	3 080 531
Mikro Rein Osake	2 001 331	2 627 477
Arvo Kruunu Osake	1 954 220	2 090 708
	25 140 356	**27 979 035**
Private Equity funds		
CapMan Buyout X Fund B Ky	1 557 171	2 324 420
HL Large Buyout Club Fund	137 485	167 626
	1 694 656	**2 492 046**
Property funds		
Taaleri Tonttirahasto Ky	1 729 737	1 768 613
	1 729 737	**1 768 613**

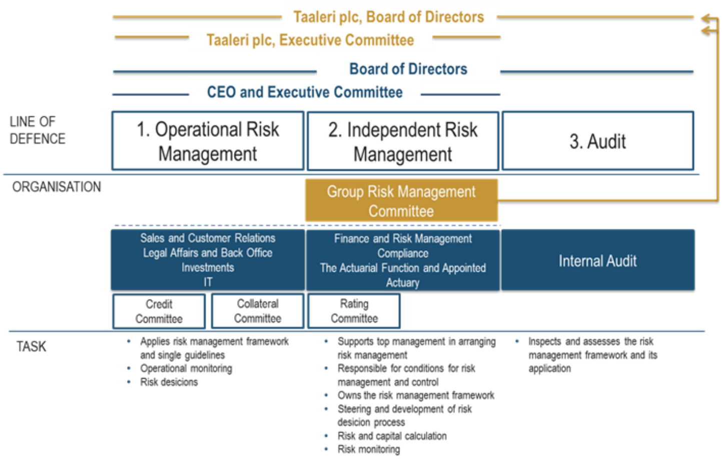
Note 16: Risk and risk management

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

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

Organisation, responsibilities and control of risk management

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



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

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

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

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

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

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

Risk management process

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

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

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

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

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

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

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

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

Insurance risk

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

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

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

Quantitative information on insurance risks

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

Sensitivity analysis of Insurance operations, 31.12.2016*				
Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premium revenue	9 467	Up by 10 %	757	improvement 5,90 pp
Claims incurred	1 174	Up by 10 %	0	weakening 1,24 pp
Large claim, EUR 10 million	0	EUR 10 mn	0	weakening 105,63 pp
Operating expenses	4 966	Up by 10 %	-397	weakening 5,25 pp

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

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

* incl. Reinsurers' share

Insurance exposure by product		
EUR million	**2017**	**2016**
Loan guaranties	365	407
Commercial bonds	462	353
Residential mortgage guaranties	579	467
Other guaranties	85	93
Total	**1 491**	**1 320**

Collateral position of insurance exposure		
EUR million	**2017**	**2016**
Reinsured	259	219
Collateral classes 1 and 2	86	93
Collateral classes 3 and 4	127	60
Uncovered position	1 019	948
Total	**1 491**	**1 320**

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

Insurance exposure by credit rating*		
EUR million	**2017**	**2016**
AAA - BBB-	178	165
BB+ - BB-	452	374
B+ - B-	182	208
C+ or weaker	22	22
Total	**834**	**769**

Insurance exposure by industry*		
EUR million	**2017**	**2016**
Construction	364	287
Manufacturing	205	196
Food	55	36
Machinery and Equipment (incl. repair)	52	49
Metal	47	46
Forest and paper	24	39
Other	27	26
Services	58	57
Wholesale and retail trade	44	47
Energy	23	39
Finance and insurance	40	36
Other industries	99	106
Total	**834**	**769**

Industry classification is based on the classification of Statistics

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

Actuarial assumptions

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

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

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

Quantitative information about technical provisions

Technical provisions (FAS)		
EUR thousand	**2017**	**2016**
Provision for unearned premiums	16 514	12 925
Provision for claims outstanding	1 646	910
Known provision for claims outstanding	935	340
Unknown provision for claims outstanding	711	570
Equalization provision	72 536	73 615
Total	**90 696**	**87 450**

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

Provision for unearned premiums and claims outstanding by estimated maturity 31 Dec 2016					
EUR thousand	**0-1 years**	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
Provision for unearned premiums	5 272	2 257	1 721	3 675	12 925
Provision for claims outstanding	910	0	0	0	910
Total	**6 182**	**2 257**	**1 721**	**3 675**	**13 835**

The modified duration of the cash flow distribution of technical provisions (not including the equalization provision) is 2.1 (2.2) years.

Investment risks

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

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

The main aim in the management of investment risks is to keep the negative profit impacts arising from investments and the changes in the values of investments at acceptable levels in the long term, to ensure that investment returns are adequate in relation to the risks taken and to safeguard the company's liquidity. Investment risks are managed through effective diversification of the investments by asset class, sector, geographical area, credit category and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily implementation of investment activity, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment activities and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

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

Quantitative information on investment risks

Investment mix at fair value				
EUR mn	**2017**	**%**	**2016**	**%**
Fixed income investm	101,9	76,0 %	100,7	79,1 %
Equity investments	30,5	22,7 %	25,7	20,1 %
Land and buildings	1,8	1,3 %	1,0	0,8 %
Other investments	0,0	0,0 %	0,0	0,0 %
Total	**134,1**	100,0 %	**127,4**	100,0 %

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

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2017						
EUR mn / years	**0 - 1 years**	**1 - 3 years**	**3 - 5 years**	**Yli 5 years**	**Total**	**%**
AAA - AA-	0,2	-	1,2	8,4	9,8	9,6 %
A+ - A-	0,3	10,5	-	1,5	12,3	12,1 %
BBB+ - BBB-	-	-	19,4	13,5	32,9	32,3 %
BB+ or weaker	5,7	18,8	22,4	-	46,9	46,0 %
Total	6,1	29,4	43,0	23,4	101,9	**100,0 %**

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2016						
EUR mn / years	**0 - 1 years**	**1 - 3 years**	**3 - 5 years**	**Yli 5 years**	**Total**	**%**
AAA - AA-	2,2	5,3	-	9,9	17,4	17,9 %
A+ - A-	0,2	13,0	-	-	13,3	13,6 %
BBB+ - BBB-	2,6	14,8	11,0	9,6	38,1	39,0 %
BB+ or weaker	1,8	10,9	11,6	4,5	28,8	29,5 %
Not rated	0,0	-	-	-	0,0	0,0 %
Total	**6,8**	**44,2**	**22,6**	**24,0**	**97,5**	**100,0 %**

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

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

Sensitivity analysis of investment activities, 31.12.2016*				
Investment category	**Investments at fair values, EUR million**	**Risk parameter**	**Change**	**Effect on equity, EUR million**
Bonds	98,3	Change in interest rates	1,0 %	2,43
Equities	23,2	Market value	10,0 %	1,86
Private Equity investments	3,4	Market value	10,0 %	0,27

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

Operational risks

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

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

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

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

Other risks

Strategic risks are the risks that result from changes in the operating and competitive environment, slow reaction to changes, selection of the wrong strategy or business model or the unsuccessful implementation of a strategy. Reputational and regulatory risks are part of strategic risks. The principal method in the management of strategic risks is systematic and continuous operational planning and monitoring process which makes it possible to identify and assess potential risks in the operating, competitive and regulatory environment and to update the strategy and manage the measures launched to manage risks. Strategic risks are monitored and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

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

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

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

Key financial indicators and analyses

Note 17: Key financial indicators

	2017	2016	2015	2014	2013
Gross premiums written (before share of reinsurers), EUR	15 235 465	12 217 588	10 018 860	11 250 256	10 610 274
Claims ratio, %	10,1 %	12,4 %	15,1 %	3,7 %	22,2 %
Claims incurred without calculated interest expenses (+/-), EUR	1 078 907	1 174 149	1 491 654	-412 292	-2 404 875
Claims ratio without calculated interest expenses, %	10,1 %	12,4 %	15,1 %	3,7 %	22,2 %
Expense ratio, %	50,1 %	52,5 %	48,5 %	42,0 %	36,3 %
Combined ratio, %	60,3 %	64,9 %	63,7 %	45,7 %	58,5 %
Combined ratio without calculated interest expenses, %	60,3 %	64,9 %	63,7 %	45,7 %	58,5 %
Operating profit (+) or loss (-), EUR	15 689 515	6 538 812	12 039 519	11 360 927	10 655 515
Adjustments in off-balance sheet valuation differences, current value reserve and revaluation reserve (+/-), EUR	-3 542 746	3 210 059	-3 586 445	2 294 523	-28 448
Total result (+/-), EUR	12 146 769	9 748 871	8 453 074	13 655 450	10 627 067
Interest expenses and other financial expenses (+), EUR	751	1 000	1 000	1 000	1 062
Calculated interest expenses (+), EUR					
Return on total assets as a percentage (at fair value)	9,2 %	7,7 %	6,8 %	11,2 %	9,2 %
Net return on investments, % at fair value on capital employed (+/-)	6,3 %	5,4 %	4,4 %	7,1 %	5,9 %
Equalization provision, EUR	72 535 691	73 614 597	74 788 747	71 271 823	65 171 091
Average number of personnel during the financial period	24	22	25	25	24

Note 18: Earnings analyses

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

Note 19: Investment at fair value

	Basic allocation				Risk allocation [8]			
	31.12.2017		31.12.2016		31.12.2017		31.12.2016	31.12.2015
	EUR	%	EUR	%	EUR	%	% [10]	% [10]
Fixed income investments	**101 907 052**	**76,0**	**100 748 681**	**79,1**	**101 907 053**	**76,0**	**79,1**	**82,1**
Loan receivables [1]								
Bonds	101 459 725	75,6	98 338 244	77,2	101 459 725	75,6	77,2	78,7
Other financial market instruments and deposits	447 327	0,3	2 410 436	1,9	447 328	0,3	1,9	3,4
Equity investments	**30 471 081**	**22,7**	**25 670 676**	**20,1**	**30 471 081**	**22,7**	**20,1**	**17,2**
Listed equities [3]	27 979 035	20,9	23 233 164	18,2	27 979 035	20,9	18,2	15,5
Private equity investments [4]	2 492 046	1,9	2 437 512	1,9	2 492 046	1,9	1,9	1,7
Unlisted equities [5]								
Real estate investments	**1 768 613**	**1,3**	**983 730**	**0,8**	**1 768 613**	**1,3**	**0,8**	**0,8**
Direct real estate investments	0	0,0	0	0,0	0	0,0	0,0	0,0
Real estate investment funds and collective inve	1 768 613	1,3	983 730	0,8	1 768 613	1,3	0,8	0,8
Other investments	**0**	**0,0**	**0**	**0,0**	**0**	**0,0**	**0,0**	**0,0**
Hedge funds [6]								
Commodities								
Other investments [7]								
Total	**134 146 747**	**100,0**	**127 403 086**	**100,0**	**134 146 748**	**100,0**	**100,0**	**100,0**
Effect of derivatives [9]								
Total investments at fair values	**134 146 747**	**100,0**	**127 403 086**	**100,0**	**134 146 748**	**100,0**	**100,0**	**100,0**
Modified duration of bond portfolio	3,7		3,0					

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

Note 20: Net return on investments from capital employed

	Net return on investme at market value [8]	Capital employed [9]	Return on capital employed, %	Tuotto- % sitoutuneelle pääomalle			
		31.12.2017		31.12.2016	31.12.2015	31.12.2014	31.12.2013
ROCE, EUR, %	**EUR**	**EUR**	**%**	**%**	**%**	**%**	**%**
Fixed income investments	5 478 174	100 197 685	5,4	4,8	2,5	4,6	1,8
Loan receivables [1]							
Bonds	5 484 503	98 792 560	5,5	5,0	2,5	4,6	1,8
Other financial market instruments and deposits [1] [2]	-6 329	1 405 125	-0,5	-0,2	0,0	0,0	0,0
Equity investments	2 838 619	24 399 992	11,1	9,4	9,8	14,3	20,2
Listed equities [3]	2 127 739	22 100 415	9,1	9,8	10,8	14,5	20,2
Private equity investments [4]	710 880	2 299 577	30,1	4,0	0,0	0,0	
Unlisted equities [5]							
Real estate investments	34 883	1 376 470	2,1	-1,1	6,9	12,4	0,1
Direct real estate investments					10,7	12,6	0,2
Real estate investment funds and collective investments	34 883	1 376 470	2,1	-1,1	-7,8	11,5	-0,2
Other investments						0,0	0,0
Hedge funds [6]							
Commodities							
Other investments [7]						0,0	0,0
Total	8 351 676	125 974 146	6,6	5,6	4,6	7,3	6,1
Unallocated income, expenses and operating expenses	-411 269						
Net return on investments at fair value	7 940 407	125 974 146	6,3	5,4	4,4	7,1	5,9

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

Note 21: Calculation of Key Financial Ratios

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

SIGNATURES

Helsinki 1. February 2018

Hannu Tonteri

Juhani Elomaa

Timo Hukka

Jukka Ohls

Antti Suhonen

Tomi Yli-Kyyny

Vesa Aho, CEO

Report on the conducted audit was given out today.

Helsinki 9. February 2018

Ernst & Young Oy

Ulla Nykky
Authorized Public Accountant

Building a better
working world

Ernst & Young Oy
Alvar Aallon katu 5 C
FI-00100 Helsinki
FINLAND

Tel. +358 207 280 190
www.ey.com/fi
Business ID 2204039-6,
domicile Helsinki

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Garantia Insurance Company Ltd

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Garantia Insurance Company Ltd (business identity code0944524-1) for the year ended 31 December, 2017. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

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

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

Basis for Opinion

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

We have not provided any other than audit services to the company.

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

Most significant assessed risks of material misstatement

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

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

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

Building a better working world

Assessed significant risk of material misstatement	How our audit addressed the risk
Technical provisions *We refer to the Accounting principles for the financial statements and Note 16.* At the balance sheet date 31.1.22017 the value of technical provisions amounted to 91 million euro (31.12.2016: 87 million euro), which covers 95 % of the company's total liabilities and thus is the largest single liability on the company's balance sheet. The assessment of technical provisions includes management assumptions and estimates relating to future amounts to be paid and still unknown claims.	Our audit procedures included, among other things, the assessment of the process relating to the identification and evaluation of the provisions as well as identification of key controls. In connection with the audit, we also assessed the methodologies and assumptions used. We involved our own internal actuarial specialist to assist us in assessing the estimates and assumptions used.

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

Other reporting requirements

Information on our audit engagement

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

Other information

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

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

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

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

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

Helsinki 9.2.2018

Ernst & Young Oy
Authorized Public Accountant Firm

Ulla Nykky
Authorized Public Accountant