Unemployment Insurance Fund

ANNUAL REPORT

2018

Contents

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The Unemployment Insurance Fund in brief

The Unemployment Insurance Fund (TVR) has operated as an independent institution under the administration of labour market parties and the oversight of the Financial Supervisory Authority since 1999. The Unemployment Insurance Fund and the Education Fund were merged to form the Employment Fund on 1 January 2019. There were no changes to the Fund's statutory responsibilities.

The Fund determines and collects the unemployment insurance contributions and supervises the fulfilment of the responsibilities related to the unemployment insurance contributions provided by law. In addition, the Fund collects employers' liability components for unemployment cover. The Fund also processes employers' training compensation payments. The training compensation is based on the Act on Training Compensation (1140/2013).

The Fund's operations are financed with the unemployment insurance contributions collected from employers and employees, and investment income.

The Unemployment Insurance Fund makes advance financing payments to unemployment funds based on applications submitted to the Fund. In addition, the Unemployment Insurance Fund processes and makes advance payments of government contributions on behalf of unemployment funds.

The Fund's operations are based on the Act on the Financing of Unemployment Benefits (555/1998), the Decree on the Financing of Unemployment Benefits (1176/1998) and on the Decree on Rules of Procedure of the Unemployment Insurance Fund (862/1998) with amendments.

Mission

The Unemployment Insurance Fund handles the financing processes of the unemployment insurance system and all its other duties reliably and correctly, benefiting from internal expertise and the Fund's central market position. The Fund also promotes collaboration among unemployment insurance system organisations for the purpose of improving the system's performance.

Vision

The Unemployment Insurance Fund is a specialist in earnings-related unemployment security, and it is a reliable and respected partner. The Fund strives to promote positive development trends for employment by supporting the functioning of the labour market.

Values

The Fund's values are: we are one strong team, we operate in a straightforward manner – from one person to another, and we encourage reform.

Managing Director's review

A busy year of changes for a 20-year-old fund

The positive development of Finland's economy continued in 2018, although forecasts began to be revised downwards at the end of the year. The good state of economic development was again reflected in the Unemployment Insurance Fund's finances, as the number of people in employment increased and the number of unemployed jobseekers continued to decrease.

The unemployment insurance contribution accrual exceeded the expectations as the total payroll increased and the total volume of earnings-related benefit payments decreased. The performance of the Fund's finances was therefore considerably stronger than expected, with a record surplus of EUR 872 million. This also meant that TVR's business cycle buffer – its net position – approached EUR 1 billion at the end of 2018.

Strong economic growth in recent years has improved TVR's financial position and, going forward, the Employment Fund's financial position. The Fund's accrual of a strong business cycle buffer will improve its opportunities to safeguard an even development of unemployment insurance contributions, which is one of the strategic goals set for the Employment Fund. The positive development of the economy and employment has enabled the buffer to be increased while the amount of unemployment insurance contributions has been decreased.

The Unemployment Insurance Fund entered its 20th year of operation last year. The jubilee year was celebrated with hard work. In the first half of the year, TVR modernised its operations and organisation. The modernisation included preparations for the introduction of the Incomes Register, improvements to customer service and more efficient collaboration between different service groups.

A major focus area in 2018 was preparation for the merger of TVR and the Education Fund. All of the personnel were involved in preparing for the merger. Preparations were made on a merger project, which required the work of a large group of personnel from both funds. The merger project paid special consideration to ensuring that personnel from both funds had the opportunity to participate in preparing the mission and vision, strategic goals and values of the new fund in several different ways. The personnel were very active in their participation.

2018 was a busy year of preparation for several changes. This required good collaboration and an excellent team spirit. The personnel of the funds deserve a big thanks for making a strong contribution to the merger project while they also took care of the statutory responsibilities of the funds.

The members of the Unemployment Insurance Fund's Board of Directors and Supervisory Board changed in 2018. Going forward, there will be as many representatives of employers and employees in the administrative organs. The change was related to the competitiveness pact, as well as to the fact that the average contribution paid by employers is the same as the employees' unemployment insurance contribution.

The merger of the funds was also a key factor in the work of the funds' Boards in the year under review. Preparations for the merger were coordinated by a preparatory group consisting of representatives of labour market organisations. The legislative amendments related to the merger were confirmed in June 2018 and the various parts of the merger project proceeded as planned.

The Fund's credit rating was confirmed in September 2018, remaining on a par with the Finnish Government's credit rating.

The Unemployment Insurance Fund made preparations for the deployment of the Incomes Register. The legislation applying to the determination of unemployment insurance contributions was amended and a new system for processing unemployment insurance contributions was built in anticipation of the Incomes Register. The aim of all of this preparation was to make full use of the Incomes Register's features and lighten the administrative burden on employers.

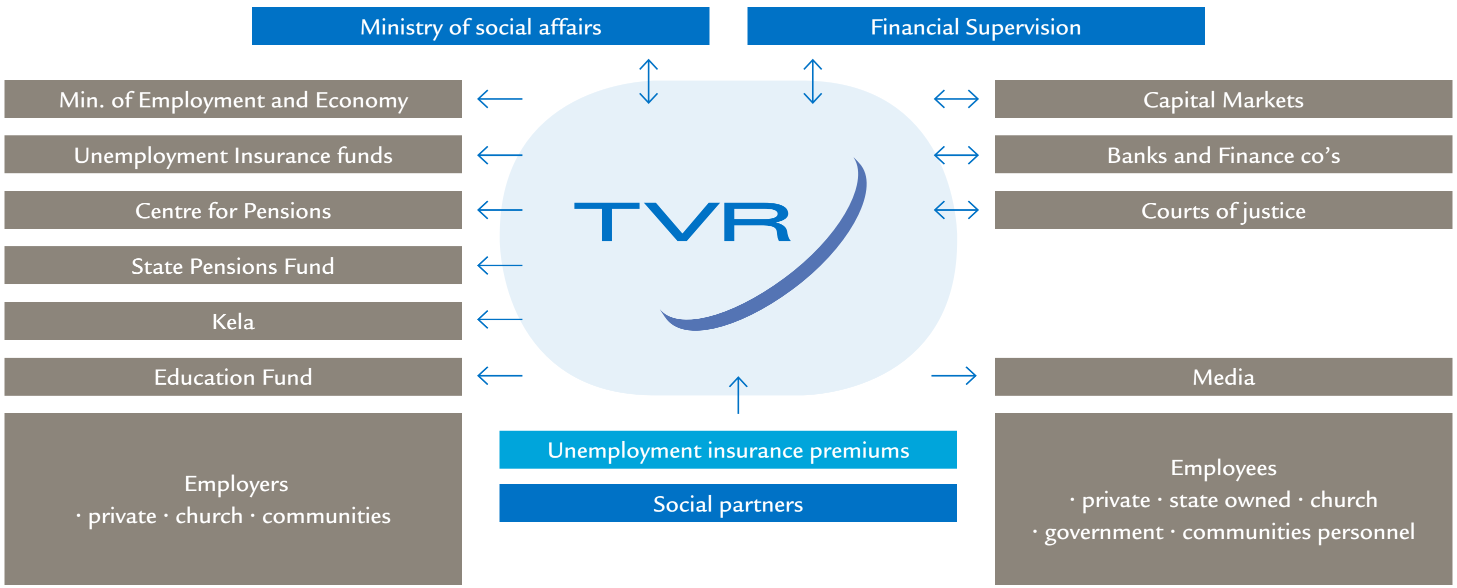
Janne Metsämäki
Managing Director

The Unemployment Insurance Fund financial performance trend remained strong in 2018

- Unemployment insurance contributions and other income in total EUR 3,801 (4,011) million
- Unemployment benefits paid and administrative expenses in total EUR 2,922 (3,434) million
- Change in net position (for the financial period) EUR 872 (572) million
- Net position EUR 969 (106) million
- Investments and assets in total EUR 1,687 (1,125) million
- Raised debt and other liabilities in total EUR 718 (1,018) million
- Unemployment rate on average 7.4% (8.6%)
- Return on investments -0.2% (0.1%)

The figures in parentheses in the table and text are for 2017.

Unemployment Insurance Fund’s operating environment



The Unemployment Insurance Fund’s administration approved the budget in August 2017. At that point, the Fund was expected to yield a surplus of EUR 397 million in 2018. The economy continued to strengthen in 2018 and unemployment decreased substantially. The financial statements show a surplus of EUR 872 million for 2018. The Unemployment Insurance Fund’s net position was a surplus of EUR 969 million at the end of the financial period, while the corresponding figure for 2017 was EUR 106 million.

The Finnish economy improved in 2018. Foreign trade, domestic consumption and investment all increased. Finland’s gross output improved by an estimated 2.3%. The unemployment rate and the number of unemployed jobseekers decreased sharply. The rate of employment continued to increase, and the total amount of wages and salaries also grew.

Key figures

EURm	2018	change %	2017	2016	2015	2014
Unemployment insurance contribution income *	**3,801**	-5%	**4,011**	**4,083**	**3,330**	**3,031**
Other income (MSAH)						
Contribution rates						
employee contribution %	1.90		1.60	1.15	0.65	0.50
employer, base %	0.65		0.80	1.00	0.80	0.75
employer, large firms	2.60		3.30	3.90	3.15	2.95
Benefits payments total	**2,922**	-15%	**3,434**	**3,859**	**4,002**	**3,706**
Unemployment funds (UIF)	1,068	-19%	1,320	1,581	1,703	1,651
Unemployment funds (MSAH)	774	-18%	945	1,102	1,142	1,054
Finnish Centre for Pensions	620	-19%	768	846	900	821
Education Fund	187	24%	151	116	98	84
Social Insurance Institution of Finland (Kela)	228	10%	208	168	121	52
Ministry of Employment and the Economy	20	5%	19	23	21	27
State Pensions Fund	12	-8%	13	11	8	6
Administrative expenses	12.6	17%	10.8	11.7	9.7	9.3
Change in net position	**872**		**572**	**220**	**-677**	**-672**
Investment return %	**-0.2**		**0.1**	**0.3**	**0.2**	**0.6**
Net position	**969**		**106**	**-466**	**-686**	**-9**
Money market investments	893		537	262	207	212
Fixed income investments	661		433	359	242	206
Stocks and shares	15					
Other investments	6					
Borrowings, debt outstanding	-599		-898	-1,025	-1,109	-256

** Contributions from the MSAH included year 2014 onwards*

However, the total amount of unemployment insurance contributions collected decreased slightly due to lower unemployment insurance contributions for 2018. The total amount of contributions collected clearly surpassed the payment settlements made for earnings-related benefit expenses. The Fund's benefit payments also decreased by 15% year on year.

The planning and management of the Unemployment Insurance Fund's finances are largely based on forecasts of the development of the unemployment rate, unemployment expenses, the employment rate and wages.

Under normal conditions, the Fund must set the insurance contributions at the sufficient level where all projected expenses could be covered with the insurance contributions.

The unemployment insurance contributions are set for one year at a time. When the contributions are changed, the employers' average contributions and employees' contributions are normally changed by the same percentage. In 2018, the contributions were changed under the Competitiveness Pact, resulting in a decrease in the employers' unemployment insurance contributions and an increase in the employees' contributions. Both contributions were approximately 1.9% of payrolls in 2018.

The forecast deviation in the change in net position between the budget, which is prepared in August in the preceding year, and the financial statements, which are prepared more than a year later, has averaged 5% of expenses over the last five years. In 2018, the forecast deviation was larger than average.

The Fund's liquidity remained good in 2018. Benefit payments to beneficiaries shrunk year-on-year, cash flow remained positive and substantial debt repayments were made.

The Unemployment Insurance Fund will make a proposal for the amounts of the following year's contributions to the Ministry of Social Affairs and Health by the end of August (Act on the Financing of the Unemployment Benefits, section 18(6)). This accelerated timetable will increase the uncertainty of the following year's economic and employment forecast. The unemployment insurance contribution rates are ratified by Parliament on the basis of a government proposal. The draft bill for contributions can be amended during the parliamentary proceedings.

The 2019 unemployment insurance contribution rates were amended

On 30 August 2018, the Unemployment Insurance Fund proposed to the Ministry for Social Affairs and Health a decrease of 0.41 percentage points to the employers' average unemployment insurance contributions and a decrease of 0.4 percentage points to the employees' contributions. Parliament ratified the government's proposal at the end of November 2018.

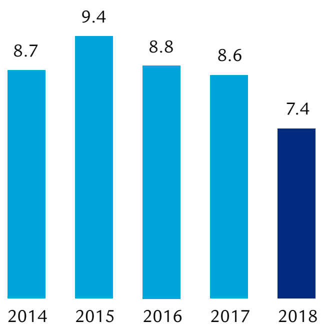
The Fund's administrative expenses

The Fund's administrative expenses amounted to EUR 12.6 million (EUR 10.8 million in 2017).

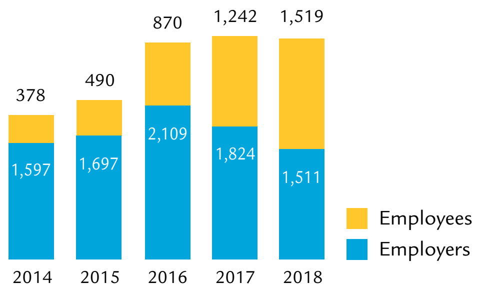
Operating enviroment improving

Finnish economy	• GDP growth 2.2% in 2018 (est.) • Clear reduction in the number of persons unemployed • Unemployment rate 7.4% (-1.2%)
Unemployment insurance contributions	• Total level of UIC rates slightly lower in 2018 • Contribution income declined by 5%
Change of net position	• Benefit payments decreased by 15% • Cash flow clearly positive • Change of net position + 872 EURm

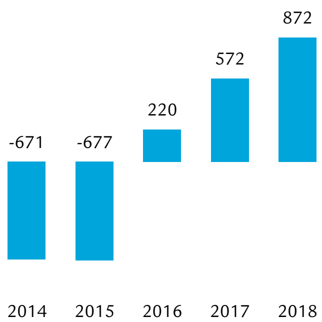
Unemployment rate %



Unemployment insurance contributions
MEUR



Change in net position
MEUR



Responsibilities of the Unemployment Insurance Fund

Unemployment benefits financed by TVR

Based on the Act on the Financing of Unemployment Benefits (555/1998) and with regard to the financing of earnings-related unemployment allowances, the Unemployment Insurance Fund is responsible for expenses from unemployment allowances, employment promotion measures and job alternation compensation insofar as the state or individual unemployment funds are not liable for these. The foregoing benefits are paid by unemployment funds. Adult education allowance is paid by the Education Fund. In addition, the Unemployment Insurance Fund is responsible for the unemployment insurance contributions for unemployed persons and recipients of the adult education allowance that are paid through the Finnish Centre for Pensions to the employment pension institutions.

According to the Decree on the Implementation of the Act on Unemployment Funds (272/2001), the processing of prepayment applications and payment decisions, together with monitoring the sufficiency of prepayments fall within the duties of the Unemployment Insurance Fund. The Fund makes prepayments to unemployment funds twice a month, on the first banking day of the month and on the date falling closest to the 15th banking day of the month.

The Fund also transfers prepayments of government contributions to the unemployment funds on the first banking day of each month. In 2018, the Ministry of Social Affairs and Health paid the government contributions to the Fund as fixed monthly prepayments, unless otherwise proposed by the Unemployment Insurance Fund. The government contribution is recognised under the Fund's income and expenses.

In 2018, there were 26 (28) unemployment funds operating in Finland, of which two served entrepreneurs. The earnings-related unemployment allowance paid by the unemployment funds was on average EUR 61.75 (63.77) per day.

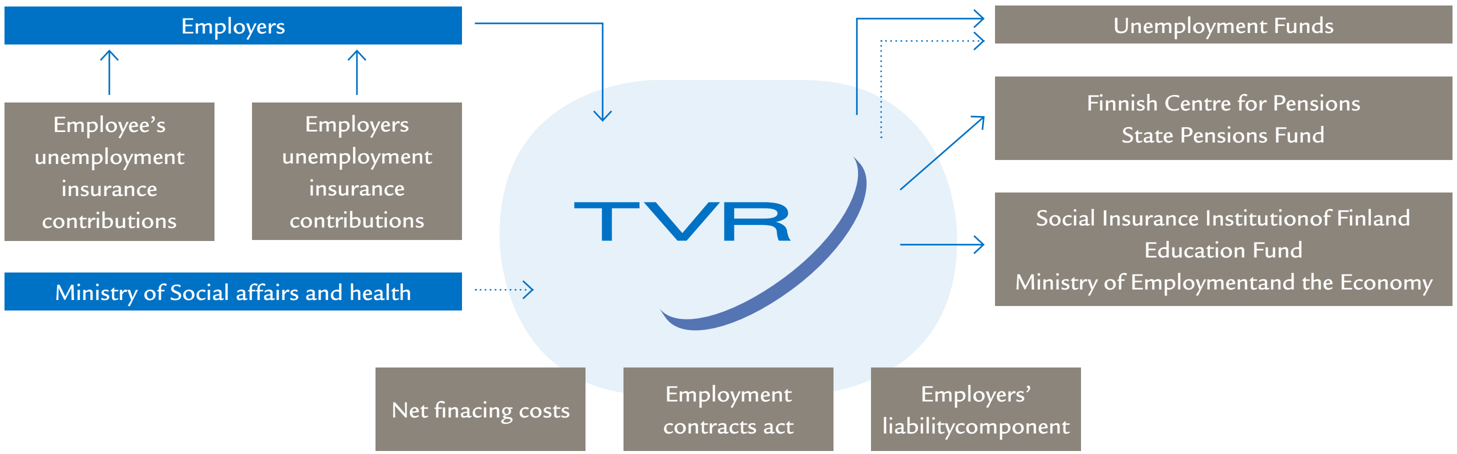
In 2018, a total of EUR 1,068 (1,320) million was paid to the unemployment funds to finance unemployment benefits. In addition, the Fund forwarded EUR 774 (945) million to the unemployment funds in the form of a contribution by the Ministry of Social Affairs and Health.

In accordance with the Act on the Financing of Unemployment Benefits, the Unemployment Insurance Fund is liable for costs incurred from additional days added to an employee's unemployment allowance. The unemployment funds pay additional daily unemployment benefits, which are not financed by the state, to their members. An unemployed person is eligible for additional unemployment benefit days if he or she turns 59 before reaching the maximum period for an earnings-related unemployment allowance. For those born in 1955 or after, the age limit will rise to 60 years, and to 61 years for those born in 1957 or after.

Under section 4 of the Act on the Financing of Unemployment Benefits, the Unemployment Insurance Fund has sole responsibility for funding the increased earnings-related component laid down in section 6 of the Act on Unemployment Security. From the beginning of 2015, the calculation rules for higher earnings-related daily unemployment allowances was changed so as to slightly decrease the level of allowances. The same change was carried out regarding the supplementary earnings-related allowances. These changes implement the reduction of unemployment allowances as specified in the government framework decision. The change decreases expenditure related to earnings-related daily unemployment allowances. To implement government savings, the Fund pays the amount of savings (approximately EUR 50 million) yearly to Kela to finance basic social security under section 23 of the Act on the Financing of Unemployment Benefits (555/1998).

Under section 19a of the Act on Unemployment Funds (556/1998), the Fund pays a membership fee equalisation payment to those

Cash flows at the Unemployment Insurance Fund



employee funds that have paid significantly more unemployment benefit days in the previous year than the average per member for all unemployment funds, in order to even out the unemployment burden prevailing in different industries, within the limits of an appropriation decided by the Supervisory Board each year. The balance of the unemployment fund's equalisation fund may also be taken into account in determining the membership fee equalisation payment. The Board of Directors of the Fund has also paid attention to the level of membership fees in relation to other unemployment funds and to changes in membership fees in the two preceding years.

A total of EUR 5 (10) million was spent on equalisation payments in 2018. The amount spent on equalisation payments was around 0.22% (0.34%) of the unemployment funds' benefit payments, while the prescribed maximum is 0.75%. Membership fee equalisation payments were made to 10 employee funds. Changes in the Fund's membership fees in 2018 and 2017 were also taken into account in the equalisation decisions.

Financing of pension accrual of unemployed persons and recipients of job alternation compensation and adult education allowance

The Unemployment Insurance Fund's second largest expense has been the contribution paid to the Finnish Centre for Pensions to cover the liabilities and expenses arising from taking into account the time of unemployment, education and job alternation leave (Employees' Pension Act (395/2006), sections 74 and 182). The amount of this contribution is determined by estimating the average amount of pension contributions that would be paid for the unpaid periods that constitute the basis of the accrued pension security.

Based on the estimate of the Finnish Centre for Pensions, the recognized expense in 2018 was EUR 620 (768) million. The contribution was paid in advance in the period under review. The final contribution for the period under review will be confirmed retrospectively by the Ministry of Social Affairs and Health in 2019.

As stated above, the Unemployment Insurance Fund is liable to pay the contribution laid down in sections 62 and 133 of the State Employees' Pensions Act (1295/2006) to the State Pension Fund. The Unemployment Insurance Fund's contribution amounted to EUR 12.0 (12.6) million in 2018. The final contribution for the period under review will be confirmed retrospectively by the Ministry of Social Affairs and Health during 2019.

Settlement to Kela of income from the unemployment insurance contributions of employees who are not members of an unemployment fund

Under sections 8 and 23 of the Act on the Financing of Unemployment Benefits (555/1998), the Fund pays Kela an annual amount from the employees' unemployment insurance contribution income corresponding to the percentage of employees who are not members of an unemployment fund. The amount of the settlement is estimated from data collected by Statistics Finland, and the estimate is confirmed by the Ministry of Social Affairs and Health. In 2017, the settlement percentage was 13.8% (12.7%). Prepayments amounted to EUR 228 (208) million.

Financing of the Education Fund's benefits and operations

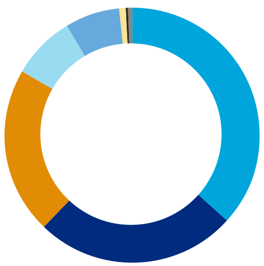
According to section 13 of the Education Fund Act (1306/2002) and section 30 of the Act on Adult Education Allowance (1276/2000), the State and the Unemployment Insurance Fund are responsible for the benefits issued by the Education Fund. According to these provisions, the financing responsibility has been

The Unemployment Insurance Fund's finances

Income by source

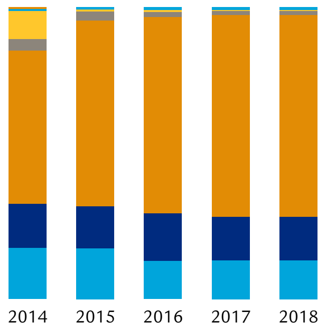
- Employer's contribution 39.7%
- Employee's contribution 40.0%
- Contributions from MSAH 20.4%

Payments by receiver



- Unemployment funds 36.7%
- Unemployment funds (MSAH) 25.6%
- Finnish Centre for Pensions 21.3%
- SII of Finland 7.8%
- Education Fund 7.1%
- Pay security 0.7%
- Admin. expenses 0.4%
- State pension fund 0.4%

Unemployment benefit contributions expressed as percentages



- Layoff allowance*
- Additional days allowance
- Earnings-related allowance**
- Job alternation leave
- Training time allowance
- Membership fee equalization
- Admin cost support

** Government participated in the financing of layoff benefits in 2010, 2012 ja 2013 ** Training time allowance included in 2015 and onwards* divided since 1 August 2017, and the State has been liable for entrepreneurs' adult education allowances and scholarships for qualified employees of the State. The Unemployment Insurance Fund is liable for the remainder of the financing (including adult education allowances, scholarships for qualified employees and the Education Fund's administrative expenses). The financing contributions paid by TVR in the review period amounted to EUR 187 million.

Financing of pay security

Under section 31 of the Pay Security Act (866/1998), the Unemployment Insurance Fund is responsible for the state's pay security expenses. Pay security expenses are paid once a year to the Ministry of Employment and the Economy based on an invoice sent by the Ministry. In 2018, pay security costs amounted to EUR 20 (19) million.

The Fund's role in EU coordination

Article 65 of Regulation (EC) No 883/2004 of the European Parliament and of the Council on the coordination of social security systems (basic regulation) provides for situations in which a person becomes unemployed after working in a Member State other than his or her country of residence.

In Finland, the Unemployment Insurance Fund has been designated as the competent body when implementing this basic regulation with regard to earnings-related unemployment insurance. The Fund's responsibilities

include paying and collecting the forms of compensation laid down in paragraphs 6 and 7 of Article 65 incurred from unemployment allowance paid to the members of unemployment funds. In 2018, the Fund paid a total of EUR 114,826 in such compensations and received a total of EUR 40,819.

Preparations for the merger of the Unemployment Insurance Fund and the Education Fund were made in the period under review

Preparations for the merger of the Unemployment Insurance Fund and the Education Fund were made throughout the period under review. The merger was discussed on several occasions by the Boards of the funds.

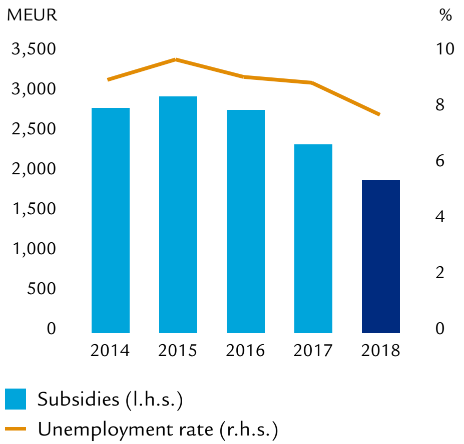
A project manager was appointed to run the merger project and the steering group was a preparatory group consisting of representatives of the collective industrial organisations. The merger was coordinated in the project group, and various sub-projects were responsible for preparing matters in each function.

The funds' employees took part in preparing the merger in several different ways, including workshops, a social communication platform and sub-projects. A competition was arranged among the personnel to decide the name of the new fund, and "the Employment Fund" was chosen.

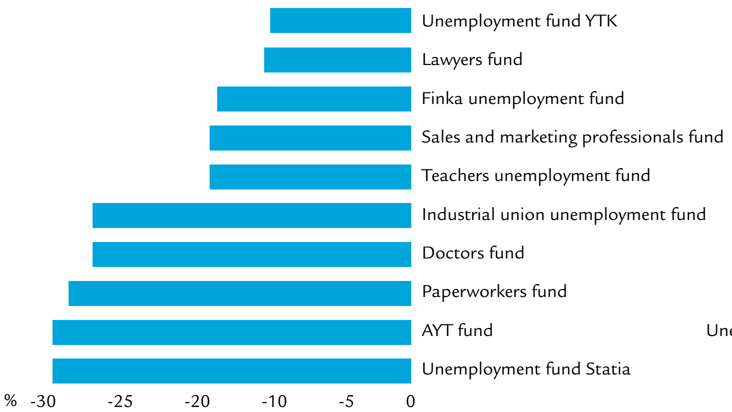
A strategy was prepared for the new fund, including a mission, vision, values and strategic goals. The entire personnel was involved in the strategy work. The merger project also involved creating the Employment Fund's website and preparing the new fund's visual appearance and emblem.

The legislative amendments concerning the merger of the funds were prepared in collaboration with the Ministry of Social Affairs and Health. The draft bill was debated in parliament in spring 2018 and the President of Finland ratified the law in June.

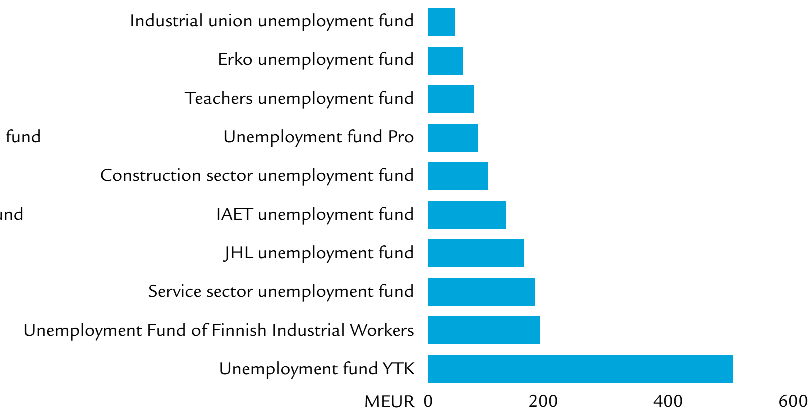
Subsidies to unemployment funds



Payment settlements to unemployment funds
Largest changes 2017–2018



Ten largest funds



Determining, collecting and supervising unemployment insurance contributions

Unemployment insurance contributions

The Unemployment Insurance Fund determines and collects the unemployment insurance contributions based on chapter 7 of the Act on the Financing of Unemployment Benefits.

On 30 August 2017, the Supervisory Board of the Unemployment Insurance Fund made a proposal to the Ministry of Social Affairs and Health for the amount of unemployment insurance contributions for 2018.

Employers' contribution percentages decreased for 2018, and were 0.65% (0.80%) of the wages up to EUR 2,083,500 (2,059,500) and 2.60% (3.30%) of the wages for the proportion in excess of this. The average contribution percentage was 1.91% (2.41%).

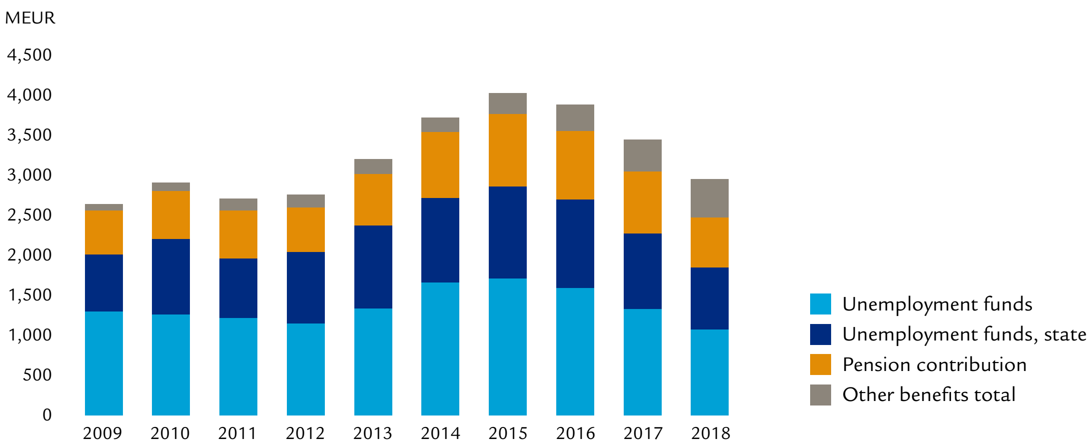
Unemployment insurance contribution for government enterprises was 0.65% (0.80%) of the wages up to EUR 2,083,500 (2,059,500) and 1.54% (2.05%) of the wages for the proportion in excess of this. Universities' unemployment insurance contribution was 0.65% (0.80%) of the wages up to EUR 2,083,500 (2,059,500) and 1.81% (2.33%) of the wages for the proportion in excess of this.

The employer's unemployment insurance contribution for part-owners as defined in the Unemployment Allowance Act was 0.65% (0.80%) of the wages.

The employees' unemployment insurance contribution was 1.90% (1.60%) of the wages, based on the Fund's proposal. The employees' unemployment insurance contribution for part-owners was 0.92% (0.70%) of the wages.

In total, EUR 1,457 (1,768) million of the employers' unemployment insurance contributions and EUR 1,517 (1,241) million of the employees' contributions were recognised. The payments levied were collected comprehensively: 0.21% (0.22%) of the invoices due in 2018 remained unpaid.

Unemployment benefits paid



Employers' training compensation

Employers can receive tax deductions from the expenses of training their employees based on the law on training compensation (law related to three training days). Employers who are not eligible for training-fee-related tax deductions based on the Business Tax Act or the Agricultural Income Tax Act, can receive equal deduction from the unemployment insurance contribution. Such employers include municipalities, churches and non-profit organisations.

In 2018, the Unemployment Insurance Fund refunded EUR 11.0 (11.1) million to 599 (594) employers for the compensation paid for training that had taken place in 2017. The total number of training days stated in the applications was approximately 565,000 (559,000). Of the employers who applied for the training compensation, 299 (287) were cities or municipalities.

Supervision of collection of unemployment insurance contributions

The Unemployment Insurance Fund supervises the fulfilment of the responsibilities related to the statutory unemployment insurance contributions. This supervision ensures that the reported wages, which determine the amount of the employer's unemployment insurance contributions, are accurate and the collected amounts are correct. In addition, the supervision addresses any failures to pay unemployment insurance contributions.

In 2018, the Unemployment Insurance Fund took 2,221 (1,458) cases under supervision. Supervision cases resulted in EUR 2.3 (2.6) million of additional payments and EUR 0.4 (0.4) million of refunds.

Employers' liability component in unemployment allowances

The Unemployment Insurance funds determines and collects the employers' liability component of unemployment allowances. It is collected to finance the unemployment benefit expenses of elderly long-term unemployed persons who have been granted additional days of the unemployment allowance and of persons who have become unemployed after reaching the age of 60. Provisions on the liability component and the collection procedure are laid down in chapter 8a of the Act on the Financing of Unemployment Benefits (555/1998).

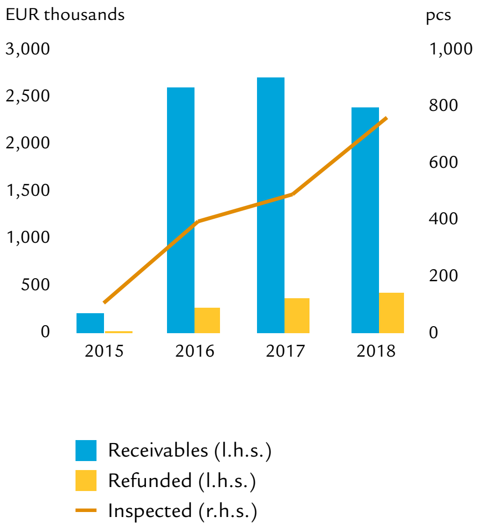
In 2017, the unemployment funds and Kela reported around 9,000 (10,000) new liability cases. The Fund imposed a liability component payment on the employer in around 2,300 (3,000) cases.

Approximately EUR 49 (54) million was recognised in liability payments in 2018. The average processing time in cases that led to a payment decision was 55 (59) days.

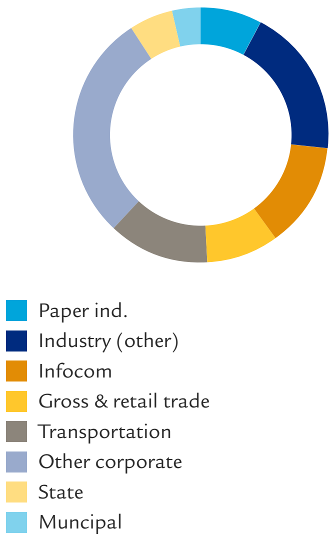
Conduct according to chapter 12, section 3 of the Employment Contracts Act

According to the Employment Contracts Act, the courts must hear the Unemployment Insurance Fund in disputes that relate to the termination of employment and when the claimant has received earnings-related daily unemployment allowance after the termination of employment. In the period under review, the Unemployment Insurance Fund gave around 1,000 (900) statements.

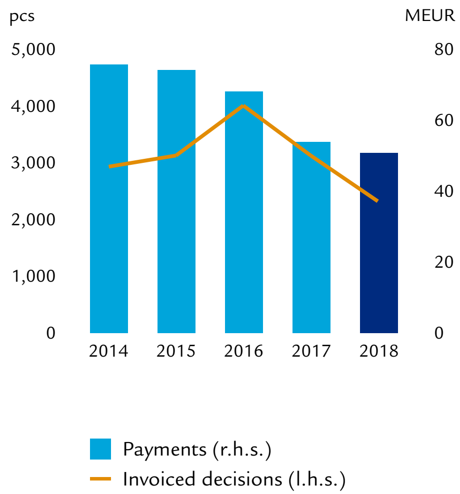
Control and supervision of the collection of insurance contributions



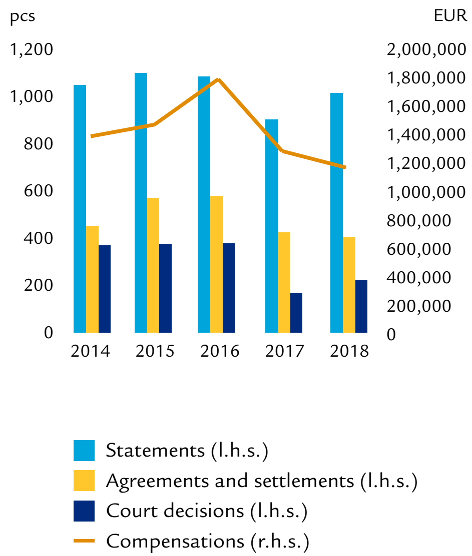
Employers liability component by sector



Liability component payment decisions and supervision



Statements, agreements, judgments, Employment Contracts Act compensation



Finance

TVR's net financial position and business cycle buffer

In accordance with section 3 of the Act on the Financing of Unemployment Benefits, the Unemployment Insurance Fund maintains a business cycle buffer generated from the difference between the Fund's income and expenditure, in order to safeguard the Fund's solvency and even out changes in unemployment insurance contribution rates caused by predictable trend cycles in the national economy. The maximum size of this buffer is the amount of annual expenses corresponding to an unemployment rate of seven per cent. During times of severe economic downturn, the Fund may maintain a deficit equal to the corresponding amount of expenditure.

The maximum size of the buffer is calculated by dividing the annual expenditure for which the Fund is liable, which was EUR 2,166 million in 2018, by the average unemployment rate (7.4%) for the year and multiplying the result by 7. The maximum size of the buffer allowed by the Act was EUR 2,049 million in 2018. The Unemployment Insurance Fund's net position was EUR 969 million at the end of 2018.

According to the investment principles adopted by the Supervisory Board, the Fund is required to have investments in liquid money market instruments with less than a year's maturity in at least an amount corresponding to one month of the Fund's expenses. This amount is approximately EUR 300 million. In 2018, the foregoing liquidity buffer was much larger than the minimum amount, although it was necessary to refinance some of it by taking on debt.

According to the 2019 budget submitted to the Ministry of Social Affairs and Health, the Fund's net position will amount to EUR 1,221 million on 31 December 2019. In preparing the financial statements, it is estimated that the Fund's net position at the end of 2019 will be around EUR 1,300 million.

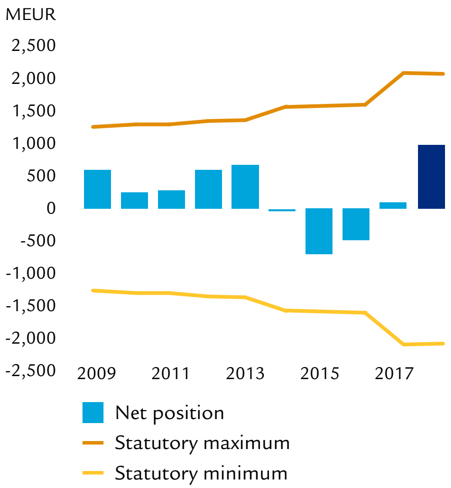
Debt financing

The Unemployment Insurance Fund has issued one bond series in a total amount of EUR 600 million. The bonds were issued in 2015 and they will mature on 23 September 2019. The bonds are part of the European Central Bank's Public Sector Purchase Programme (PSPP). Standard & Poor's (S&P) has given TVR a credit rating of AA+ with a stable outlook. The Finnish government has also been granted the same credit rating.

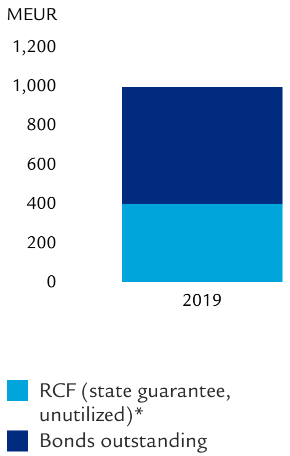
TVR has access to a standby credit line of EUR 400 million. It is linked to a state guarantee of EUR 440 million by the Finnish government. The credit facility was not utilised during 2018.

On 18 December 2018, the Board of Directors of the Unemployment Insurance Fund approved a debt servicing plan for 2019.

Development of the business cycle buffer



Loan maturity distribution



** One year extension option*

Investment activities

The Unemployment Insurance Fund carries out investment activities to the extent necessary to manage the timing differences in the cash flows generated by its income and expenses, and for liquidity management purposes. Since 2015, the Fund's investment portfolio has been largely financed by debt financing. The Unemployment Insurance Fund's total investments and financial assets were EUR 1,687 (1,125) million at the end of the period under review.

Financial markets showed quite a large amount of fluctuation in 2018. The ECB discontinued its programme of bond purchases in 2018 but it left the reference interest rate at zero. The US Federal Reserve continued to increase the reference interest rate and market expectations remained in favour of rising interest rates.

Equity markets rose in the first half of the year but they mainly began trending downwards after the summer. The euro depreciated against the US dollar when the US Federal Reserve's interest rate rises increased the interest difference between the currencies. Long-term interest rates rose in the first half of the year but began to decrease in the second half of the year. By the final quarter of the year, capital markets had generally weakened as economic indicators pointed towards weaker development in the global economy.

Minor changes were made to the allocations in the Fund's investment portfolio during the year. TVR ran a tendering competition for portfolio management services to cover some of its assets. The Fund's aim was to retain a reasonably low risk level and protection for the investment portfolio, and good solvency continued to be emphasised in the allocation of investments. According to plan, the investment portfolio's average risk level rating was BBB/S&P, having been BBB+ at the end of the previous year. The investment plan was revised during the year, and the Fund invested actively in money market instruments, bonds and, to a lesser degree, also equities. At the end of the financial period, EUR 893 (537) million of the Fund's assets were invested in money market instruments, EUR 661 (433) million in bonds, EUR 15 (0) million in equities and EUR 6 (0) million in other asset classes.

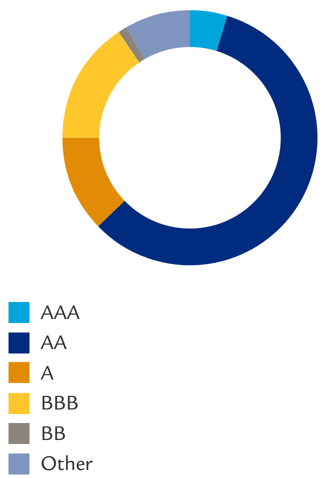
In 2018, the Fund achieved a return of -0.2 (0.1) per cent on invested assets. The return corresponded reasonably well to the expected return stated in the investment plan. The return exceeded the benchmark return for investment activities.

Asset market return
Index return in relevant asset class

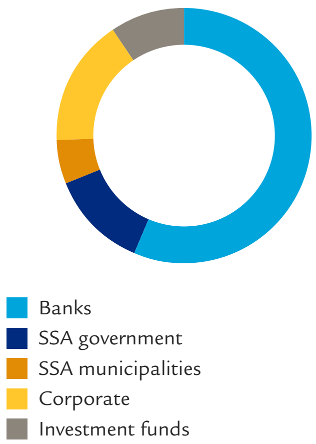
	2018	2017	2016	2015	2014
Finnish equity	**-7.7%**	6.4%	3.6%	10.8%	10.6%
European equity	**-10.2%**	6.5%	7.9%	-0.7%	6.0%
Asian equity	**-2.3%**	25.3%	8.3%	-9.2%	9.8%
Money market	**-0.3%**	-0.3%	-0.1%	0.1%	0.3%
Euro government bonds (1-3Y)	**-0.4%**	-0.9%	0.3%	0.3%	0.6%
Euro government bonds (total)	**0.9%**	0.1%	3.1%	1.6%	13.2%
TVR investment return	**-0.2%**	0.1%	0.3%	0.2%	0.6%

Investments by sector 31 Dec 2018

Investments by rating



Investments by issuer type



Risk management

The purpose of risk management is to identify and manage risks that could endanger the solvency of the Unemployment Insurance Fund or the continuity of its operations, or that could have an negative adverse effect on the Fund's operational capabilities or the implementation of its strategy. Another objective of risk management is to support the achievement of strategic goals by monitoring the risks faced by the Fund, in order to ensure that they remain in proportion to the Fund's objectives and risk-bearing capacity.

The Fund seeks to identify key risks in the risk management plan and limit them to a level where their realization will not jeopardize the Fund's financial position, continuity of operations or trust in its operations.

Risk management is part of the Unemployment Insurance Fund's supervision system. The senior management is responsible for organising the Fund's risk management and overall internal control, but implementation requires the input of every member of personnel.

The Unemployment Insurance Fund is widely linked to the Finnish national economy. For this reason, the unimpeded discharge of the Fund's key duties must be safeguarded in all circumstances. The Fund's finances are mainly managed by adjusting the unemployment insurance contribution amounts, determined on an annual basis. Maintaining unemployment insurance contributions at an appropriate, steady level is one of the Fund's core strategic goals.

The Fund employs a business cycle buffer to avoid fluctuations in unemployment insurance contribution amounts, and the size of this buffer has a material impact on the Fund's risk-bearing capacity. The business cycle buffer turned negative during 2015. It has been necessary to use debt financing since then in order to finance unemployment benefit expenses. In 2018, TVR's financial position improved significantly. EUR 300 million of long-term debt was repaid. The Unemployment Insurance Fund's net position at the end of 2018 was EUR 969 million.

The Fund seeks to limit investment risks to a level where their realisation will not result in such significant losses for the Fund, which would create pressure to increase the level of contributions or endanger the liquidity of the Fund. The investment and financing activities and risk limits of the Unemployment Insurance Fund are provided for in more detail in the investment principles approved by the Supervisory Board and the investment plan and the debt-management plan approved by the Board of Directors.

As a rule, the market risk of investments is measured using stress tests in which a risk indicator expressed as annual volatility is assigned to each investment class on the basis of historical fluctuations in value. In 2018, the risk indicator was 20% (25%) for equity investments, 10% (-) for alternative investments, 4–7% (4%) for bond investments and 1.5% (1%) for money-market investments.

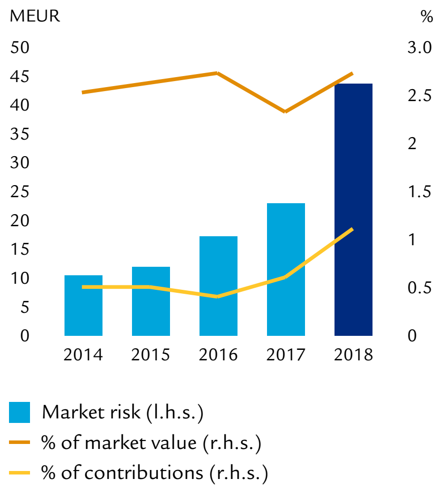
The main risks faced by the Unemployment Insurance Fund relate to general economic development, the ability to react to changes in the operating environment, the functionality of information systems and the development of new systems, and the availability and retention of knowledge capital.

The Fund seeks to manage risks related to economic development by setting unemployment insurance contribution rates at a level sufficient to provide security by using diverse forecasting methods. During downturns, the buffer may become negative, in which case liquidity must be ensured, at least in part, by debt financing. The amount in the business cycle buffer is evaluated both in absolute figures and in relation to the Fund's expenses.

The Fund seeks to manage the risk related to readiness for change through competent anticipation of the known changes in the operating environment. This requires an active communication with all stakeholders and, in particular, decision-makers.

In recent years, the significance of information management and information systems has increased considerably in the Fund's operations. Likewise, the availability of key talents and retention of key personnel and human capital are crucial to the Fund's operations. These risks are managed through continuity planning, readiness and deputy arrangements and by improving the reliability and effectiveness of the Fund's information systems.

Investment risks



Personnel

The Fund's Managing Director is Janne Metsämäki, LL.M.

The number of personnel was 117 (106) at the end of 2018 or 99.3 (90.3) person-years of work. Men accounted for 37 (36) of the employees and women accounted for 80 (70). The average employee age was 42 (41) and the average period of service was 4.4 (4.8) years.

The average number of training days per person was 2.2 (4).

The Fund has implemented a compensation system based on the complexity of work, and a bonus system that supports the achievement of the Fund's strategic objectives.

The rate of absence due to illness averaged 13.2 (10.3) days per person-year of work, which is 4.1% (3.3%) when calculated using EK's statistics.

Office

The office of the Unemployment Insurance Fund is located at Kansakoulunkuja 1, Helsinki.

Representations

Janne Metsämäki was a member of Advisory Board for employment allowance issues of Social Insurance Institution of Finland and Tapio Oksanen a deputy member.

Memberships

The Unemployment Insurance Fund is the member of International Common Organisation of Unemployment, International Social Security Association (ISSA), and corresponding organization of EU member states, European Social Insurance Platform (ESIP), and Nordic Nordiskt Socialförsäkringsmöte (NSF). The Fund is an observer member in the European Association of Social Protection Institutions managed by labour market confederations (AEIP).

Events since the end of the financial period

At the beginning of 2019, the Unemployment Insurance Fund and the Education Fund merged to form a new fund, the Employment Fund. There were no changes to the Fund's statutory responsibilities. The merger was executed at the beginning of the year as planned. The work at the start of the year has focused on ramping up the Employment Fund's operations and building a new organisation in relation to this. The Employment Fund's Board of Directors confirmed the new fund's strategy, and the fund has embarked on implementing the strategy.

Uncertainty regarding economic development has increased in the first part of 2019. The latest statistics and economic indicators point to a deceleration in economic activity in Finland's export markets, and the number of new orders taken by industrial businesses is no growing as rapidly as before. The Employment Fund expects to record a positive financial performance in 2019 and its net position is expected to strengthen further. According to the budget, the change in net position for 2019 should be a positive EUR 335 million. However, when the financial statements were being prepared, it was estimated that the change in the Fund's net position would be around EUR 500 million in 2019.

The Incomes Register will be deployed at the beginning of 2019 for payroll data. The Employment Fund will make use of data from the Incomes Register when it levies and collects unemployment insurance contributions. The Employment Fund has successfully transitioned to the Incomes Register.

Unemployment Insurance Fund corporate governance statement 2018

This corporate governance statement for the Unemployment Insurance Fund in 2018 has been prepared pursuant to the Securities Market Act and the recommendation on reporting of the Finnish Corporate Governance Code for Listed Companies, which took effect on 1 January 2016.

The Unemployment Insurance Fund's statutory auditor, KPMG Oy Ab, has verified that the description of the main features of the internal control and risk management systems related to the financial reporting process included in this statement are consistent with the financial statements. The Employment Fund's Board of Directors reviewed this statement in its meeting on 26 March 2019.

Compliance with the Finnish Corporate Governance Code 2015 and deviations from the recommendations

The Unemployment Insurance Fund is an independent institution established by law. It has not issued any shares or interests for public trading. TVR has issued bonds to be quoted on Nasdaq OMX Helsinki Oy. For this reason, TVR has decided to conduct its operations, where applicable, in compliance with the Finnish Corporate Governance Code for Listed Companies, which became effective in 2010. This corporate governance statement is issued in compliance with the Corporate Governance Code revised in 2015 and effective as of 1 January 2016 (the Corporate Governance Code is publicly available on the Securities Market Association's website at www.cgfinland.fi).

The operations and responsibilities of the organs of TVR are based on the Act on the Financing of Unemployment Benefits (555/1998), the Decree on the Financing of Unemployment Benefits (1176/1998) and the Decree on the Regulations of the Unemployment Insurance Fund (862/1998).

Due to the form of activity and background of TVR, its operations differ from the Finnish Corporate Governance Code on the following recommendations:

- Recommendations 1, 2, 3 and 4: The highest decision-making body of TVR is not a general meeting or similar organ but the Supervisory Board, appointed by the Government, in accordance with the Decree on the Regulations of the Unemployment Insurance Fund (862/1998). The Decree includes provisions on matters to be decided in the meetings of the Supervisory Board and the related procedures, as well as the notice to the meeting. For this reason, the recommendations concerning the general meeting, the notice to the meeting, the general meeting documents and the election process for the Board of Directors are not applicable as such to the operations of TVR.
- Recommendations 5, 6, 7, 8, 9 and 10: The Supervisory Board of TVR elects the members of the Board of Directors in accordance with the principles set out in the Decree on the Regulations of the Unemployment Insurance Fund (862/1998). The Decree does not restrict the terms of office of members of the Board of Directors. However, in practice, the Supervisory Board confirms the members, chair and deputy chair of the Board of Directors annually. For this reason, the recommendations concerning the election of the members of the Board of Directors and the Nomination Committee are not applicable to the operations of TVR.
- Recommendations 10, 16, 17 and 18a: TVR has no shareholders or similar owners, wherefore the independency of significant shareholders of the management shall not be evaluated.
- Recommendation 18b: TVR has no shareholders or equivalent owners, so the recommendation concerning a shareholders' nomination committee is not applicable.
- Recommendations 22 and 24: The Supervisory Board decides the remuneration of the Board of Directors. The Ministry of Social Affairs and Health decides the remuneration for meetings for the Supervisory Board and the principles of compensation for travelling expenses. The Board of Directors decides on the remuneration and the terms and conditions of the service contract of the managing director, as well as the principles of remuneration for other management staff.
- Recommendation 23: TVR has no shareholders or similar owners, wherefore the recommendations relating to shares and share-based remuneration for the members of the Board of Directors shall not be applied.
- Recommendation 28: TVR is not a corporation, so the regulations on related-party transactions are not applicable as such to TVR's operations. However, as an issuer of bonds, TVR complies with the insider rules laid down in the Market Abuse Regulation (MAR).

Supervisory Board

According to the Decree on the Regulations of the Unemployment Insurance Fund (862/1998), TVR's highest decision-making body is the Supervisory Board, which has 18 members. The Supervisory Board elects a chair and deputy chair from among its members for one calendar year at a time, one of whom is an employer representative and the other one an employee representative. The chairmanship is held in turns by representatives of employers and employees, alternating annually.

The Finnish Government appoints the members of Employment Fund's Supervisory Board, six of whom are representatives nominated by the Confederation of Finnish Industries, three by the Commission for Local Authority Employers, three by the Central Organisation of Finnish Trade Unions (SAK), three by the Finnish Confederation of Professionals (STTK) and three by the Confederation of Unions for Professional and Managerial Staff in Finland (Akava). The term of the members of Supervisory Board is three calendar years. The members appointed to the Supervisory Board will continue to the end of their term as the Supervisory Board of the Employment Fund that began operations on 1 January 2019.

The members of the Supervisory Board in 2018 were:

Name	Year of birth	Education	Main occupation	Attendance of meetings of the Supervisory Board
Antti Zitting, Chair	1956	Master of Science (Technology)	Chair of the Board, Sacotec Oy	4/4
Silja Paavola, Deputy Chair	1956	Auxiliary Nurse	President, Finnish Union of Practical Nurses (SuPer)	2/4
Riku Aalto	1965	Master of Administrative Sciences	President, Industrial Union	3/4
Teija Asara-Laaksonen	1957	Matriculation exam	Vice President, Trade Union for the Public and Welfare Sectors (JHL)	2/4
Jorma Haapanen	1964	Master of Science (Agriculture and Forestry)	Deputy Mayor, City of Kotka	4/4
Jari Jokinen	1967	Master of Science (Technology)	Unit director, Academic Engineers and Architects in Finland (TEK)	2/4
Tauno Kekäle	1961	Doctor of Science (Business Administration)	CEO, Rector, Vaasa University of Applied Sciences Ltd	1/4
Antti Korpiniemi	1961	Master of Science (Agriculture and Forestry)	CEO, Berner Ltd	4/4
Kirsi-Marja Lievonen (since 1 May 2018)	1962	Licentiate of Laws trained on the bench	HR Director, City of Vantaa	3/4
Petri Lindroos	1965	Master of Education	Director of Negotiations, Trade Union of Education (OAJ)	4/4
Salla Luomanmäki	1963	Master of Arts	Executive Director, Akava Special Branches	4/4
Jorma Malinen	1959	Automation Designer	President, Trade Union Pro	3/4
Matti Mettälä	1963	Master of Laws trained on the bench	EVP, Kesko Corporation	2/4
Taina Niiranen (Since 1 May 2018)	1966	Master of Administrative Sciences	Project Manager, Council of Tampere Region	3/4
Olli Nikula	1967	Master of Science (Economics)	CEO, Saint-Gobain Finland Ltd	3/4
Harri Ojanperä	1961	Master of Business Administration	Senior Vice President, SOK Travel and Hospitality Industry Chain Management	4/4
Millariikka Rytkönen	1975	Midwife-nurse, Master's degree	Chair, Union of Health and Social Care Professionals Tehy	4/4
Ann Selin	1960	Executive Master of Business Administration	Chair, Service Union United PAM	2/4
Ritva Viljanen (until 30 April 2018)	1958	Master of Laws, Master of Political Sciences	Deputy Mayor, Senior Advisor, City of Helsinki	0/4
Jaana Ylä-Mononen (until 30 April 2018)	1961	Licentiate of Medicine	Doctor, Central Finland Health Care District	1/4

Meeting practice and access to information

The ordinary meeting of the Supervisory Board is held twice a year, in the spring before the end of May and in the autumn no later than in October. An extraordinary meeting of the Supervisory Board is held whenever the chair of the Supervisory Board or the Board of Directors deems it necessary, or when at least two members of the Supervisory Board request in writing that an extraordinary meeting be held for a reason specified in the request.

The notice to the meeting shall be delivered in a verifiable manner to the members of the Supervisory Board no later than eight days before the meeting.

The meeting of the Supervisory Board shall constitute a quorum when the chair or the deputy chair and at least one half of the members are present at the meeting. Those attending the meeting shall include both employer and employee representatives. The decisions of the Supervisory Board shall be based on a simple majority. In the event of a tie, the decision shall be based on the opinion supported by the chair of the meeting. In the event of an election in which the voting ends in a tie, the result shall be decided by drawing lots. In the event that the question concerns a proposal for unemployment insurance contributions and the voting ends in a tie, the opinion supported by both the chair and the deputy chair shall become the decision.

The Supervisory Board elects the chair and deputy chair of the Supervisory Board for one calendar year at a time.

In 2018, the Supervisory Board convened on three occasions, one of which was an email meeting.

Members of the Supervisory Board

On 22 November 2017, based on the proposal of the labour market parties, the Government appointed the members of TVR's Supervisory Board for the term from 1 January 2018 to 31 December 2020.

The members of the Board of Directors in 2018 were:

Name	Year of birth	Education	Main occupation	Attendance of meetings of the Board of Directors
Saana Siekkinen, chair	1972	Master of Social Sciences	President, Central Organisation of Finnish Trade Unions (SAK)	13/14
Vesa Rantahalvari (Deputy Chairman)	1967	Master of Administrative Sciences	Senior Expert, Confederation of Finnish Industries (EK)	14/14
Sture Fjäder	1958	Master of Science (Economics)	President, Confederation of Unions for Professional and Managerial Staff in Finland (Akava)	8/14
Riikka Heikinheimo	1963	Doctor of Philosophy	Director, Confederation of Finnish Industries (EK)	13/14
Minna Helle (since 1 July 2018)	1971	Master of Laws	Director, Labour Market, Technology Industries of Finland	7/14
Jyrki Hollmén	1974	Master of Laws	Director, Chemical Industry Federation of Finland	11/14
Eeva-Liisa Inkeroinen (until 30 June 2018)	1963	Master of Laws	Executive Vice President, Technology Industries of Finland	6/14
Markku Jalonen	1960	Licentiate of Social Sciences	Labour Market Director, Local Government Employers	12/14
Ilkka Kaukoranta	1986	Master of Political Sciences	Chief Economist, SAK	12/14
Ida Mielityinen	1973	Master of Political Sciences	Senior Expert, Confederation of Unions for Professional and Managerial Staff in Finland (Akava)	13/14
Katarina Murto	1971	Master of Laws trained on the bench	Director, Finnish Confederation of Professionals STTK	13/14
Antti Palola	1959	Sea Captain	Chairman of the Board, Finnish Confederation of Professionals STTK	11/14
Jorma Palola	1954	Licentiate of Laws	Chief Negotiator, Local Government Employers	12/14
Penna Urrila	1976	Master of Political Sciences	Chief Economic Policy Adviser, Confederation of Finnish Industries (EK)	14/14
Pirjo Väänänen	1971	Master of Social Services	Director, Employment, SAK	13/14

Board of Directors

According to the Decree on the Regulations of the Unemployment Insurance Fund (862/1998), TVR shall have a Board of Directors. The Board has 14 (fourteen) ordinary members nominated by the Supervisory Board such that seven of the Board members are representatives of employer organisations and seven are employee representatives. The Board of Directors shall have a chair and deputy chair, one of whom shall be an employer representative and the other one an employee representative. The chairmanship is held in turns by representatives of employers and employees, alternating annually. If the position of a Board member becomes vacant during the term of office, the Supervisory Board shall appoint a new member for the rest of the term of office as described above.

The Board of Directors constitutes a quorum when the chair or deputy chair and at least seven members are present at the meeting. Those attending the meeting shall include both employer and employee representatives. The decisions of the Board shall be based on a simple majority. In the event of a tie, the decision shall be based on the opinion supported by the chair of the meeting. In the event of an election in which the voting ends in a tie, the result shall be decided by drawing lots. In the event that the question concerns a proposal for unemployment insurance constitutions or a decision on equalising the unemployment fund membership fees and the voting ends in a tie, the opinion supported by both the Chairman and the Vice Chairman shall become the decision.

The Board of Directors is responsible for TVR's administration and the proper organisation of its operations. The Board of Directors follows the development of TVR with the help of the management's monthly reports and other information delivered by the management. The right to represent TVR shall lie with the Chairman of the Board of Directors alone and, as authorised by the Board of Directors, a member of the Board of Directors, the Managing Director or an employee of TVR, each alone. The main duties and operating principles of TVR's Board of Directors shall be specified in written rules of procedure. The Board of Directors shall carry out a self-assessment of its performance once a year.

Meeting practice and access to information

The Chairman summons the meeting of the Board of Directors. The notice to the meeting of the Board of Directors shall be delivered to all members of the Board of Directors in good time before the meeting in order to ensure the possibility of the members of the Board of Directors to attend the meetings. The Board of Directors meets 8–12 times per year and, if necessary, more often. If all the members approve, the meeting of the Board of Directors may be held as a phone conference or by email in case of urgent and specific matters.

In 2018, the members of the Management Group were:

Name	Year of birth	Education	Duties/responsibilities
Janne Metsämäki	1960	Master of Laws	Managing Director
Tapio Oksanen	1958	Master of Science (Economics)	Deputy Managing Director
Virpi Halme	1976	Master of Laws	Director in charge of administration and legal affairs
Heikki Ellonen	1959	Master of Science (technology), Bachelor of Science (economics)	Chief Information Officer
Juho Oksanen	1978	Master of Science (economics), Master of Social Sciences	Insurance Director

Duties of Chairman

The Supervisory Board elects the Chairman of the Board of Directors and the Deputy Chairman of the Board of Directors for one calendar year at a time.

Chairman of the Board of Directors

- convenes meetings of the Board of Directors
- approves the agenda prepared by the Managing Director for the meetings of the Board of Directors
- is responsible for drafting the minutes of every meeting of the Board of Directors
- if necessary, stays in contact with the
- Managing Director and members of the Board of Directors between meetings; is responsible for ensuring that this working order is complied with in the work of the Board of Directors
- accepts the invoices of the Managing Director.

Operations of the Board of Directors

The Board of Directors met 14 times in 2018. The Board of Directors does not have any permanent committees but it can decide to establish working groups or committees for the purpose of assisting the Board of Directors with the preparation of a certain matters falling within the competence of the Board of Directors. In 2018 the Board of Directors did not have any committees. The duties of the audit committee are handled by the Board of Directors of TVR.

Managing Director

TVR has a Managing Director who is responsible for the management of TVR in accordance with guidelines and orders issued by the Board of Directors. The Managing Director is responsible for ensuring that the accounts of TVR are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The Managing Director shall provide the Board of Directors and its members with the information necessary for the Board of Directors to perform its duties.

TVR's Managing Director is Janne Metsämäki, LL.M. (born 1960).

Key management personnel

The Management Group supports the Managing Director in leading the operations of TVR as well as in implementing TVR's strategic and operative targets. The Management Group meets regularly, on average twice a month.

Internal control and risk management principles

TVR's internal control consists of all the practices and procedures that aim to provide the Board of Directors and the Management reasonable assurance on the achievement of set objectives, effectiveness of operations, reliability and adequacy of financial and operational information, as well as compliance with laws and regulations. Risk management is an essential part of internal control, meaning systematic and proactive practices for identifying, analysing and managing threats and opportunities related to operations.

Internal control and risk management play a role in the realisation of good governance policies at TVR. Internal control and risk management procedures are linked to TVR's corporate governance, decision-making, and strategic and operative planning.

TVR has an internal control and risk management policy, set by the Board of Directors, including internal control guidelines. Furthermore, TVR's internal control is based on investment principles determined by the Supervisory Board, investment plans determined by the Board of Directors, debt management plans, principles of data management and data security and internal audit guidelines, as well as other TVR's guidelines and procedures.

Objectives of internal control and risk management

Internal control and risk management at TVR involve procedures aimed at achieving reasonable certainty of the following:

The achievement of set objectives and the effectiveness of operations

- TVR collects and distributes the unemployment insurance contributions and liability component compensations levied, as well as other income, effectively and in compliance with the law
- The assets held by TVR are well kept and managed, and the resources are safeguarded from any losses arising from the poor performance of duties, misspent funds, errors, misconduct, or other actions that violate the rules and guidelines
- The operations and use of funds of TVR are effective so that the set objectives are achieved and the operations are economic, profitable and impactful.
- The production of accurate and sufficient information relating to finances and operations
- The availability of information relating to TVR's operations, finances and administration required for effective management is

- ensured, in addition to using the information for management purposes
- A true and fair view of operations, finances and administration, as well as effectiveness, is reported to the Board of Directors and Supervisory Board of TVR.

Legality and compliance of operations

The operations of TVR are carried out in compliance with the law, the guidelines and regulations relating to TVR, and the requirements of good governance.

Responsibilities of internal control and risk management

The Board of Directors of TVR decides on the bases of internal control and risk management, requiring that the functions of TVR are organised in such a manner that sufficient internal control and risk management is realised in all levels of the organisation and in all its operations.

The bases of internal control and risk management at TVR apply to all TVR's functions, and each employee is responsible for implementing them.

TVR's internal control is based on a 'three lines of defence' model, as presented below.

First line of defence – the Board of Directors and the management

First line of defence consist of the Board of Directors and Management. The Board of Directors is responsible for arranging internal control and risk management, whereas TVR's Management is responsible for the execution of internal control and risk management within the organisation.

Second line of defence – Compliance and Risk Control

Second line of defence consist of independent Compliance and Risk Control functions which are responsible for developing, maintaining and monitoring TVR's general internal control principles and the functionality of risk management in the Fund.

Third line of defence - Internal Audit

Third line of defence consist of Internal Audit, which is a separate and independent function, whose purpose is to assure that TVR's internal control and risk management is appropriately arranged. The Internal Audit function operates under the supervision of the Managing Director and reports directly to the Managing Director and to the Board of Directors. According to the audit plan approved by the Board of Directors, internal audit activities may be directed at any function or unit at TVR.

Evaluation of internal control and risk management

Evaluation of internal control and risk management is carried out annually. The evaluation is carried out based on an evaluation framework, which is prepared by the internal control and risk management advisory board that operates in connection with the Ministry of Finance. The evaluation framework is based on the COSO-ERM framework.

Financial audit

Authorised Public Accountants KPMG Oy Ab serves as the Fund's auditor. The auditor with principal responsibility is Marcus Tötterman, Authorised Public Accountant (KHT). The Supervisory Board decided that the auditor's fees and expenses will be paid according to the invoice approved by the Fund.

In 2018, the auditor's auditing fees amounted to EUR 53,529, and other remuneration was EUR 0.

Principles of organising insider administration

In 2015, TVR issued two bonds, worth EUR 600 million and EUR 300 million. Through the issuance of these two bonds, TVR has complied with the requirements laid down in insider legislation, including the parts applicable to issuers of bonds of the Market Abuse Regulation (MAR), which entered into force in summer 2016. The principles and guidelines on insider administration have been approved by the Fund's Board of Directors.

Description of the main features of internal control and risk management systems related to financial reporting

Control Environment

The Unemployment Insurance Fund's Managing Director together with the Management Group are the chief executive decision makers. The Management Group is responsible for ensuring that the functions of the Fund have adequate resources in order to perform their duties, which are determined by law or based on decisions made by the Board of Directors. The financial information released by TVR is always aimed at giving a true and fair view of its financial position.

TVR's financial reporting and control is based on monthly financial reporting and the annual budget, which is confirmed by the Board of Directors.

TVR's finance department prepares the statutory annual financial statements and produces a comprehensive monthly financial reporting package covering the development of statutory payments and contributions, and the values of assets and liabilities.

TVR receives regularly information from the Financial Supervisory Authority on unemployment benefits paid by unemployment funds, which the Fund then analyses and compares to the known unemployment trends and expenses defined in the budgets. The comparison is made separately for expenses that are the responsibility of TVR and the Government.

The finance department maintains the financial management systems and communicates the principles related to the financial statements and the report of the Board of Directors.

Risk management related to financial reporting

The Unemployment Insurance Fund has a risk management plan that has been approved by the Board of Directors. The most significant risks related to financial reporting are defined annually in the risk assessment prepared by the Management Group. TVR's most significant risk related to financial reporting is the assessment of net assets (business cycle buffer) and liquidity when preparing the budget. The budget and an integral proposal for the amount of contributions must be prepared based on regulations defined by law so that TVR is able to meet its commitments. The budget, which is prepared by the end of August of the preceding year, is the responsibility of the finance department. In addition to the legal requirements, the budget is based on assessments of the development of national unemployment, employment and wage development which are prepared by TVR, the Ministry of Finance, research organisations and banks.

Differences between the annual result in the budget and the financial statements are considered significant risks and the amount in the recent years has averaged 5% of TVR's benefit payments. This risk is managed using the business cycle buffer, by ensuring that the net position set in the budget exceeds the minimum statutory requirement of the business cycle buffer with a sufficient margin.

TVR aims to secure liquidity by allocating assets to such investments, which are efficiently realisable without a significant risk related to market value or return of the investment.

The risks to the values of investment assets are described for each investment category in the principles for preparing the financial statements. The finance department monitors the values and returns of investments and debt instruments through valuation reports prepared daily. In the financial and accounting units, compliance with the investment plan is monitored through daily reconciliations, in addition to which reports are prepared for Management and the Board of Directors monthly.

TVR's Board of Directors monitors and controls monthly the Fund's result, net position, compliance with the investment plan and debt financing through reports prepared by the finance department.

Financial communication

TVR publishes a release calendar annually on its website, stating the release dates of economic information and performance data for the year. In addition, TVR publishes information on its performance whenever the new forecast deviates substantially from previously released information. TVR's Deputy Managing Director and Financial Manager together with the communications department are responsible for ensuring that TVR complies with the information distribution requirements set for bond issuers.

Unemployment Insurance Fund Remuneration Report 2018

The Unemployment Insurance Fund Remuneration Report 2018 has been drawn up in compliance with the Corporate Governance Code 2015 (www.cgfinland.fi), published by the Securities Market Association. The Remuneration Report provides information on the salaries and fees paid to the members of the Supervisory Board, the Board of Directors, the Managing Director and other key management personnel between 1 January and 31 December 2018.

Fees and other benefits paid to the members of the Supervisory Board

On 22 November 2017, based on the proposal of the labour market parties, the Government appointed the members of TVR's Supervisory Board for the term from 1 January 2018 to 31 December 2020.

The Ministry of Social Affairs and Health decides the remuneration for meetings for the Supervisory Board and the principles of compensation for travelling expenses. On 17 January 2012, the Ministry of Social Affairs and Health decided that the fees for the members of the Supervisory Board are as follows: chair EUR 120 per month and EUR 230 per meeting, deputy chair and other members EUR 140 per meeting.

The Supervisory Board convened 4 times in 2018, and held one meeting by email. No fee is payable for the email meeting.

In 2018, the fees for the members of the Supervisory Board were paid as follows:

Name	Meeting fee of member of the Supervisory Board	Monthly fee of Chairman of the Supervisory Board	Travel expenses	31 December 2018
Total (EUR)	690	1,440		2,130
Aalto Riku	280			280
Asara-Laaksonen Teija	140			140
Haapanen Jorma	420		273	693
Jokinen Jari	140			140
Kekäle Tauno	-			-
Korpiniemi Antti	420			420
Lievonen Kirsi-Marja	280			280
Lindroos Petri	420			420
Luomanmäki Salla	420			420
Malinen Jorma	280			280
Mettälä Matti	140			140
Niiranen Taina	280		148	428
Nikula Olli	280			280
Ojanperä Harri	420			420
Paavola Silja	140			140
Rytkönen Millariikka	420			420
Selin Ann	140			140
Ylä-Mononen Jaana	140		288	4
Yhteensä	5,310	1,440	709	7,459

Fees and other benefits paid to the members of the Board of Directors

The Supervisory Board decides on the remuneration of the Board of Directors. (Table 1).

No other remuneration or supplementary pension arrangements are in place for the members of the Board of Directors.

The Board of Directors convened 14 times in 2018. (Table 2).

Remuneration of the Managing Director and key management personnel of the Fund

As from 2016, a separate bonus system approved by the Board will apply to the Managing Director. The Board of Directors decides annually on the payment of bonuses, if any. Other key management personnel have a bonus system approved by the Board of Directors. Based on the proposal of the Managing Director and in accordance with confirmed bonus criteria, the Board of Directors decides on the payment of bonuses, if any, to the key management personnel.

The salaries and other benefits and fees paid to the Managing Director and the Management Group for 2018 are shown in the table 3. Social security contributions are excluded.

Terms of the service contract of the Managing Director

The terms of the employment contract of the Managing Director have been determined by a decision of the Board of Directors and verified with a written agreement.

The retirement age and pension accrual of the Managing Director is based on general employment pension legislation. The Fund has not provided a supplementary pension arrangement for the Managing Director.

The notice period of the Managing Director is based on employment contract act, on each side.

1. On 30 August 2018, the Supervisory Board decided that the fees for the members of the Board of Directors are as follows:

	Fee EUR/month	Fee EUR/meeting
Chair of the Board of Directors	730	270
Vice Chairman of the Board of Directors	575	165
Other member of the Board of Directors	330	125

2. In 2018, the fees for the members of the Board of Directors were paid as follows:

Name	Annual fees	Meeting fees	31 December 2018 Total (EUR)
Siekkinen Saana, chair	8,760	3,240	12,000
Rantahalvari Vesa, deputy chair	6,900	2,145	9,045
Fjäder Sture	3,960	875	4,835
Heikinheimo Riikka	3,960	1,500	5,460
Helle Minna	1,980	750	2,730
Hollmén Jyrki	3,960	1,250	5,210
Inkeroinen Eeva-Liisa	1,980	750	2,730
Jalonen Markku	3,960	1,375	5,335
Kaukoranta Ilkka	3,960	1,375	5,335
Mielityinen Ida	3,960	1,500	5,460
Murto Katarina	3,960	1,500	5,460
Palola Antti	3,960	1,250	5,210
Palola Jorma	3,960	1,375	5,335
Urrila Penna	3,960	1,625	5,585
Väänänen Pirjo	3,960	1,500	5,460
Total	63,180	22,010	85,190

3. The salaries and other benefits and fees paid to the Managing Director and the Management Group

Position	Salaries and other benefits	Variable performance pay	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Managing Director	146,938	10,673	157,610	155,164
Management Group	405,135	27,239	432,374	415,405
Total	552,073	37,912	589,985	570,569

The Unemployment Insurance Fund

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Statement of changes in net position

EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Contributions collected			
Unemployment insurance contributions	5	3,800,919,963	4,010,991,493
Total contributions collected		**3,800,919,963**	**4,010,991,493**
Benefits paid			
Benefit payments	6	-2,909,120,555	-3,423,146,630
Administrative expenses	7	-12,582,164	-10,752,069
Total benefits paid		**-2,921,702,719**	**-3,433,898,699**
Net fair value gains on investments	13	-2,582,972	550,426
Finance costs	8	-4,499,178	-5,524,656
TOTAL CHANGES IN NET POSITION		**872,135,094**	**572,118,564**

Statement of net position

EUR	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Property, plant and equipment	9	298,579	312,231
Intangible assets	10	6,407,896	3,145,997
Other receivables	12	328,038	328,038
Total non-current assets		**7,034,513**	**3,786,266**
Current assets			
Unemployment insurance contribution receivables	11	14,375,712	11,711,483
Other receivables	12	90,549,480	139,553,775
Investments	14	1,158,436,059	737,643,948
Cash and cash equivalents	15	416,757,606	232,007,361
Total current assets		**1,680,118,858**	**1,120,916,566**
Total assets		**1,687,153,371**	**1,124,702,832**
For previous periods		106,361,539	-465,757,025
IFRS 9 adjustment 1 Jan 2018		-9,193,228	0
For the period		872,135,094	572,118,564
NET POSITION		**969,303,405**	**106,361,539**
LIABILITIES			
Non-current liabilities			
Loans	16	0	598,414,440
Total non-current liabilities		**0**	**598,414,440**
Current liabilities			
Loans	16	599,329,140	299,795,460
Unemployment insurance contribution liabilities	11	2,395,459	23,859,168
Other liabilities	17	116,125,367	96,272,225
Total current liabilities		**717,849,966**	**419,926,854**
Total liabilities		**717,849,966**	**1,018,341,294**
Total net position and liabilities		**1,687,153,371**	**1,124,702,832**

Statement of cash flows

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Unemployment insurance contributions collected	**3,703,168,448**	**3,958,182,518**
Benefits paid	**-2,902,122,123**	**-3,469,492,105**
Interest paid	**-8,789,081**	**-10,033,543**
Net cash and cash equivalent used in ordinary operations	**792,257,244**	**478,656,870**
Cash flows from investing activities		
Purchases of property, plant and equipment	-538,698	-160,716
Proceeds from the sale of property, plant and equipment	200	505
Purchases of intangible assets	-3,522,569	-1,576,801
Purchases of investment instruments	-3,181,476,562	-2,199,341,984
Sales of investment instruments	2,877,702,591	2,029,433,053
Other non-current receivables	328,038	328,038
Net cash and cash equivalents generated from investments	**-307,507,000**	**-171,317,905**
Loans drawn and repaid	-300,000,000	-127,467,218
Net cash and cash equivalents generated from financing activities	**-300,000,000**	**-127,467,218**
Net increase/decrease in cash and cash equivalents	184,750,244	179,871,747
Cash and cash equivalents at beginning of year	232,007,361	52,135,615
Cash and cash equivalents at the end of the financial period	**416,757,606**	**232,007,361**

Notes to the financial statements

Accounting policies of the financial statements

1. General information

The Unemployment Insurance Fund ("TVR", "the Fund") (business ID 1098099-7), established in 1999, is an independent institution managed by labour market parties and supervised by the Ministry of Social Affairs and Health and the Finnish Financial Supervisory Authority, whose main objective is to finance unemployment benefits. The Fund also directs, develops and supervises the implementation of the collection procedure of unemployment insurance contributions and determines and collects the employer's liability component of unemployment allowances. In addition, the Fund manages employer's training compensations. The training compensation is based on the Act on Training Compensation (1140/2013). The Unemployment Insurance Fund is domiciled in Helsinki, and its address is Kansakoulukuja 1, 00100 Helsinki.

The principal accounting policies applied in the financial statements of the Fund are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Unemployment Insurance Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, conforming with the IAS standards and IFRS standards as well as SIC and IFRIC interpretations applicable as per 31 December 2018. IFRS refers to the standards and interpretations applicable to corporations and set out in the Finnish Accounting Act and other provisions issued under it in accordance with the procedure laid down in Regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

The Unemployment Insurance Fund is a non-profit, government-affiliated fund whose operations are based on the Act on Financing of the Unemployment Benefits, the Decree of the Financing of the Unemployment Benefits and on the Decree on Rules of Procedure of the Unemployment Insurance Fund with amendments, as stated in section 1.

TVR collects and pays unemployment insurance contributions. TVR does not carry out such business activities where it would generate revenues arising from the sale of goods or rendering of services. Due to the nature of TVR's operations, the Fund does not generate revenues and common revenue recognition principles do not apply. IFRS standards do not directly regulate the structure of the IFRS financial statements of a fund like TVR, or the basis for recognition and measurement of transactions. In preparation of TVR's IFRS financial statements, the framework of IFRS standards and general principles for recognition and measurement have been applied. Due to these factors, the primary statements of TVR's IFRS financial statements are the statement of changes in net position, the statement of net position and the statement of cash flows.

The changes in net position for the financial period consist of the sum of unemployment insurance contributions collected and paid, gains on investments and financial items. The difference between the Fund's assets and liabilities reflects the accumulated net position, which is also referred to as the business cycle buffer. A more detailed description of the business cycle buffer is provided in note 4.3. TVR has no shares or equity. Therefore, these IFRS financial statements do not include the statement of changes in equity, however the statement of changes in net position is presented as a separate primary statement.

During the financial periods presented the Fund has not had any such transactions that should have been recognised in other comprehensive income. Therefore, these IFRS financial statements do not include the statement of other comprehensive income.

TVR does not operate as an insurer as it does not issue or hold insurance or reinsurance contracts. Therefore, the Fund's operations are not within the scope of IFRS 4 Insurance Contracts.

The principal valuation method used in the financial statements is acquisition cost, although financial assets and liabilities recognised at fair value through profit or loss are measured at fair value. The financial statements are presented in euros unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the financial statements. The significant accounting estimates and judgements are described in note 3.

Changes to accounting standards

The Unemployment Insurance Fund has adopted the IFRS 9 (Financial Instruments) standard, which was published by the International Accounting Standards Board and took effect on 1 January 2018. The adoption of IFRS 9 had no significant impact on the Unemployment Insurance Fund's financial statements.

IFRS 9 specifies how an entity should classify and measure financial assets, as well as introducing a new model for impairment charges based on expected losses and new general requirements for hedge accounting. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at amortised cost, those measured at fair value through other comprehensive income and those measured at fair value through profit and loss. For financial liabilities, the standard retains most of the IAS 39 requirements. For impairment charges, a new model based on expected losses has been introduced, which replaces the model of IAS 39 based on incurred losses. Hedge accounting has been changed so that it will better reflect risk management strategies and objectives.

In order to ensure liquidity and balance out changes in unemployment insurance contributions due to foreseeable economic fluctuations in the national economy, the Unemployment Insurance Fund maintains a business cycle buffer that accrues on the basis of the difference between the Fund's income and expenses.

The upper and lower limits of the buffer are specified by law, and the upper limit is the amount of annual expenses corresponding to an unemployment rate of 7%. During times of severe economic downturn, the Fund may maintain a deficit equal to the amount of expenditure corresponding to this unemployment rate.

The investment of assets accrued in the buffer is regulated in the Fund's investment principles and in the investment plan, which is approved annually. The use of debt financing is also regulated in the debt servicing plan.

When the business model is assessed in accordance with IFRS 9, the Fund's income from unemployment insurance contributions and all of the investments are interpreted as being under the Fund's responsibility for the purpose of discharging its statutory financing obligations. The investment principles and investment plan emphasise the liquidity of investments in all market scenarios. The invested assets must be liquid.

Applying IFRS 9 had no impact on how TVR's financial assets were classified and measured. All of the Fund's investments will be recognised at fair value through profit or loss because the Fund must only have liquid investment assets. With regard to financial liabilities, the recognition principles remained unchanged in the new standard and the new standard had no impact on the designation and measurement of financial liabilities. The main impact of IFRS 9 will be through the use of the model based on expected losses when estimating impairment charges associated with uncertain unemployment insurance contribution receivables. As the receivables do not include any significant financial components, the Fund has used the simplified model, as permitted by IFRS 9. In this model, expected losses are recognised for the whole validity period of the financial asset, and the model is based on the amount of the outstanding receivables and the time period for which they remain outstanding. The amount recognised in impairments increased slightly due to the application of IFRS 9.

As the receivables do not include any significant financial components, the Fund has used the simplified model permitted by IFRS 9. In this model, expected losses are recognised for the entire validity period of the financial asset, and the model is based on the amount of the outstanding receivables and the time period for which they remain outstanding. The parameters applied in the model are based on an estimate of the amount of unemployment insurance contribution receivables to be recognised as credit losses on the reporting date. Expected credit losses throughout the entire period of validity are calculated by multiplying the gross carrying value of the unpaid unemployment insurance contribution receivables by the expected proportion of loss. Changes to expected credit losses are recognised through profit and loss.

New standards and interpretations not yet adopted

The International Accounting Standards Board has published one new standard that will apply to the Unemployment Insurance Fund: IFRS 16, Leases. IFRS 16 will be applied as of 1 January 2019.

According to IFRS 16, all leases will be presented in the lessee's balance sheet in which the lessee recognises right-of-use assets based on the right to use them and lease liabilities based on the obligation to pay the leases. The standard includes alternative relief prepared for short-term leases and low-value assets, which TVR will apply, and the related payments will be recognised as expenses in the income statement.

TVR will apply the simplified procedure for adopting the standard, so it will not be necessary to adjust the comparison data for the preceding year. When applying the simplified approach, the lessee is also not required to apply the new calculation model to lease that expire within 12 months of the start of application.

The Unemployment Insurance Fund has conducted a preliminary assessment of the impact of IFRS 16 on the financial statements, which may still change when the final assessment is completed. The most significant impact that is expected will affect the recognition of new assets and liabilities in the balance sheet, mainly for leases of office premises and vehicles. The Fund has a small number of leases so the adoption of IFRS 16 will have a minor impact on the Fund's financial position.

There are no other IFRS standards or IFRIC interpretations that are not yet effective and that would be expected to have a material impact on the Unemployment Insurance Fund.

2.2 Foreign currency translation

The financial statements are prepared in euros which is TVR's functional and presentation currency. The Fund's foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Deposits denominated in foreign currencies are measured at fair value through profit and loss, and the effects of changes in exchange rates have been presented as part of the total fair value change.

2.3 Unemployment insurance contributions

The Unemployment Insurance Fund determines and collects the unemployment insurance contributions based on chapter 7 of the Act on the Financing of Unemployment Benefits. The determination and collection of unemployment insurance contributions were transferred from accident insurance institutions to the Unemployment Insurance Fund at the beginning of 2013.

Accident insurance institutions are responsible for the determination and collection of insurance contributions for 2012 and earlier. Accident insurance institutions pay unemployment insurance contributions to the Fund at fixed dates.

Unemployment insurance contribution prepayments are determined in the year preceding the insurance year, and recognised as income in the insurance year. Payments determined during the insurance year, such as contributions from new employers liable for payment, are recognised directly as income when determining the unemployment insurance contribution. Unemployment insurance prepayments concerning the year following the insurance year paid by employers are recognised as prepayments and accrued income and accruals and deferred income. Insofar as fees have not been paid in advance unemployment insurance advances are offset.

Unemployment insurance contribution income relating to 2012 and before, collected by accident insurance institutions and paid to the Unemployment Insurance Fund, is recognised as income for the current financial period on the basis of the insurance companies' reports.

Liability component compensations of employer's unemployment allowances

The Unemployment Insurance Fund determines and collects liability component compensation of unemployment allowances from employers. The liability component of unemployment insurance contribution applies to the employers whose payroll amount, serving as the basis for the calculation of the unemployment insurance contribution, exceeds the minimum level of EUR 2,083,500 (in 2018). An employer may be obligated to pay the employer's liability component if it has dismissed or laid off an elderly employee, or an employee who has had a permanent full-time contract and the employment relationship has lasted at least three years and the employee has been unemployed or laid off for a long time. Unemployment benefit expenses are financed by the liability component compensations.

Collected liability component contributions that cover the cost of daily unemployment allowances are recognised as income for the period when the income amount can be reliably measured. In order to cover the cost of additional daily allowances, the collected liability component compensations are recognised as income within several financial periods based on the estimate of the realisation of corresponding expenses.

Compensations under the Employment Contracts Act chapter 12, section 3

According to the Employment Contracts Act, the courts have to hear the Unemployment Insurance Fund in disputes that relate to the termination of employment and when the claimant has received earnings-related daily unemployment allowance after the termination of employment. As a rule, 75% of the earnings-related daily unemployment allowance received by the employee during the indemnity period is deducted from the indemnity imposed to the employer for an unfounded termination of employment. The court shall assign the employer to make the deduction payment to the Fund. If the employer and the employee agree on the indemnity, this agreement should take into account the share received by the Fund.

Receivables subject to debt-collection

The Fund collects and monitors neglected unemployment insurance contributions, those subject to enforcement, and contributions due by companies in bankruptcy or debt restructuring proceedings. The collection and enforcement of contributions due in 2012 and before is managed by the insurance companies as authorised by the agreement between the Fund and the Workers' Compensation Center. The insurance companies settle the accumulated insurance contributions in their quarterly reports.

2.4 Benefits paid

Subsidies to unemployment funds

Under the Act on the Financing of Unemployment Benefits (555/1998), with regard to the financing of earnings-related unemployment allowances, the Unemployment Insurance Fund is liable for the costs incurred from unemployment allowances, employment promotion measures and from job alternation compensations, insofar as the state or individual unemployment funds are not liable for these. The above-mentioned benefits are paid from the unemployment funds.

Adult education allowance is paid from the Education Fund. In addition, the Unemployment Insurance Fund is responsible for the unemployment insurance contributions for unemployed persons and recipients of the adult education allowance that are paid through the Finnish Centre for Pensions to the employment pension institutions.

According to the Decree on the Implementation of the Act on Unemployment Funds (272/2001), the processing of prepayment applications and payment decisions, together with monitoring the sufficiency of prepayments fall within the duties of the Unemployment Insurance Fund. The Fund makes prepayments to the unemployment funds twice a month in accordance with the budget approved at the end of the previous financial period. The Fund receives monthly statistics from the Financial Supervisory Authority on the accumulated allowances paid by the funds to their customers, and based on that the Fund has accrued the prepayments and actual payments to each fund either as receivable or liability in its accounts. This accrual is recognised by benefit type.

The funds for the government contribution paid to unemployment funds are received from the Ministry of Social Affairs and Health. The Fund transfers the prepayments of government contributions to the unemployment funds on the first banking day of each month. In 2018, the Ministry of Social Affairs and Health paid the government contributions to the Fund as fixed monthly prepayments, unless otherwise proposed by the Unemployment Insurance Fund.

The income received from the ministries and the expenditures paid to the unemployment funds have been recognised in amounts corresponding to the benefit payments made by the funds to their customers. The Ministry of Social Affairs and Health will confirm the financial statements of the unemployment funds on the basis of final information in summer 2019 when the Fund will make the equalisations in account balances between the unemployment funds and the state.

Under section 4 of the Act on the Financing of Unemployment Benefits, the Unemployment Insurance Fund has sole responsibility for funding the increased earnings-related component laid down in section 6 of the Act on Unemployment Security. From the beginning of 2015, the calculation rules for higher earnings-related daily unemployment allowances was changed so as to slightly decrease the level of allowances. The same change was carried out regarding the supplementary earnings-related allowances. These changes implement the reduction of unemployment allowances as specified in the government framework decision. The change decreases expenditure related to earnings-related daily unemployment allowances. To implement government savings, the Fund pays the amount of savings (approximately EUR 50 million) yearly to Kela to finance basic social security under section 23 of the Act on the Financing of Unemployment Benefits (555/1998).

Under section 19a of the Act on Unemployment Funds (556/1998), the Fund pays a membership fee equalisation payment to those employee funds that have paid significantly more unemployment benefit days in the previous year than the average per member for all unemployment funds, in order to even out the unemployment burden prevailing in different industries, within the limits of an appropriation decided by the Supervisory Board each year. The balance of the unemployment fund's equalisation fund may also be taken into account in determining the membership fee equalisation payment. The Board of Directors of the Fund has also paid attention to the level of membership fees in relation to other unemployment funds and to changes in membership fees in the two preceding years.

Payments to the Finnish Centre for Pensions and State Pension Fund and their interest rates

The Unemployment Insurance Fund's second largest expense has been the contribution paid to the Finnish Centre for Pensions to cover the liabilities and expenses arising from taking into account the time of unemployment, education and job alternation leave (Employees' Pension Act (395/2006), sections 74 and 182). The amount of this contribution is determined by estimating the average amount of pension contributions that would be paid for the unpaid periods that constitute the basis of the accrued pension security.

As stated above, the Unemployment Insurance Fund is liable to pay the contribution laid down in sections 62 and 133 of the State Employees' Pensions Act (1295/2006) to the State Pension Fund.

Payments made to the Finnish Centre for Pensions for the financial year in accordance with section 12c of the Employees Pensions Act (561/1998) are based on an estimate provided by the Finnish Centre for Pensions and adjusted in the financial statements. The difference between the payments made and the adjusted estimate is recognised as prepayments and accrued income or accruals and deferred income. The final payment amount is received from the Finnish Centre for Pensions in the spring of the year following the financial year, and the difference between the final payment and payment estimate used in the financial statements is presented as an adjustment, an equalisation payment for the previous year, on the following year's financial statements. The revised payment for the year and the equalisation payment for the previous year have been specified in the notes to the financial statements.

The Finnish Centre for Pensions assigns interest on the charges imposed on the Unemployment Insurance Fund according to the TyEL premium insurance interest rate. The revised payment included in the financial statements accrues interest until the end of the financial year (debiting interest). The Finnish Centre for Pensions refunds the interest to the Unemployment Insurance Fund according to the actual payments and payment dates (compensatory interest).

The final payment amount determined in the following year accrues interest until the clearance date agreed between the Finnish Centre for Pensions and the Fund (previous year's debiting interest). Compensatory interest is correspondingly calculated for all payments made by the Fund in the previous year (compensatory interest for the previous year's payments). The debiting and compensatory interests for payments to the State Pension Fund are calculated in a manner identical to the above.

Settlement to Kela of income from the unemployment insurance contributions of employees who are not members of an unemployment fund

Under sections 8 and 23 of the Act on the Financing of Unemployment Benefits (555/1998), the Fund pays to Kela an annual amount from employees' unemployment insurance contribution income, corresponding to the percentage of employees who are not members of an unemployment fund. The amount of the settlement is estimated from data collected by Statistic Finland, and the estimate is confirmed by the Ministry of Social Affairs and Health.

Financing of the Education Fund's benefits and operations

In accordance with section 13 of the Act on the Education Fund (1306/2002) and section 30 of the Act on Adult Education Support (1276/2000), the Unemployment Insurance Fund is liable for adult education allowances other than for entrepreneurs and for scholarships for qualified employees, as well as for financing the Education Fund's administrative expenses. The Unemployment Insurance Fund makes monthly payments to the Education Fund according to the preliminary calculation prepared by the Education Fund. The benefits are paid from the Education Fund. The funds have separate administrations and the ordinary activities of the Education Fund are defined by legislation.

Financing of pay security

Under section 31 of the Pay Security Act (866/1998), the Unemployment Insurance Fund is responsible for the state's pay security expenses. Pay security expenses are paid once per year, normally in the spring of the following year, to the Ministry of Economic Affairs and Employment, based on an invoice sent by the Ministry.

Member State invoicing for unemployment allowances

Article 65 of Regulation (EC) No 883/2004 of the European Parliament and of the Council on the coordination of social security systems (basic regulation) provides for situations in which a person becomes unemployed after working in a Member State other than his or her country of residence. In Finland the Unemployment Insurance Fund has been designated as the competent body when implementing this basic regulation with regard to earnings-related unemployment insurance. The Fund's responsibilities include the payment and collection of the compensations laid down in paragraphs 6 and 7 of Article 65, incurred from unemployment allowance paid to the members of unemployment funds.

The Unemployment Insurance Fund applies for compensations from Member States depending on how unemployment funds have paid unemployment compensations to those who have been working in other Member State. In turn, Member States apply for compensation from the Unemployment Insurance Fund. The benefits will be fully repaid, but not more than the amount that would have been paid in the country of employment. Income and expenses are recognised on a cash basis.

Training compensation

TVR handles the employer training compensations. The training compensation is based on the Act on Training Compensation (1140/2013). The training compensation is a monetary support to develop competence for those employers who are not eligible for a training deduction granted by the Business Income Tax Act or Agricultural Income Tax Act. Such employers include municipalities, churches and non-profit organisations. The purpose of training compensation is to improve the employer's opportunities to organize training for its employees, to develop their vocational competence.

Training compensations can be received in maximum of three training days per employee annually. Entitlement to receive such compensation started from the beginning of 2014 and the first deduction, based on the employer's application, was issued in 2015, after the Unemployment Insurance Fund approved the final total amount of unemployment insurance contributions paid in 2014.

The financing of training compensation has been designated, so that the Ministry of Finance pays based on application from Unemployment Insurance Fund each calendar year the amount, which the Fund has refunded to the employers for the training compensation.

Pensions and employee benefits

The Unemployment Insurance Fund only has defined contribution pension schemes. Statutory pensions are managed by a third-party pension insurance provider. Pension contributions are recognised as expenses for the financial period in which the payments are incurred. The Fund has a bonus system for the employees. The Board of Directors decides on the payment of any bonuses on the Managing Director's proposal and in compliance with the bonus criteria. Realised bonuses are recognised as expenses for the financial period relevant to the bonus system.

2.5 Property, plant and equipment

Property, plant and equipment includes the Fund's machinery and equipment and the leasehold improvements. Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment charges in the statement of net position.

Leasehold improvements are added to the premises improvement's carrying amount when it is probable that future economic benefits associated with the item will flow to the Fund. Ordinary repair and maintenance costs are expensed in the period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

As a rule, the residual value is estimated to be zero. Assets' residual values and useful lives are reviewed when financial statements are prepared. Depreciation periods are adjusted if the estimate changes significantly. Estimated useful lives by asset class are as follows:

- Leasehold improvements 5 years
- Machinery and equipment 3 years

Gains and losses on disposal and decommissioning of property, plant and equipment are calculated as the difference between net proceeds and the carrying amount. Gains and losses on disposals are included in the administrative expenses in the statement of changes in net position.

2.6 Intangible assets

Intangible assets with finite useful life include acquired or internally generated computer software, and other intangible assets when it is probable that future economic benefits associated with the asset will flow to the Fund and the cost can be measured reliably.

The cost of an internally generated intangible asset is defined as the sum of directly attributable production costs allocated to the asset.

Costs associated with maintaining computer software are expensed as incurred. Research costs are recognized as an expense in the financial period in which they are incurred. Development costs that are attributable to the design and testing of computer software, or to significant changes to existing software, are capitalised only when they meet the above-mentioned criteria of recognition to the statement of net position.

Intangible assets with finite useful life are measured at historical cost less amortisation and impairment charges. Amortisation of intangible assets is calculated using the straight-line method over their useful lives. Estimated useful lives by asset class are as follows:

- Computer software 3 years
- Software development costs 3 years

2.7 Impairment of non-financial assets

At the end of each financial period it is assessed whether there have been any events or changes in circumstances that indicate that the value of an intangible asset or an item of property, plant and equipment subject to amortisation or depreciation may have been changed. If there are any indicators of impairment, the recoverable amount is determined.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use refers to the asset's expected future net cash flows that have been discounted to net present value by using the determined discount rate. An impairment loss is recognised in the statement of changes in net position for the amount by which the asset's carrying amount exceeds its recoverable amount. The useful life of a depreciated asset is reviewed in connection with recognition of impairment losses.

Impairments are reversed if circumstances have been changed and asset's recoverable amount has been changed after the recognition of the impairment, but not to an amount higher than the carrying value would be without the impairment charge.

2.8 Financial assets and liabilities

Financial assets

The Unemployment Insurance Fund's financial assets consist of investments and cash and cash equivalents.

At the date of acquisition, the management of the Unemployment Insurance Fund classifies the financial assets into classes that determine the basis of valuation. All financial assets are recognised at trade date that is the day when the Fund commits to buy or sell the asset.

Investments are financial assets designated as financial assets at fair value through profit and loss at inception because the Fund manages the assets and the performance is evaluated based on fair value (application of "the fair value option"). Investments are presented in the statement of net position as current assets unless the investment matures and management intends to dispose it after 12 months from the reporting date.

Investments are initially recognised at fair value. Transaction costs are recognised directly as expenses.

After initial recognition, the investments are measured at fair value on each reporting date, and realised and unrealised changes in fair value are recognised in the statement of changes in net position in the period in which they arise. Net changes in fair value are presented in the statement of changes in net position on the line "Net fair value gains on investments". All interest and dividend income is included in the net fair value change. The valuation techniques used in determining fair values is presented in note 13.

Financial assets are derecognised when the rights to receive cash flows have been expired or have been transferred to other party so that all the risks and rewards have been transferred.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of changes in net position over the period of the loan using the effective interest method.

Fees paid on the loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all facility will be drawn down. In this case, the fee is deferred and recognised in the statement of net position until the loan is drawn down. To the extent there is no evidence that it is probable that some or all of loans of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility.

2.9 Leases

The Fund as lessee

Finance leases

Leases in which the significant portion of the risks and rewards of ownership are transferred to the Fund are classified as finance leases. The Unemployment Insurance Fund does not have any finance leases.

Operating leases

Leases in which the significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and included in the balance sheet of the lessor. Payments made under operating leases are charged to the statement of changes in net position on a straight-line basis over the lease term.

The Fund as lessor

Operating leases

The Fund has subleased part of its leased premises.

The sub-lease agreement is classified as an operating lease. Rental income from operating leases is recognised in the statement of changes in net position on a straight-line basis over the lease term.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that have affected the income, expenses, assets and liabilities presented in the financial statements. Judgement is needed also in the application of accounting policies. The estimates are based on the best information available at the reporting date. The evaluation is based on both earlier experience and assumptions for future that are most probable at the reporting date. Actual results can differ from these decisions made based on these estimates and assumptions. Possible changes in estimates are recognised in the period in which the estimate is adjusted and all subsequent periods.

The planning and management of the Unemployment Insurance Fund's finances are largely based on forecasts of the development of the unemployment rate, unemployment expenses, the employment rate and wages. Under normal conditions, the Fund must set the insurance contributions at the sufficient level where all projected expenses could be covered with the insurance contributions. The unemployment insurance contributions are set for one year at a time. When the contributions are changed, the employers' and employees' contributions are changed by the same percentage. The forecast deviation in the change in net position between the budget prepared in August in the preceding year and the financial statements, which are prepared more than a year later, has averaged 5% of expenses over the last five years. In 2018, the forecast deviation was above average.

The Fund exercises judgement in applying the valuation methods used in the measurement of fair value insofar as the fair values are not received as direct prices from active markets. Fair value determination of current money market investments is based on the discounted cash flows, and management has used judgement when it has concluded that the change of credit risk does not have material impact on the change of fair values of investments due to their short duration and high credit rating.

The Fund's critical assumptions concerning the future and key uncertainties in the reporting date are related to above mentioned factors.

Segment reporting

The IFRS 8 Operating Segments standard

requires entities to disclose information to enable users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates. As defined in the standard, an operating segment is a component of an entity:

a. that engages activities from which it may earn revenues and incur expenses
b. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
c. for which discrete financial information is available.

Further, according to the definition of the standard, the function of chief operating decision maker is to allocate resources to and assess the performance of the operating segments of an entity.

The objective of TVR is to collect unemployment insurance contributions, the level of which has been determined by public authorities. TVR pays collected contributions onwards, mainly to unemployment funds. With the collected contributions TVR engages in conservative investment activities in order to cover the benefit payments. TVR covers possible deficit also with loan financing.

The Unemployment Insurance Fund is a non-profit, government-affiliated fund. Management of TVR monitors the Fund's activities as a single entity which consists of the contributions collected and benefits paid resulting in a change in net position. In the end, the management of TVR does not actually allocate resources to the entity's activities or review the effectiveness of operations.

For these reasons, TVR's management assesses that the presentation of segment information is not appropriate. Presenting segment information would not improve the ability of a reader of the financial statements to assess TVR's operations, nature of the operating environment and financial effects. According to TVR's management, the nature of TVR's operations and operating environment as well as the financial effects are fairly presented in the IFRS financial statements.

4. Financial risk management

The Fund seeks to limit financial and investment risks to a level where their realisation will not result in significant losses for the Fund to the extent of creating pressure to increase contributions or endanger the liquidity of the Fund. The investment and financing activities and risk limits of the Unemployment Insurance Fund are provided for in more detail in the investment principles approved by the Supervisory Board and the investment plan and the debt-management plan approved by the Board of Directors.

As a rule, the market risk of investments is measured by using the stress test method, in which a risk indicator expressed as annual volatility is assigned to each investment class on the basis of historical fluctuations in value.

The financial risks of the Unemployment Insurance Fund relate mainly to the investments and they comprise market risk, credit and counterparty risk and liquidity risk.

To minimise the financial risks, investments are highly diversified and made to different types of financial assets in accordance with the investment principles confirmed by the Supervisory Board. Risk limits are set to such a level that their realisation would not result in significant losses for the Fund to the extent of creating pressure to increase the level of contributions or endanger the liquidity of the Fund. The Fund may enter into derivative contracts for hedging purposes; however, derivatives were not used during the periods presented.

The Fund measures all its investments at fair value because they have been designated as financial assets at fair value through profit and loss. Specification of the investments and their fair values by class of investment are presented in note 13.

4.1 Financial risk factors

Market risk

The Board of Directors monitors the market risk of the investment portfolio of the Unemployment Insurance Fund on a monthly basis, and it is managed in accordance with the investment principles and investment plan through allocation decisions. When making the allocation decisions, the current market situation and outlook are taken into account. Furthermore, the investment decisions consider the size of the Fund's net position and the minimum limit for the amount of investments with less than 12 months maturity.

The investment plan contains target allocations for different types of investments and risk limits for different counterparties.

Market risk is measured by using stress test method, in which a risk indicator expressed as annual volatility is assigned to each investment class on the basis of historical fluctuations in value. In 2018, the risk indicator was 25% (25%) for equity investments, 4–7% (4%) for bond investments, 10% (0%) for alternative investments, 1% (1%) for money-market investments, and 0.5% (1%) for bank deposits. On 31 December 2018 and 31 December 2017, the market risks were as follows:

31 Dec 2018	Risk %	Capital, in EUR	Risk, in EUR
Bank deposits	0.5	416,763,872	2,083,819
Money market	1.0	476,192,838	4,761,928
State and municipal bonds	4.0	212,909,815	8,516,393
Bank bonds	4.5	317,840,392	14,302,818
Corporate bonds	5.0	130,495,016	9,134,651
Equities	25.0	15,053,647	3,763,412
Alternative investments	10.0	5,944,351	594,435
Total risk	2.73	1,575,199,931	43,157,456

31 Dec 2017	Risk %	Capital, in EUR	Risk, in EUR
Money market	1.0	536,517,540	5,365,175
Bonds	4.0	433,127,290	17,325,092
Shares	25	5,972	1,493
Total risk	2.34	969,650,802	22,691,760

The total risk was 2.74% (2.34%) of the Fund's assets and 1.1% (0.6%) of the Fund's income in 2018. The risk posed by the investment portfolio is moderate due to its conservative structure and the low risk level of the securities in the portfolio.

The main market risk factor for the Fund is interest rate risk. The investment portfolio is dominated by interest bearing investments (money market investments and bonds). The Fund may make investments directly, or indirectly through investment funds. On the balance sheet date, 9.3% (9.4%) of investments were indirect.

All money market investments carry variable interest (2017: 100%), while 29% (39%) of the bonds were at variable rates. Variable rate investments expose the Fund to cash flow interest rate risk, while investments at fixed rates expose the Fund to fair value interest rate risk.

If on the balance sheet date the Euribor rates and interest rate curve (swap rates) had been 0.5 percentage points higher with all other variables held constant, the total change in net position would have been EUR 7,272,962 (2,826,159) smaller. Respectively, if on the balance sheet date the Euribor rates and interest rate curve (swap rates) had been 0.5 percentage points lower, the total change in net position would have been EUR 7,274,941 (2,827,787) greater. This is due to changes in the fair values of fixed-interest investments. Equity investments are limited to a maximum of three per cent of the Fund's assets, and the price risk is, therefore, relatively minor in relation to total assets.

Credit risk

The credit risk of the investments is managed by issuer credit limits. Limits for each issuer are determined by taking account of the absolute size, economic position and future outlook of the issuer. The Fund continuously monitors the credit standing and future outlook of the issuers, and when changes occur, the limits are either increased or decreased. The Fund mainly invests in Nordic banks which have high credit ratings, best rated states (Finland, Germany, Holland and Sweden), domestic companies and municipalities. Cash and cash equivalents are only held in banks with high credit ratings.

The Fund may make investments in those funds whose corporate investments' average credit rating is BBB+ (A) (S&P) or Aa3 (Moody's). In addition, each individual investment made by the investment fund must be of investment grade with a credit rating of at least BBB- (S&P). The following table describes TVR's fixed income investments and creditworthiness by group. The figures are expressed in thousands of euros.

Grouped by the issuer's credit rating* (EUR thousands)	31 Dec 2018	31 Dec 2018 (%)	31 Dec 2017	31.12.2017 (%)
AAA	75,912	5.0	40,429	4.20
AA+	181,184	11.9	125,204	12.90
AA	2,018	0.1	2,031	0.20
AA-	699,970	45.8	325,090	33.50
A+	37,677	2.5	37,019	3.80
A	17,705	1.2	60,670	6.30
A-	130,568	8.5	84,572	8.70
BBB+	87,534	5.7	55,168	5.70
BBB	110,563	7.2	99,772	10.30%
BBB-	42,653	2.8	17,565	1.80
BB+	935	0.1	9,196	0.90
BB	12,106	0.8	0	0.00
BB-	2,994	0.2	3,930	0.40
B+	0	0.0	14,682	1.50
NR	126,716	8.3	94,321	9.70
Total	1,528,537	100	969,651	100

** The Fund's investments in bonds mainly consist of state and bank bonds. Their creditworthiness has been determined using S&P credit rating. Most of the banks that the Fund has invested in have good credit ratings. However, all regional banks and companies do not have an official credit rating, in which case the credit quality is defined by credit ratings received from a third party.*

Investments in TVR's investment portfolio are diversified. Corporate risk cannot exceed 35% (35%) of the Fund's fixed income investments. In accordance with the investment plan, investments in each issuer of bonds may not exceed 10% (10%) of the Fund's all bond investments. Corporate investments are spread to 93 corporations on 31 December 2018, which corresponds to 22.1% of all fixed income investments (47 corporations on 31 December 2017; 20.4% of all fixed income investments).

Money market investments are made in depository banks monitored by the Finnish Financial Supervisory Authority, state debentures, municipal papers and commercial papers issued by corporations accepted in the investment plan. Credit ratings of the biggest Nordic banks are strong; not all corporations have credit rating; and, in accordance with the Finnish Financial Supervisory Authority, municipal risk corresponds to the state risk.

The investment portfolio's required average rating is BBB (2017: BBB) (S&P).

Counterparty risk is managed so that the Fund uses several asset managers and dealers with good credit ratings. The Board of Directors approves every year the dealers and counterparties the Fund uses in its investing activities.

Liquidity risk

The Fund aims to manage liquidity risk as follows:

1. Liquid investments
2. Short-term borrowing
3. Increasing insurance contributions

To secure its liquidity, the Fund has investments in liquid money market instruments with less than a year's maturity at an amount that equals the Fund's one month's expenses.

When the liquidity buffer decreases below the above limit, the Fund uses short-term borrowings to cover the temporary liquidity deficit. For this purpose, the Fund has a commercial paper programme totalling EUR 300 (300) million and a EUR 400 million revolving credit facility (RCF), including a state guarantee, with four commercial banks. The amounts in the table are in EUR millions.

MEUR **Committed credit facilities, not in use**	**31 Dec 2018**	**31 Dec 2017**
Facilities expiring within a year RCF (State guarantee)	400	-
Facilities expiring after more than a year	-	-
RCF (State guarantee)	-	400
Total	**400**	**400**
Non-committed credit facilities, not in use		
Commercial paper programme	300	300
Total	**300**	**300**

To finance its liquidity, the Fund mainly relies on the capital markets and domestic markets for commercial papers. At the end of 2018, the Fund had the following loan facilities and nominal amounts in use. Amounts are in EUR millions.

Loan	**Nominal value 31 June 2018**	**Interest rate (%)**	**Due date**	**Credit rating**
Bond issue 1	600	0.375	23 Sep 2019	AA+
Commercial paper	0			-
Total				
	600			

The Fund has the following issuance credit ratings, confirmed by Standard & Poor's (24 Sep 2018):

- Long-term credit rating AA+, stable outlook
- Short-term credit rating A-1+, stable outlook

At the end of 2018, the Fund had EUR 0 (0) million of the commercial paper programme in use and short-term bank loans amounting to EUR 0 (0) million.

A breakdown of the Fund's loans is presented in note 16. The fixed interest rate periods for loans in the statement of net position were as follows. Amounts are in EUR millions. Liabilities for securities under settlement matured within a couple of days from the reporting date.

Loan	Nominal value 31 Dec 2017	Interestrate tyingtime in years 31 Dec 2018	Credit rating
TVR bond 2019	600	0.73	AA+/S&P
Commercial papers	0	0	NR
Credit facilities	-	-	-
Total	**600**	**0.73**	

Loan	Nominal value 31 Dec 2017	Interestrate tyingtime in years 31 Dec 2018	Credit rating
TVR bond 2019	600	1.73	AA+
TVR bond 2018	300	0.79	AA+
Commercial paper	-	-	-
Credit facilities	-	-	-
Total	**900**	**1.42**	

In the following tables, TVR's financial liabilities are divided into groups based on the maturities of outstanding contracts.

Maturities based on contracts of financial liabilities (EUR thousand) 31 Dec 2018	Under 6 months	6–12 months	1–3 years	4–5 years	Total cash flow based on contracts	Book value assets (-) / liabilities
Accounts payable	578	0	0	0	578	578
Loans (excl. finance lease liabilities)	0	602,250	0	0	602,250	599,329
Total		**602,250**		**0**	**602,828**	**599,907**

Maturities based on contracts of financial liabilities (EUR thousand) 31 Dec 2018	Under 6 months	6–12 months	1–3 years	4–5 years	Total cash flow based on contracts	Book value assets (-) / liabilities
Accounts payable	476	0	0	0	476	476
Loans (excl. finance lease liabilities)	0	303,000	602,250	0	905,250	898,210
Total	**476**	**303,000**	**602,250**	**0**	**905,726**	**898,686**

4.2 Corporate responsibility in the investment portfolio

The Fund's Supervisory Board decided on its principles of responsible investment on 19 April 2018.

Responsible investment means that the Employment Fund aims to make profitable and secure investments, thereby carrying its responsibility for financing earnings-related unemployment benefits. In practice, responsibility in investment activities means that we take care of our responsibilities while making investment decisions, and we believe that this will help us to improve the balance between risk and return.

Measuring the corporate responsibility of the investment portfolio and monitoring developments

The Nordic Investment Bank's Asset Management Unit provides expert advice in monitoring and assessing the corporate responsibility of investments. Collaboration began in the second half of 2018.

Efforts are made to monitor changes in the development of responsible investments by assessing operational ESG criteria, such as carbon footprints, water and waste efficiency, equality, corporate governance and pay equality in the companies selected for investments. A further tool is a measurement of effectiveness factors of companies and their sectors on the environment, the creation of new jobs and other sustainable development goals defined by the UN. Corporate responsibility reporting is supplemented by other analytical methods for measuring corporate responsibility.

Estimate of the corporate responsibility of the investment portfolio

The first corporate responsibility assessment of the investment portfolio reflected the status on 31 December 2018. On average, the listed companies in the portfolio fulfilled the operational ESG criteria well in comparison with the reference material. According to the estimate received, the portfolio's relative corporate responsibility is rather good.

4.3 Business cycle buffer

In accordance with section 3 of the Act on the Financing of Unemployment Benefits, in order to ensure liquidity and balance out changes in unemployment insurance contributions due to foreseeable economic fluctuations in the national economy, the Unemployment Insurance Fund maintains a business cycle buffer that accrues on the basis of the difference between the Fund's income and expenses. In 2018, the maximum value of the buffer was an amount corresponding to the annual expenditure for an unemployment rate of seven percentage points. During times of severe economic downturn, the Fund may maintain a deficit equal to the corresponding amount of expenditure.

According to the investment principles accepted by the Supervisory Board, the Fund is required to have investments in liquid money market instruments with less than a year's maturity the amount that equals the Fund's one month's expenses. This amount is approximately EUR 300 million. The maximum amount of the buffer is calculated by dividing the Unemployment Insurance Fund's annual expenditure by the average unemployment rate for the year and multiplying the result by 7. The following table presents the amount of the business cycle buffer and the minimum and maximum amounts of the buffer as specified in the Act.

EUR million	31 Dec 2018	31 Dec 2017
Business cycle buffer	969	106
Maximum amount of the buffer	2,049	2,026
Minimum amount of the buffer	-2,049	-2,026

5. Unemployment insurance contributions

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Employer's unemployment insurance contributions		
Employer's insurance contributions	1 452 844 092	1 763 045 591
Employer's insurance contributions, co-owners	4 308 147	4 713 897
Total	**1 457 152 239**	**1 767 759 488**
Employees' unemployment insurance contributions		
Employee's insurance contributions	1 511 222 547	1 236 643 855
Employees' insurance contributions, co-owners	6 269 622	4 736 265
Total	**1 517 492 170**	**1 241 380 121**
Interest on overdue contribution and collection fee income		
Interest on overdue employer contributions	819 719	1 157 340
Interest on overdue employee contributions	1 019 319	940 925
Collection fee income	537 922	412 566
Total	**2 376 961**	**2 510 831**
Liability components in employer's unemployment allowances		
Liability components	34 993 257	47 808 461
Accruals	14 485 963	6 285 765
Total	**49 479 220**	**54 094 226**
Compensation in accordance with the Employment Contracts Act (ECA)		
Compensation and lay-off income according to the ECA	1 136 220	1 219 951
Settlement to the Ministry of Social Affairs and Health	-570 675	-629 428
Substitute payer's component ECA	-1 904	0
Total	**563 642**	**590 523**
Contributions from the Ministry of Social Affairs and Health		
Earnings-related unemployment allowance	764 228 240	927 768 780
Job alternation compensation	11 586 152	17 972 390
Previous year's equalisation payment	-1 958 660	-1 084 864
Total	**773 855 731**	**944 656 305**
Total unemployment insurance contributions	**3 800 919 963**	**4 010 991 493**

6. Benefit payments

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Subsidies paid to unemployment funds (TVR)		
Other earnings-related unemployment allowance	-738,106,162	-887,316,148
Additional days of allowance	-159,708,257	-216,472,409
Lay-off support	-142,148,163	-171,754,713
Job alternation compensation	-14,800,150	-22,244,521
Compensation for administrative expenses	-10,582,013	-12,835,800
Membership fee equalisation	-4,693,963	-10,000,000
Previous year's equalisation payment	1,945,606	1,070,338
Total	**-1,068,093,101**	**-1,319,553,253**
Subsidies paid to unemployment funds (Ministry of Social Affairs and Health)		
Other earnings-related unemployment allowance	-747,241,026	-906,511,131
Job alternation compensation	-11,586,152	-17,972,390
Unemployment allowance/entrepreneurs	-7,881,942	-10,398,202
Compensation for administrative expenses	-9,105,272	-10,859,447
Previous year's equalisation payment	1,958,660	1,084,864
Total	**-773,855,731**	**-944,656,305**
Finnish Centre for Pensions		
Payment for the current financial year	-620,000,000	-768,000,000
Total	**-620,000,000**	**-768,000,000**
State Pension Fund		
Payment for the current financial period	-11,949,727	-12,608,566
Total	**-11,949,727**	**-12,608,566**

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Social Insurance Institution of Finland (Kela)		
Previous year's equalisation payment	459	923
Basic allowance, additional component, employment programme additional benefit	-228,100,000	-208,340,000
Total	**-228,099,541**	**-208,339,077**
The Education Fund		
Previous year's equalisation payment	0	-715
Payment for the current financial period	-187,289,504	-150,971,176
Total	**-187,289,504**	**-150,971,891**
Ministry of Economic Affairs and Employment		
Previous year's equalisation payment	-245,340	11,755
Payment for the current financial period	-19,513,485	-18,967,907
Total	**-19,758,826**	**-18,956,152**
Member State invoicing for unemployment allowances		
Invoiced by Member State	-114,826	-138,241
Invoiced by Fund	40,819	77,137
Total	**-74,006**	**-61,103**
Administrative compensation paid to insurance companies		
Administrative and supervisory compensation	-120	-282
Total	**-120**	**-282**
Total benefit payments	**-2,909,120,555**	**-3,423,146,630**

7. Administrative expenses

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Personnel expenses		
Salaries, bonuses and benefits	-4,968,155	-4,214,398
Pension expenses – defined contribution plans	-910,515	-629,610
Social security expenses	-177,948	-144,396
Total	**-6,056,618**	**-4,988,404**
Personnel expenses, management salaries and bonuses		
Management Group (excl. Managing Director)	-438,112	-424,135
Managing Director	-152,195	-151,696
Board of Directors and Supervisory Board	-91,940	-76,405
Pension expenses – defined contribution plans	-118,479	-112,075
Total	**-800,726**	**-764,312**
Other administrative expenses		
IT expenses	-1,343,645	-985,875
Other personnel expenses	-666,233	-641,824
Expenses for office premises	-1,121,393	-1,095,287
Office expenses	-1,595,223	-1,371,277
Other expenses	-1,252,471	-1,235,184
Amortisation	-681,324	-570,409
Other income	188,272	188,385
Total	**-6,472,017**	**-5,711,471**
Auditor's fee		
Statutory audit	-53,529	-42,845
Other fees	0	-9,350
Total	-53,529	-52,195
Total administrative expenses	**-12,582,164**	**-10,752,069**

Number of personnel	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Employees		
Full-time employees	90	78
Part-time and temporary employees	27	28
Total	**117**	**106**

8. Finance costs

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Loan financing expenses		
Revolving credit facility fees	-538,157	-1,379,507
Interest expenses from loans	-3,187,021	-4,145,149
Rate Diff	-774,000	0
Total	**-4,499,178**	**-5,524,656**
Total finance costs	**-4,499,178**	**-5,524,656**

9. Property, plant and equipment

EUR	Leasehold improvements	Machinery and equipment	Total
Cost at 1 Jan 2018	1,012,928	1,471,348	2,484,276
Additions	0	269,349	269,349
Acquisition cost, 31 Dec 2018	**1,012,928**	**1,740,697**	**2,753,625**
			0
Accumulated depreciation at 1 Jan 2018	877,390	1,294,655	2,172,045
Depreciation for the period	108,432	174,569	283,001
Accumulated depreciation, 31 Dec 2018	**985,822**	**1,469,224**	**2,455,046**
Carrying value, 1 Jan 2018	**135,538**	**176,693**	**312,231**
Carrying value, 31 Dec 2018	**27,106**	**271,473**	**298,579**
Acquisition cost, 1 Jan 2017	1,012,928	1,384,400	2,397,328
Additions	0	86,947	86,947
Cost at 31 Dec 2017	**1,012,928**	**1,471,348**	**2,484,276**
			0
Accumulated depreciation at 1 Jan 2017	768,958	1,150,754	1,919,712
Depreciation for the period	108,432	143,901	252,333
Accumulated depreciation at 31 Dec 2017	**877,390**	**1,294,655**	**2,172,045**
Net book value at 1 Jan 2017	**243,970**	**233,646**	**477,617**
Net book value at 31 Dec 2017	**135,538**	**176,693**	**312,231**

10. Intangible assets

EUR	Computer software	Software development expenses	Intangible assets in progress*	Total
Cost at 1 Jan 2018	713,263	1,418,200	2,817,078	4,948,542
Increases	59,000	580,472	3,020,750	3,660,222
Acquisition cost, 31 Dec 2018	**772,263**	**1,998,672**	**5,837,829**	**8,608,764**
Accumulated depreciation, 1 Jan 2018	624,772	1,177,772	0	1,802,544
Depreciation for the period	64,295	334,028	0	398,323
Accumulated depreciation, 31 Dec 2018	**689,067**	**1,511,801**	**0**	**2,200,867**
Carrying value, 1 Jan 2018	**88,491**	**240,427**	**2,817,078**	**3,145,997**
Carrying value, 31 Dec 2018	**83,197**	**486,871**	**5,837,829**	**6,407,896**
Acquisition cost, 1 Jan 2017	680,975	1,374,169	1,183,770	3,238,914
Additions	32,288	44,031	1,633,309	1,709,628
Cost at 31 Dec 2017	**713,263**	**1,418,200**	**2,817,078**	**4,948,542**
Accumulated depreciation at 1 Jan 2017	566,303	918,164	0	1,484,468
Depreciation for the period	58,468	259,608	0	318,076
Accumulated depreciation at 31 Dec 2017	**624,772**	**1,177,772**	**0**	**1,802,544**
Net book value at 1 Jan 2017	**114,671**	**456,004**	**1,183,770**	**1,754,445**
Net book value at 31 Dec 2017	**88,491**	**240,427**	**2,817,078**	**3,145,997**

** Intangible assets in progress include capitalised development costs and composes an internally generated intangible asset. In 2018, capitalised development costs comprise mainly of renewing the insurance and accounts ledger information system for unemployment insurance contributions.*

11. Receivables and payables from unemployment insurance contributions

EUR	31 Dec 2018	1 Jan 2018	IFRS 9 adjustment 1 Jan 2018	31 Dec 2017
Unemployment insurance contribution receivables				
Employer's unemployment insurance contribution receivables	5,432,479	874,148	-3,702,001	4,576,149
Employee's unemployment insurance contribution receivables	8,536,766	1,324,675	-5,393,457	6,718,132
Overdue contribution and collection fee receivables	401,399	319,432	-97,770	417,202
Total unemployment insurance contribution receivables	**14,375,712**	**2,518,256**	**-9,193,228**	**11,711,483**

Unemployment insurance contribution liabilities	31.12.2018	31.12.2017
Prepayments	1,447,016	19,938,600
Refunds	948,443	3,920,568
Total unemployment insurance contribution payables	**2,395,459**	**23,859,168**

12. Other receivables

Non-current other receivables EUR	31 Dec 2018	31 Dec 2017
Other receivables	328,038	328,038
Total non-current other receivables	**328,038**	**328,038**

Current other receivables EUR	31 Dec 2018	31 Dec 2017
Prepayments and accrued income	119,917	171,392
Receivables from unemployment funds	19,086,517	81,051,108
Finnish Centre for Pensions capital accrual	0	9,000,000
Finnish Centre for Pensions compensatory interest	9,759,814	8,784,945
Receivables from the Education Fund	18,578,159	16,908,695
Receivables from the Government related to training compensation	84,222	11,020,722
Receivables from employer's liability component and compensation based on Employment Contracts Act	3,103,655	4,592,271
Receivables from the State Pension Fund	192,273	1,036,803
Receivables from the Ministry of Social Affairs and Health	32,900,000	6,461,169
Prepayments	347,497	526,668
Securities in settlement	6,377,426	0
Total current other receivables	**90,549,480**	**139,553,775**

13. Net fair value gains on investments

Investment income and positive changes in value EUR	31 Dec 2018	31 Dec 2017
Dividend income	54,846	280
Interest income	7,920,422	7,316,800
Other income	12,525	13,161
Gains on disposals	1,435,321	1,029,868
Foreign exchange gains	-11,998	3,906
Changes in fair value	-398,918	1,536,014
Total income from investments	**9,012,198**	**9,900,029**

Investment expenses and negative changes in value EUR	31 Dec 2018	31 Dec 2017
Interest expenses	-4,125,581	-994,303
Other expenses	-81,773	-38,147
Losses on disposals	-4,746,024	-8,273,638
Foreign exchange losses	-39,714	-1,952
Changes in fair value	-2,602,079	-41,563
Total investment expenses	**-11,595,171**	**-9,349,603**
Total investment income and expenses	**-2,582,972**	**550,426**

14. Investments

Investments in financial assets have been designated as financial assets at fair value through profit and loss, and are measured at fair value. Measurement of these assets is largely based on either quoted prices or valuations based on available market data. Financial instruments carried at fair value have been divided into three hierarchy levels based on whether they are traded in active markets, and to what extent the inputs are based on observable market data, as follows:

Tasolla 1 The valuation is based on quoted prices in active markets for identical financial assets and liabilities.

Level 2: The inputs used in valuations are also based, either directly or indirectly using valuation techniques, on observable inputs other than those on Level 1.

Level 3: The valuation is based on other than observable market data.

In the table below, investments have been specified by financial instrument classes divided into fair value hierarchy levels. No reclassifications have been made between hierarchy levels during the financial year.

EUR 31 Dec 2018	Level 1	Level 2	Level 3	Total
State and municipal bonds	212,909,815			212,909,815
Bank bonds	300,817,846			300,817,846
Corporate bonds	121,983,743			121,983,743
Investments in funds and equities	102,254,364	39,840,343		142,094,707
Mezzanine funds			1,991,545	1,991,545
Deposits		132,708,509		132,708,509
Certificates of deposit		40,000,227		40,000,227
Municipal papers		72,231,404		72,231,404
Commercial paper		129,745,457		129,745,457
Alternative investments			3,952,806	3,952,806
Total	**737,965,768**	**414,525,941**	**5,944,351**	**1,158,436,059**

EUR 31 Dec 2017	Level 1	Level 2	Level 3	Total
Government bonds	157,622,995			157,622,995
Bonds issued by banks	194,676,781			194,676,781
Corporate bonds	79,758,511			79,758,511
Investments in funds and shares	61,299,626	29,816,409		91,116,035
Mezzanine funds			1,069,003	1,069,003
Deposits		66,470,518		66,470,518
Certificates of deposits		50,036,076		50,036,076
Municipal papers		2,000,905		2,000,905
Commercial papers		94,893,125		94,893,125
Total	**493,357,913**	**243,217,033**	**1,069,003**	**737,643,948**

Changes in Level 3 financial assets measured at fair value

EUR	1 Jan 2018	Unrealised profit/loss	Realised profit/loss	Purchases	Disposals	31 Dec 2018
Mezzanine funds	1,069,003	1,309,051	0	49,651	-436,160	1,991,545
Alternative investments	0	-47,194	0	4,000,000	0	3,952,806
Total	**1,069,003**	**1,261,857**	**0**	**4,049,651**	**-436,160**	**5,944,351**

EUR	1 Jan 2017	Unrealised profit/loss	Realised profit/loss	Purchases	Disposals	31 Dec 2017
Investment funds	1,740,117	497,925	0	133,240	-1,302,280	1,069,003
Total	**1,740,117**	**497,925**	**0**	**133,240**	**-1,302,280**	**1,069,003**

Deposits, certificates of deposit, corporate bonds and municipal papers in **Level 2** have been measured using the discounted cash flow method based on Euribor or swap curve and on forward rate insofar as elements of foreign currencies are involved. Based on the management's judgement, the discount factor has been adjusted by the effect of change in credit risk of the investment. However, the adjustment has not had a material impact.

Investments classified in **Level 3** are Mezzanine funds that are valued based on valuations prepared by the issuer.

Investment funds have been measured at the net asset value of the fund as reported by fund manager at the reporting date, and they have been classified in **Level 1, 2 or 3** by their market activity and marketability. Equity investments are quoted in Helsinki Stock Exchange and they have been classified in Level 1. The amount of equity investments is minor.

15. Cash and cash equivalents

EUR Cash and cash equivalents	31 Dec 2018	31 Dec 2017
Bank deposits	416,757,606	232,007,361
Total cash and cash equivalents	**416,757,606**	**232,007,361**

16. Loans

Long-term borrowings EUR	31 Dec 2018	31 Dec 2017
TVR bonds	0	598,414,440
Total long-term borrowing	**0**	**598,414,440**

Short-term borrowings EUR	31.12.2018	31.12.2017
TVR bonds	599,329,140	299,795,460
Commercial paper	0	0
Revolving credit facilities (RCF)	0	0
Total short-term borrowing	**599,329,140**	**299,795,460**

17. Other liabilities

EUR	31 Dec 2018	31 Dec 2017
Accounts payable	578,516	476,179
Accrued expenses and deferred income	624,629	421,914
Liability component income accruals	48,524,788	64,763,273
Finnish Centre for Pensions capital accruals	1,400,000	0
Ministry of Economic Affairs and Employment, pay security accruals	19,513,485	18,967,907
Finnish Centre for Pensions, debiting interest	7,727,257	7,641,979
State Pension Fund accruals	0	135,778
Ministry of Social Affairs and Health accruals	5,020,450	629,428
Securities in settlement assigned loans	27,095,625	0
Administrative expense accruals	200,286	0
Liabilities to unemployment funds	4,061,624	1,795,996
Holiday pay accruals	768,432	671,279
Interest accruals	610,274	768,493
Total other liabilities	**116,125,367**	**96,272,225**

18. Liabilities and receivables not recognised in the statement of net position

Capital commitments, equity funds

EUR	31 Dec 2018	31 Dec 2017
Committed capital	5,250,473	5,250,473
Realised	-5,003,599	-4,953,948
Total investment commitments	**246,874**	**296,526**

Investment funds call investments based on the financing needs of the investment fund. The commitments have no maturity date.

Operating lease commitments

EUR	31 Dec 2018	31 Dec 2017
Within one year	1,346,916	1,338,504
1–5 years	19,244	333,389
Over 5 years	0	0
Total	**1,366,160**	**1,671,893**

The Fund has rented its office and warehouse premises and a car on non-cancellable lease contracts. On the reporting date, the remaining term of the lease for the office and warehouse premises is one year. The leases will remain in force with a 12-month notice period. The remaining term of the lease for the car is two years and nine months.

Lease receivables

EUR	31 Dec 2018	31 Dec 2017
Within one year	0	420,344
1–5 years	0	105,086
Over 5 years	0	0
Total	**0**	**525,430**

The Fund has sublet part of its leased office premises. The sublet ended at the end of 2018.

19. Related parties

Related parties of the Fund consist of the Supervisory Board, the Board of Directors and the Management Group. The Supervisory Board is appointed by the government based on the proposal of the labour market parties. The proposal for the level of unemployment insurance contributions is prepared by the Supervisory Board in its fall meeting. The Board of Directors is appointed by the Supervisory Board. The Unemployment Insurance Fund is supervised by the Financial Supervisory Authority. In addition, the Ministry of Social Affairs and Health is entitled to receive information about the operation of the Unemployment Insurance Fund.

The government contributions payable to the unemployment funds is received from the Ministry of Social Affairs and Health. The Fund regularly pays benefits to the Finnish Centre for Pensions, State Pension Fund, Social Insurance Institution of Finland (Kela) and the Ministry of Economic Affairs and Employment.

In 2018, TVR signed credit facility agreements worth EUR 400 million, including a guarantee from the Finnish State of EUR 440 million. The guarantee is issued based on the Act on the Financing of Unemployment Benefits (555/1998).

In the table below remuneration of the related parties are summarised, including social security contributions. More detailed breakdowns by each operating organ are included in the section of the annual report entitled, "Unemployment Insurance Fund's remuneration report for 2018".

Remuneration of the Board of Directors and the Supervisory Board

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Salaries, bonuses and benefits	91,940	76,405
Pension expenses – defined contribution plans	16,384	13,353
Total	**108,324**	**89,758**

Remuneration of the Management Group members (excluding the Managing Director)

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Salaries, bonuses and benefits	446,459	433,426
Pension expenses – defined contribution plans	75,633	72,655
Total	**522,092**	**506,080**

Managing Director's salaries and bonuses

EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Salaries, bonuses and benefits	162,745	161,958
Pension expenses – defined contribution plans	26,462	26,067
Total	**189,207**	**188,025**

Signatures for the annual review and for the financial statements

Helsinki, 26 March 2019

Markku Jalonen Chairman	Antti Palola Vice Chairman
Tuomas Aarto	Ida Mielityinen
Sture Fjäder	Katarina Murto
Riikka Heikinheimo	Jorma Palola
Minna Helle	Vesa Rantahalvari
Jyrki Hollmén	Saana Siekkinen
Ilkka Kaukoranta	Pirjo Väänänen

Janne Metsämäki
Managing Director

Auditor’s notation

A report on the audit carried out has been submitted today.

Helsinki, 28 March 2019

KPMG Oy Ab
Marcus Tötterman
Authorised Public Accountants

4. Auditor's Report

To the Supervisory Board of the Employment Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Unemployment Insurance Fund (business identity code 1098099-7) for the year ended 31 December, 2018. The financial statements comprise the statement of net position, the statement of changes in net position and statement of cash flows and notes including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the fund's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 the Financial Statements section of our report.

We are independent of the fund 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 non-audit services to the fund.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Determination and collection of unemployment insurance contributions (note 5 to the financial statements)	
· The determination and collection of unemployment insurance contributions by the Employment Fund is based on legislation. The unemployment insurance contributions which have been presented in the statement of changes in net position for the year 2018, amounted to EUR 3.8 billion. · The unemployment insurance contributions must be determined in such a way so that the Employment Fund are able to meet the obligations which they are responsible for. Unemployment insurance contributions are determined once per calendar year, in the preceding year. · The Employment Fund determines the contribution amounts and makes prepayment decisions based on the contribution rates which have been ratified by Parliament and the Employment Fund collects these prepayments. · At the end of the calendar year, the Employment Fund determines the final payment amounts based on employers' annual reports and either collects any shortfall in the prepayment or returns excess payments. The Employment Fund monitors non-compliance with the obligation to pay unemployment insurance. · As the amount of unemployment insurance contributions is significant in the financial statements and the determination and collection of the contributions is subject to legal requirements, it has been identified as a key audit matter.	· Our audit has included assessing the process to determine the unemployment insurance contributions and evaluating the control environment. · We have evaluated the process of invoicing, collecting and managing unemployment insurance contributions and have performed sample testing on individual transactions. · We have assessed and tested the controls for determining and receiving contributions and for monitoring payment obligations. · We have verified the correctness of the relevant payment rates in the system. We have tested payment transactions on a sample basis. · The audit has also focused on the controls in place over the flow of key data, change management and the transfer of information between systems. · In addition, we have familiarised ourselves with the applicable impairment principles and the updated methods for calculating the impairment of unemployment insurance claims in connection with the adoption of IFRS 9.

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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and 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 fund's ability to continue as a 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 fund or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about 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 the 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 fund'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 fund'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 fund 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Supervisory Board with effect from the financial year 2018 and our appointment represents a total period of uninterrupted engagement of 1 year.

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 and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, 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 other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 28 March, 2019

KPMG OY AB

Marcus Tötterman
Authorised Public Accountant, KHT

TVR