



2019



Työllisyysrahasto
Sysselsättningsfonden | Employment Fund

ANNUAL REPORT



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Key Matters in 2019

The Employment Fund was created by the merger of the Unemployment Insurance Fund and the Education Fund.



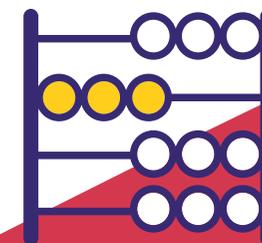
A record year for adult education allowances. Allowances were granted to

25,701

people.

The unemployment insurance contribution was reduced by

0.49%



The last

EUR **600**

million of the bond was repaid.

Managing Director's review

The Fund's first year in operation involved constant renewal.

The Fund's new organisation was confirmed in early 2019. The Employment Fund was created by the merger of the Unemployment Insurance Fund and the Education Fund. The merger required a lot of work and long-term preparation, and the personnel of the funds played a key role. We spent the year laying the foundation for our operations and driving forward several development projects related to our statutory duties and targets derived from our strategy.

WORK ON THE INCOMES REGISTER WAS DONE THROUGHOUT THE FUND

The Employment Fund's operations began at pace, as the merger coincided with the introduction of the Incomes Register for assessing unemployment insurance contributions - a new approach that had been long in preparation. A new information system and customer-facing service for unemployment insurance contributions

were deployed from the start of the year. A new model based on actual earnings was introduced for assessing and invoicing for unemployment insurance contributions, and the model proved extremely popular. In the future, the Fund will need to consider whether it will continue offering the prepayment model, which is very rarely used.

In terms of adult education allowances, 2019 involved making preparations for the use of the Incomes Register. We renewed our internal processing system and our outward, customer-facing service. The next phase in the introduction of the Incomes Register is to transfer benefit details to the register. In this regard, the deadline was pushed back in 2019 when the State decided to postpone the introduction of benefit data on the Incomes Register to the beginning of 2021. >>



“ The public trusts us, and we have the support of our stakeholders.

WE SERVE AS AN EXPERT IN THE DEVELOPMENT OF ADULT EDUCATION

We were involved in preparing a legal amendment concerning adult education allowances under the leadership of the Ministry of Social Affairs and Health. Our experts provided the Employment Fund's data to support the preparations. The most important goal of the planned amendment is to promote life-long learning by enabling a more effective combination of work and study. The law is expected to take effect on 1 August 2020.

Competence development and adult education form a substantial part of the Finnish Government's programme. The Government's programme also calls for an examination of whether the Employment Fund's mission should be expanded to provide better support for maintaining and developing vocational competences among adults.

We will continue to actively monitor the legal amendment concerning adult education allowances and the progress of the Government's programme, and we will offer our expertise whenever we are called upon.

GOOD FINANCES AND TRUST AMONG STAKEHOLDERS

In 2019, the financial development of the Employment Fund was better than anticipated. Employment and economic growth continued, and this was reflected in a reduction in unemployment. However, signs of a slowdown began to emerge towards the end of the year. When the Employment Fund approved its budget for 2020, it estimated a minor increase in unemployment in 2020.

The surplus generated in 2019 - approximately EUR 700 million - means that the Fund's cyclical buffer held a surplus of approximately EUR 1.7 billion at the turn of the year. We have good reason to be content

with this, particularly when we recall the deficit facing the fund around five years ago.

In 2019, we studied the recognition and reputation of the Employment Fund among the general public and influencers. The results revealed that the public trusts us and we have the support of our stakeholders. However, we still have room for improvement in terms of recognition.

We achieved a great amount in 2019. The Fund's personnel deserve thanks for a job well done. It has required determination and good cooperation - this is how we have managed to make changes in recent years. The Employment Fund will continue to reinforce its foundations and develop its operations in 2020. We can enter the new year in confident spirits.

JANNE METSÄMÄKI
Managing Director



Employment Fund in brief

The Employment Fund is an important part of the Finnish social security system. The Fund collects unemployment insurance contributions, which are used to finance unemployment allowances and promote competence development through adult education benefits.

The Employment Fund is a part of the administrative branch of the Ministry of Social Affairs and Health. The Fund's operations are supervised by the Financial Supervisory Authority.

FINANCING UNEMPLOYMENT ALLOWANCES

The Employment Fund finances unemployment allowances by paying the assets necessary for earnings-related daily unemployment allowances to unemployment funds. The Fund also pays the government contribution to unemployment funds. The proportion of the unemployment insurance contribution corresponding to the share of people who do not belong to unemployment funds is remitted to Kela annually. In addition to unemployment allowances, the unemployment insurance contribution income is used to finance earnings-related pensions accrued while people receive earnings-related daily unemployment allowances. These amounts are remitted to the Finnish Centre for Pensions and the State Pension Fund.

Employees may receive pay security from the Ministry of Economic Affairs and Employment if they have unpaid salaries or wages due to the employer becoming insolvent. This

benefit is also financed by the unemployment insurance contribution income.

ADULT EDUCATION BENEFITS AND TRAINING COMPENSATION

The Employment Fund grants adult education allowances and scholarships for qualified employees, which are intended to encourage vocational training and competence development. Employees' adult education allowances are financed entirely from the unemployment insurance contribution income. The State pays adult education allowances for entrepreneurs and scholarship for qualified State employees.

The Fund also grants employers' training compensation payments. The purpose of training compensation is to improve the employer's opportunities to organise training for its employees, to develop their vocational competence.

OTHER TASKS

The Employment Fund assesses and collects liability components for unemployment

allowances from employers. If an employer dismisses or lays off an elderly employee and the employee has been unemployed or laid off for a long time, the employer may be obliged to pay a liability component. This component is used to finance the cost of unemployment allowances for the dismissed or laid-off employee.

An employer who has ended an employee's employment relationship in violation of the provisions of the Employment Contracts Act is liable to pay compensation to the employee. The employer also calculates a deduction from the earnings-related daily allowance paid to the employee and remits this to the Employment Fund. The Employment Fund serves as an expert in reconciling the damages payable in disputes concerning wrongful dismissal with the unemployment allowances received by the employee.

The Employment Fund has a business cycle buffer, which is intended to prevent major fluctuations in the unemployment insurance contribution over the long term. The aim is to build up a buffer during good times so that it can offset the need for increases in contributions when unemployment rises. Over the last 20 years, the business cycle buffer has been used several times to even out increases in contributions.

Key figures

EUR million	2015	2016	2017	2018	2019	Change (EUR million)	Change (%)
INCOME							
Employer contribution income	1,626	2,043	1,769	1,458	1,238	-220	-15,1%
Employee contribution income	490	870	1,243	1,519	1,379	-140	-9,2%
Government contribution, funds	1,142	1,102	945	774	688	-86	-11,1%
Liability component income	73	66	54	50	39	-11	-22,0%
Net financial income	-1	-4	-5	-7	8	15	
TOTAL INCOME	3,330	4,077	4,006	3,794	3,353	-442	-11,7%
EXPENSES							
Unemployment funds	-1,703	-1,581	-1,320	-1,068	-954	-114	-10,7%
Government contribution, funds	-1,142	-1,102	-945	-774	-685	-89	-11,4%
Finnish Centre for Pensions	-900	-846	-768	-620	-577	-43	-6,9%
Social Insurance Institution of Finland (Kela)	-121	-167	-208	-228	-206	-22	-9,8%
Adult education benefits **	-98	-116	-151	-187	-187	0	-0,1%
Ministry of Economic Affairs and Employment	-21	-23	-19	-20	-24	4	19,2%
State Pension Fund	-8	-11	-13	-12	-10	-2	-16,8%
Insurance companies	-1	-1	0	0	0	0	
Administrative expenses	-10	-12	-11	-13	-19	6	
TOTAL EXPENSES	-4,003	-3,859	-3,435	-2,921	-2,659	-261	-8,9%
INCOME FOR THE PERIOD	-673	220	572	872	694	-178	
NET POSITION*	-686	-466	106	969	1,668	699	

* The net position for 2019 includes the value of the net assets of the Education Fund on 31 December 2018.

** Known as the Education Fund until 2018

Strategy, mission, vision and values

The Employment Fund's Board of Directors approved the strategy prepared for the new fund in January 2019. The strategy includes the mission, vision, strategic goals and values.

The strategy was prepared as part of the merger of the funds, and personnel from both of the former funds were involved in working on the strategy.

The Employment Fund's mission is incorporated in the slogan: *We provide security for changes in working life*. In Fund's vision is to be A superior executor of social security. The Fund's three basic duties are to finance unemployment allowances, assess and collect payments, and grant adult education benefits.

The Fund's values are: our customers come first, we renew, we develop, we act, and we are a united team.

Our strategic goals are to pioneer the development of services for customers, enhance the effectiveness and efficiency of our operations, and create added value through information and anticipatory measures. A further goal is to be an active and respected actor within the Fund's network. We aim to be an attractive workplace with healthy employees. We also aim to keep unemployment insurance contributions stable.

Our action plan for 2020 was prepared in line with our strategic goals, which will keep us busy for the coming years. The Employment Fund's Board of Directors evaluates the Fund's progress towards its strategic goals regularly.



MISSION

We provide security for changes in working life



VISION

A superior executor of social security



VALUES

Our customers come first
We renew, develop, and act
We are a united team

A large, stylized white silhouette of a bird, possibly a swan or crane, is positioned on the left side of the page. The bird is facing right and has its neck curved upwards. The background is a solid red color.

Report of the Board Of Directors

The Employment Fund's duties

The Employment Fund's main duties are to finance unemployment allowances, assess and collect unemployment insurance contributions, and grant adult education benefits.

The Fund collects unemployment insurance contributions paid by employers and employees. The contribution percentages are confirmed annually in an act of parliament. Since January 2019, contributions have been assessed using data on the Incomes Register.

In order to safeguard the stable development of contributions, the Fund has a business cycle buffer, which enables it to resist the pressure to increase contributions when unemployment rises.

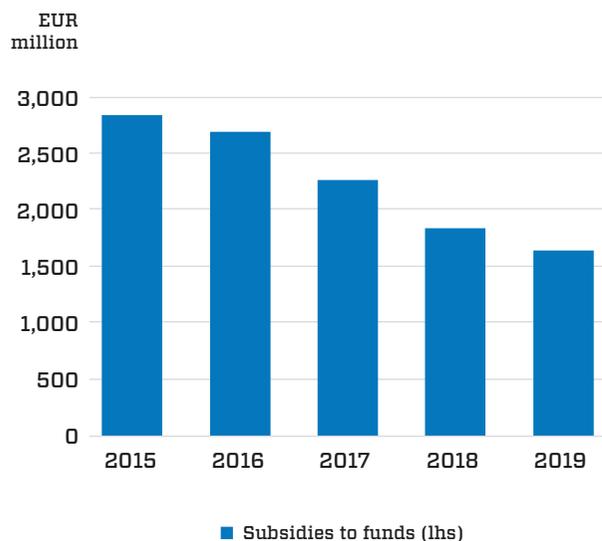
The Employment Fund finances allowances such as the allowances paid by unemployment funds and Kela, as well as adult education allowances and scholarships for qualified employees.

The Employment Fund is also responsible for financing earnings-related pensions accrued during periods when daily unemployment allowances, alternation leave and adult education allowances are paid. The Employment Fund remits a payment amounting to the basic daily allowance paid by the State to contribute to the daily unemployment allowances paid by unemployment funds.

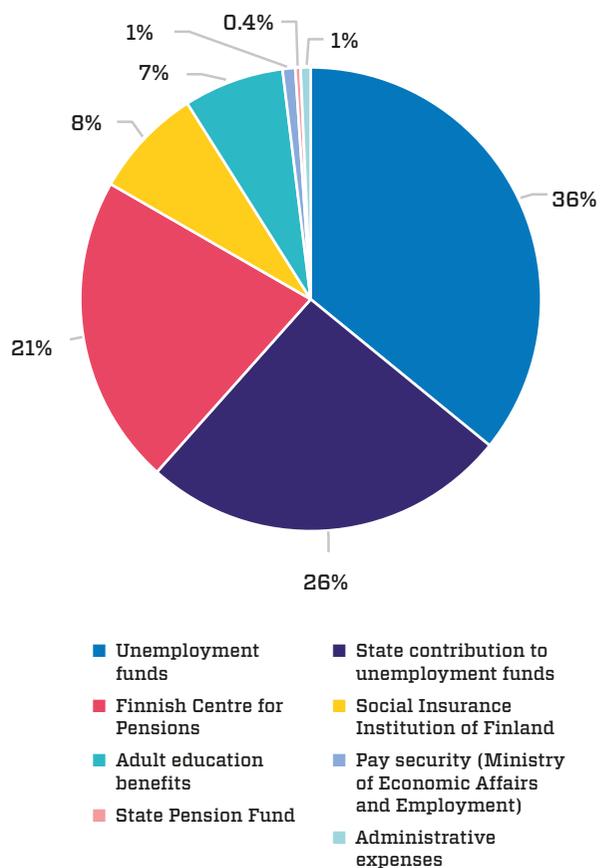




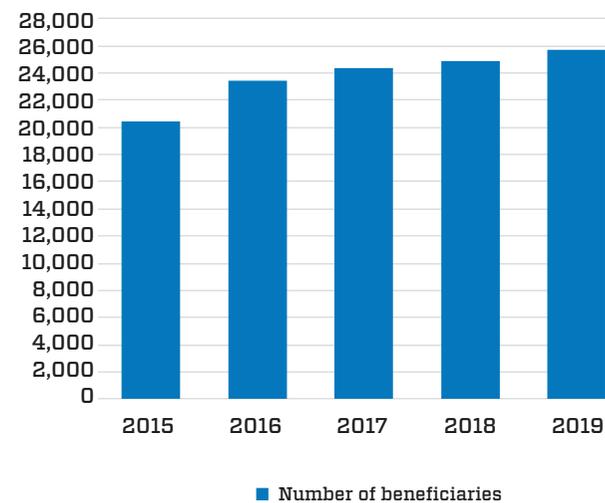
Subsidies to unemployment funds

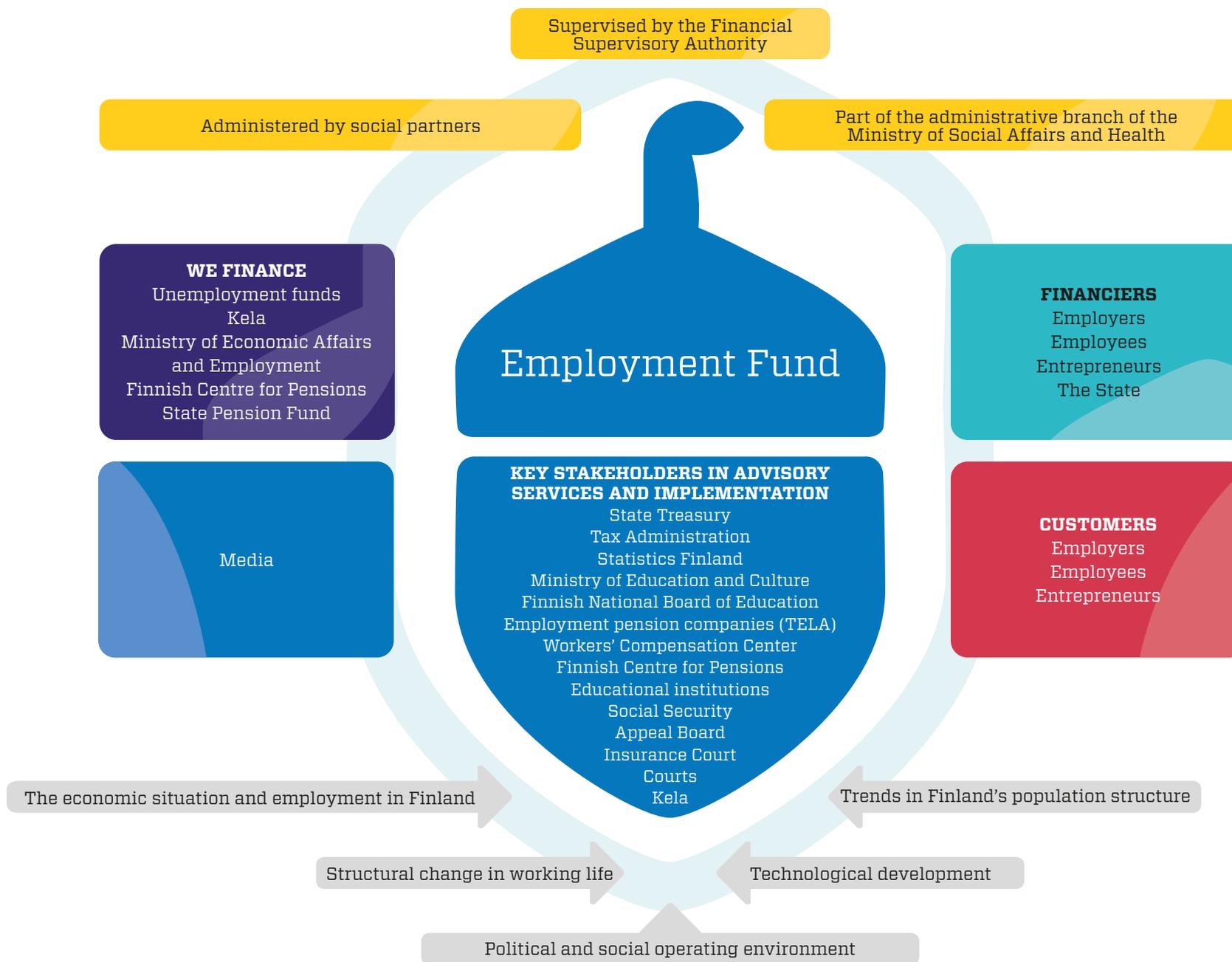


Recipients of financing



Adult education benefits paid





Unemployment insurance contributions

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

On 30 August 2018, 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 2019 (figures for 2018 in parentheses). Employers' contribution percentages decreased for 2019, and were 0.50% (0.65%) of the wages up to EUR 2,086,500 (2,083,500) and 2.05% (2.60%) of the wages for the proportion in excess of this. The average contribution percentage was 1.50% (1.91%).

Unemployment insurance contribution for government enterprises was 0.50% (0.65%) of

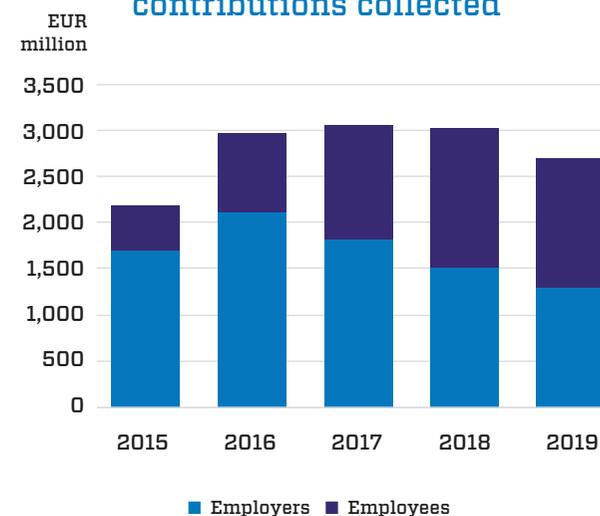
the wages up to EUR 2,086,500 (2,083,500) and 1.16% (1.54%) of the wages for the proportion in excess of this. Universities' unemployment insurance contribution was 0.50% (0.65%) of the wages up to EUR 2,086,500 (2,083,500) and 1.38% (1.81%) of the wages for the proportion in excess of this. The employer's unemployment insurance contribution for part-owners as defined in the Unemployment Allowance Act was 0.50% (0.65%) of the wages.

The employees' unemployment insurance contribution was 1.50% (1.90%) of the wages, based on the Fund's proposal. The employees' unemployment insurance contribution for part-owners was 0.78% (0.92%) of the wages.

Income from employers' unemployment insurance contributions amounted to EUR 1,238 (1,458) million, and income from employers' liability components was EUR 39 (50) million. Income from employees' unemployment insurance

contributions totalled EUR 1,379 (1,519) million. The payments levied were collected comprehensively: 0.4% (0.2%) of the invoices due in 2019 remained unpaid.

Unemployment insurance contributions collected





Of the employers who applied for the training compensation, 316 (299) were cities or municipalities.

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 an equal deduction from the unemployment insurance contribution. Such employers include municipalities, churches and non-profit organisations.

In 2019, the Employment Fund refunded EUR 11.7 (11.0) million to 646 (599) employers for the compensation paid for training that had taken place in 2018. The total number of training days stated in the applications was approximately 585,200 (565,000). Of the employers who applied for the training

compensation, 316 (299) were cities or municipalities.

SUPERVISION OF COLLECTION OF UNEMPLOYMENT INSURANCE CONTRIBUTIONS

The Employment 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 2019, the Employment Fund took 2,017 (2,221) cases under supervision. Supervision cases resulted in EUR 1.7 (2.3) million of additional payments and EUR 0.4 (0.4) million of refunds.

EMPLOYER'S LIABILITY COMPONENT

The Employment Fund assesses 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 were dismissed 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).

The unemployment funds and Kela reported approximately 8,000 (9,000) new liability component cases to the Employment Fund in 2019. The Fund imposed a liability component payment on the employer in around 1,900 (2,300) cases.

Approximately EUR 39 (50) million was recognised in liability payments in 2019. The average processing time in cases that led to a payment decision was 110 (55) days.

COORDINATION ACCORDING TO THE EMPLOYMENT CONTRACTS ACT

According to chapter 12, section 3 of the Employment Contracts Act, the courts must hear the Employment Fund in disputes that relate to the termination of employment if the claimant has received earnings-related daily unemployment allowance after the termination of employment. The Employment Fund issued approximately 750 (1,000) statements during the year under review.



INTRODUCTION OF THE INCOMES REGISTER FOR UNEMPLOYMENT INSURANCE CONTRIBUTIONS

Employers have reported the salaries they have paid to employees on the Incomes Register since 1 January 2019. At the same time, the Employment Fund began using the Incomes Register for its unemployment insurance contributions. We were among the first organisations to begin using the Incomes Register in our operations.

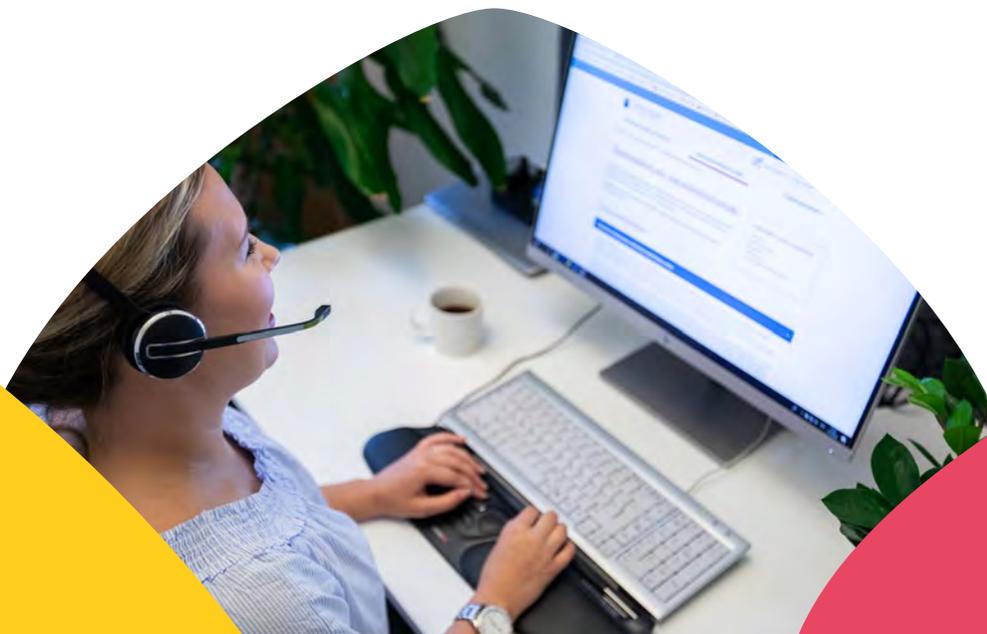
The deployment of the Incomes Register means that the Employment Fund has assessed the unemployment insurance

contributions based on the payroll data submitted to the Incomes Register. Overall, the deployment of the Incomes Register went well despite some difficulties. The procedures for reporting payroll information changed with the introduction of the Incomes Register: one of the main changes was the obligation to report payroll information within five days of the salary payment date.

The Incomes Register and the new actual earnings model have enabled the Employment Fund to specify invoices using more up-to-date figures based on actual salary amounts. Unemployment insurance

contributions are calculated four times per year based on the payroll information for the three preceding calendar months.

When the Employment Fund began using the Incomes Register, it updated the information systems used to assess and collect unemployment insurance contributions, as well as its customer-facing service. The system and process changes have significantly enhanced enforcement, and our specialists have been freed up to focus on more demanding expert tasks, as well as on advising customers.



Adult education benefits

The Employment Fund finances adult education benefits in addition to unemployment allowances.

Adult education benefits consist of the adult education allowance and the scholarship for qualified employees, and they are intended to encourage employees to develop their competences. Employees' adult education benefits are financed entirely from the unemployment insurance contribution income. The State is responsible for financing adult education allowances for entrepreneurs and scholarships for qualified employees working for the State.

ADULT EDUCATION ALLOWANCE FOR VOCATIONAL EDUCATION

Employees and entrepreneurs who have been working for at least eight years may apply for an adult education allowance to maintain their professional expertise and enhance their competences. The allowance may be granted for additional or supplementary vocational education, or for an entirely new degree or part thereof.

In order for an entrepreneur to receive an adult education allowance, entrepreneurial activity must have been the applicant's primary occupation for at least one year, and the entrepreneurial activity must be reduced in scope or suspended for the duration of the education. In order for the allowance to be granted, the income from business activities must decrease by at least one third. The decrease in income is verified retrospectively on the basis of taxation (for the year when the allowance is paid).

Employees' adult education allowances consist of a basic component and an earnings-related component. The earnings-related component is calculated using the average salary. Entrepreneurs may only receive the basic component of the adult education allowance.

ADULT EDUCATION ALLOWANCES IN 2019

In 2019, adult education allowances were paid to 25,701 people in a total amount



Last year, the Fund received 9.4% more applications for adult education allowances than in 2018.

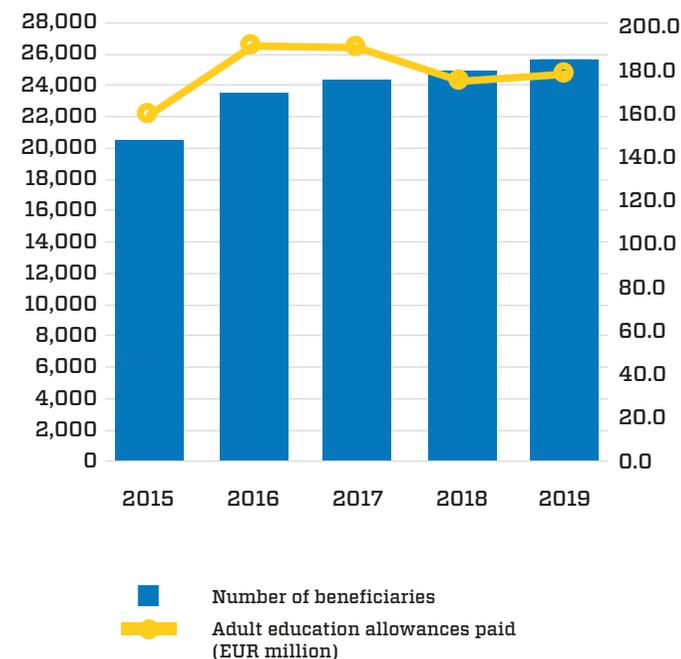
of EUR 176.5 million. The number of beneficiaries increased by 3.4% compared with 2018, and the allowance expenditure increased by almost 2%. A total of 37,020 adult education allowance applications were instituted, almost 97% of which were submitted electronically. The proportion of electronic applications has shown strong growth in recent years. The largest numbers of applications were received during the summer months. In August 2019, a new record was set for adult education allowances, as we received a total of 4,493 applications in one month. Every year, our benefit services are busiest during the summer months, as they precede the start of the academic year, and last year was no exception to this.

“ There is a growing need for adult education allowances as working life undergoes a transformation.

Last year, the Fund received 9.4% more applications for adult education allowances than in 2018. The number of applications for preliminary decisions showed the greatest proportional growth. We received a total of 4,875 applications for preliminary decisions, which is approximately 48% more than in the previous year. Adult students can apply for a preliminary decision to ensure that they meet the criteria for receiving an allowance before they request study leave from their employers. When the Fund issues a preliminary decision, it is a binding decision showing that the applicant is entitled to an allowance for the planned education, and it also ensures that the applicant has worked for long enough to receive the allowance (at least eight years). The increase in the number of applications for preliminary decisions indicates that there is a growing need for adult education allowances as working life undergoes a transformation.

Full adult education allowance (when the beneficiary is on study leave to study full-time) has been the most popular form of benefit since the system was established. Last year, 21,527 people applied for a full allowance, amounting to 84% of all applicants. A total of 1,621 people applied for adjusted adult education allowances (when the beneficiary works alongside their studies or their study leave lasts of an uninterrupted period of less than two months), amount to approximately six per cent of all applicants. Seven per cent of people combined the full and adjusted allowances, for a total of 1,845 applicants. Only about three per cent of all applicants - 708 people - applied for entrepreneurs' adult education allowances.

Number of beneficiaries and adult education allowances paid

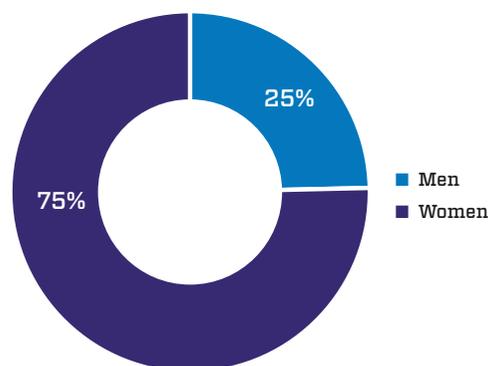


There have been no changes in the proportions of men and women applying for allowances over the last five years. In 2019, a clear majority of beneficiaries were women (75%). Twenty-five per cent of the beneficiaries were men.

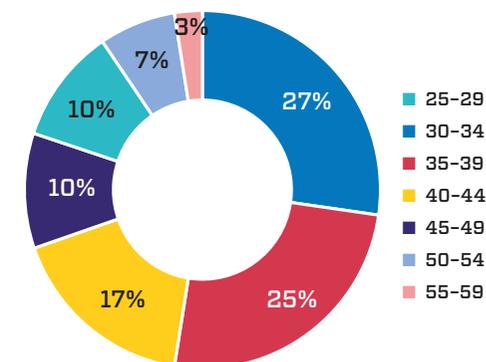
The age distribution of adult education allowance beneficiaries remained largely unchanged. Fifty-two per cent of the beneficiaries were 30–39 years of age. Forty-seven per cent of the beneficiaries were 40–59 years of age. In comparison with 2018, the proportion of 40–59-year-olds remained the same, while the proportion of 30–39-year-olds decreased by one percentage point. Forty per cent of the beneficiaries studied at universities of applied sciences, 29% at vocational institutions, 28% at universities and 3% at other educational institutions.

The most popular field for students obtaining adult education allowances remained social welfare, health care and sports (34.6%). However, the proportion of students entering this field has steadily decreased in recent years; for example, the field took a share of around 42.4% in 2016. Conversely, the share of students in the fields of technology and transport have risen from 9.4 per cent in

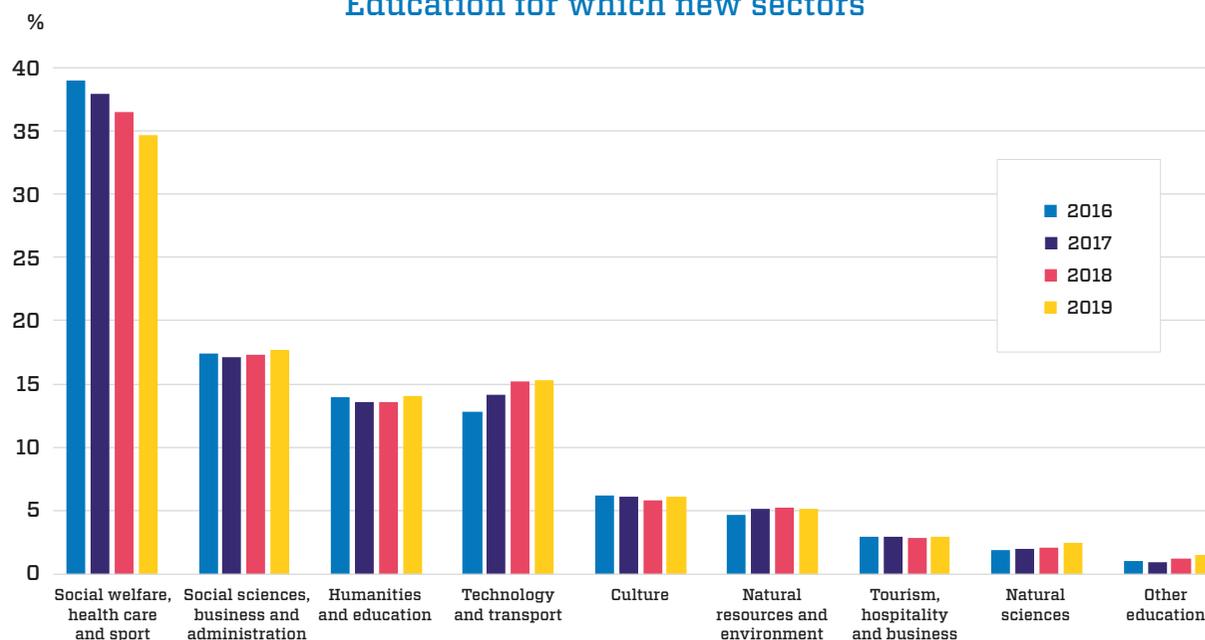
Adult education allowance beneficiaries by gender



Adult education allowance beneficiaries by age group in 2019



Education for which new sectors



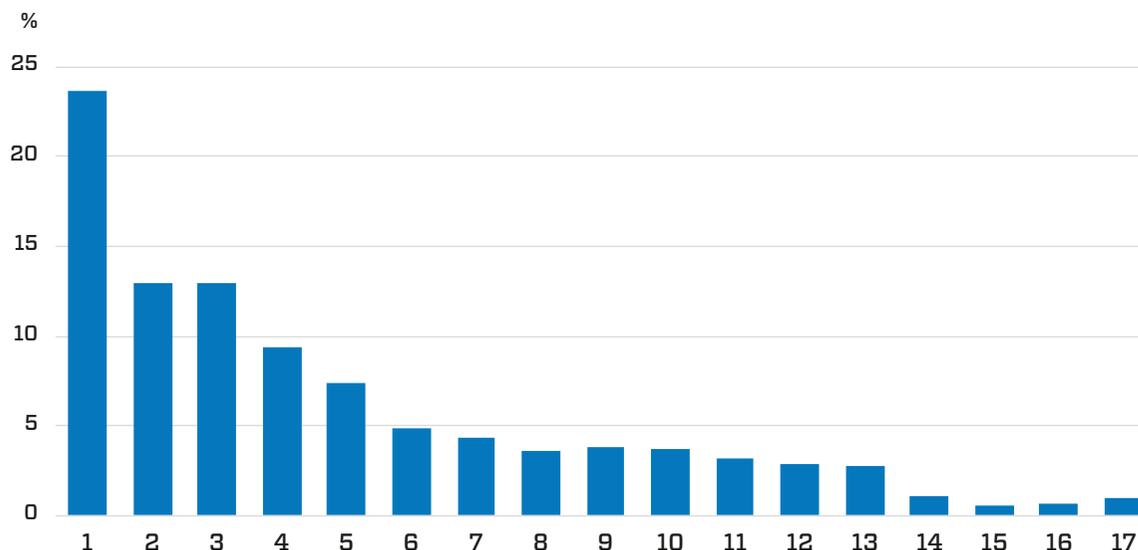


2016 to 15.3 per cent. When analysed from the perspective of the employer's operating sector, 24% of beneficiaries worked in health care and social welfare services. The next-largest sector, with 13% of beneficiaries, was wholesale and retail, while 13% were in public administration and national defence, 9% in education, and 7% in industry.

In 2019, retraining was clearly more common than competence development within the same field. Almost two-thirds of beneficiaries used their allowances to reorientate their competences. Sixty-five per cent of beneficiaries were studying in a different field to their employment, and 35% were in the same sector. Adult education allowances are most commonly used for education leading to a degree - this form accounted for 84% of beneficiaries.

In terms of regions, the largest number of beneficiaries was in Uusimaa (35%), the second-largest number was in Pirkanmaa (9.9%), and the third-largest number was in Southwest Finland (8.2%).

From which sectors



Sector

1. Health care and social services (24%)
2. Wholesale and retail; motor vehicle and motorcycle repairs (13%)
3. Public administration and national defence; mandatory social insurance (13%)
4. Education (9%)
5. Industry (7%)
6. Professional, scientific and technical operations (5%)
7. Transportation and warehousing (4%)
8. Administration and support services (4%)
9. Finance and insurance (4%)
10. Information and communication (4%)
11. Other service operations (3%)
12. Hospitality (3%)
13. Construction (3%)
14. The arts, entertainment and recreation (1%)
15. Agriculture, forestry and fisheries (1%)
16. Real-estate operations (1%)
17. Unknown sectors (1%)



SCHOLARSHIPS FOR QUALIFIED EMPLOYEES ON THE BASIS OF A VOCATIONAL QUALIFICATION

Scholarships for qualified employees were introduced on 1 January 1996. The scholarship can be granted to a person who has completed a vocational upper secondary qualification, further vocational qualification, or specialist vocational qualification and who has been in paid employment for at least five years. The scholarship for qualified employees is a tax-exempt, lump-sum payment of EUR 400.

Scholarships for qualified employees in 2019

In 2019, fewer scholarships for qualified employees were granted than in the previous year. Last year, 26,187 decisions were issued on scholarships for qualified employees, 14% fewer than in the previous year. A total of EUR 10.5 million was paid in scholarships. The monetary value of scholarships also decreased in comparison with 2018.

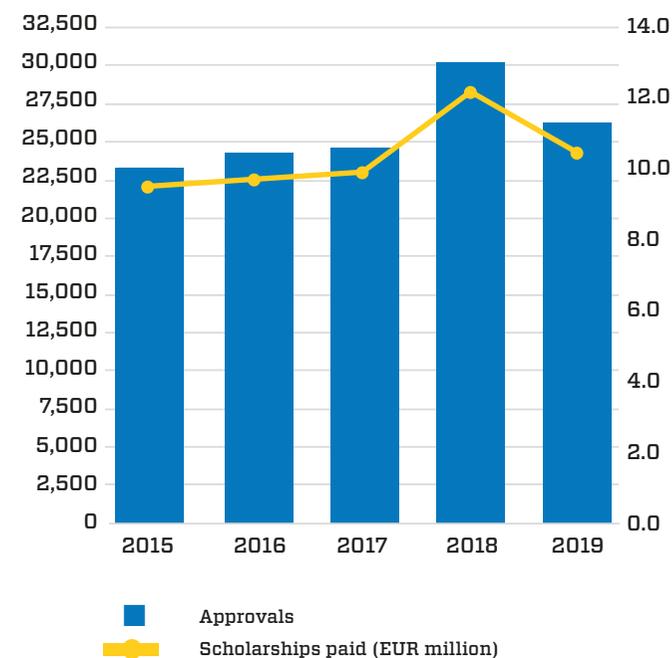
Almost 85% of applications were submitted electronically. The proportion of electronic applications has shown strong growth in recent years, and the Fund aims to gradually eliminate paper-based applications.

The largest number of applications for scholarships for qualified employees were received in June (4,651), accounting for 15.5% of the total number of applications in the year. A total of 26,187 applications for scholarships for qualified employees were approved, while 3,598 were rejected. The number of rejected applications was 12% of the total.

Vocational upper secondary qualifications accounted for 33.7% (35.8%), further vocational education 41.1% (40.7%), and specialist vocational qualifications 25.1% (23.5%) of all competence-based qualifications completed.

The three most common qualifications completed by beneficiaries of scholarships for qualified employees accounted for 23% of all the completed qualifications: upper secondary qualifications in the field of social welfare and health care: 10%; further vocational education in supervisory work: 7.3%; and specialist vocational qualifications in management: 7.3%.

Approvals and scholarships for qualified employees paid



APPEALS AND RECOVERY OF BENEFITS PAID WITHOUT JUSTIFICATION

Applicants who are not satisfied with the outcome of their applications for scholarships for qualified employees or adult education allowances are entitled to appeal the decision. The first appellate body is the Social Security Appeal Board (SAMU). The second and final appellate body is the Insurance Court. In 2019, the Appeal Board received 216 complaints. The Employment Fund's decision was upheld in 85% of the cases. A total of 37 complaints were brought to the Insurance Court, and the decision was upheld in 69% of the cases and altered partially in 31% of the cases.

The most common reasons for appeal were the recovery of benefits paid or the assessment of reasonability of the amount to be recovered. If a benefit has been paid without justification or the amount paid out was too high, the excess must be recovered from the beneficiary. A total of 1,552 recovery decisions were made.

The Employment Fund has the option of abandoning the recovery procedure if this is considered reasonable. Decisions were taken to abandon the recovery procedure

on the grounds of reasonability in 34 cases.

PREPARATIONS FOR THE USE OF THE INCOMES REGISTER FOR ADULT EDUCATION BENEFITS

In 2019, the Employment Fund's benefits service made preparations for the introduction of the Incomes Register, which took place successfully on 1 January 2020. The introduction of the Incomes Register affected the Fund's benefits in the sense that the Fund now receives the payroll information required for adult education allowances directly from the Incomes Register. If the information is not available from the Incomes Register, the applicant must provide the information to the Fund by sending a separate payslip or salary calculation.

The preparations for the use of the Incomes Register were one of the Fund's biggest projects during the year. The project involved collaboration using the agile development methodology. The deployment of the Incomes Register required a redesign of the application handling process, the development of the processing system and electronic self-service system, training for the personnel, and communication of the changes to the Fund's



The preparations for the use of the Incomes Register were one of the Fund's biggest projects in 2019.

customers who receive allowances. The necessary development work was completed on schedule, and the Fund was ready for deployment at the very beginning of 2020.

In 2019, the decision was taken to phase the expansion of the Incomes Register into the area of benefits so that benefit details will begin to be reported to the Incomes Register as of the start of 2021. The original schedule was to begin reporting benefit details to the Incomes Register from the beginning of 2020. For the Fund's customers, the change means that details on the benefits paid by the Employment Fund will be available on the Incomes Register as of the beginning of 2021.

SIGNIFICANT LEGAL AMENDMENTS

In 2019, the Ministry of Social Affairs and Health worked with central labour market organisations to draft proposals for changes in adult education allowance on the basis of development suggestions from the organisations. The Employment Fund was also involved in the preparatory work. The most important goal of the planned amendment is to promote life-long learning by enabling a more effective combination of work and study. This will be achieved by improving the prerequisites for allowances to make it more financially viable to work while receiving an allowance. At the same time, plans are being made for amendments to enhance the utilisation of the Incomes Register when benefit applications are processed, as well as amendments to revamp the benefit application and granting process.

The government's draft bill concerning the amendments was sent on a consultation round in autumn 2019, and it was submitted to Parliament in last February. According to the draft bill, the amendment is due to take effect on 1 August 2020.

DEVELOPMENT OF BENEFIT SERVICE OPERATIONS

In 2019, several other modernisation measures were taken to enhance processing work in the benefit service, and applicants will experience the effects of these measures in the form of better customer service and more efficient interaction. For example, in November 2019, we redefined the information required from the Tax Administration and changed the way the information is delivered. This change was to ensure information security and data protection.

One prerequisite for receiving an adult education allowance is full-time study, so the progress that beneficiaries of adult education allowances make on their studies in each academic year is monitored retrospectively. This year, the retrospective monitoring of whether studies were full-time was implemented by requesting information from the Finnish National Agency for Education, and information from the Koski register was used for monitoring for the first time. In earlier years, queries had been sent directly to the educational institutions. We experimented with this new means of delivery and used the Finnish National Agency for Education's registers with the aim of boosting the

efficiency and convenience of the monitoring process from the perspectives of educational institutions, applicants and processing work.

THE EMPLOYMENT FUND'S WORK WITH STAKEHOLDERS

In the Employment Fund's first year of operations, we worked with stakeholders such as unemployment funds, ministries, the Finnish Centre for Pensions, Kela, the Workers' Compensation Center and the Tax Administration. The Fund is involved in the European Social Insurance Platform (ESIP), an association of social insurance institutions in Europe. We also participated in Nordic collaboration among social insurance institutions.

A more detailed plan for stakeholder collaboration was drawn up in 2019, and we will be able to begin implementing it in 2020.



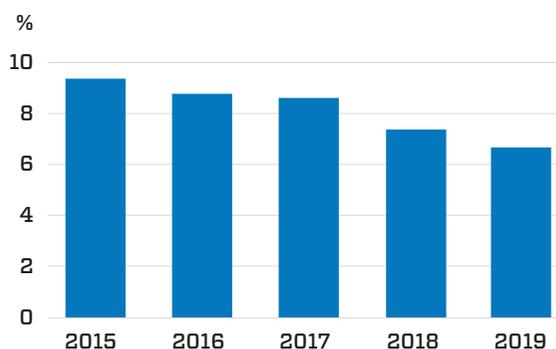
Finance

BUSINESS CYCLE BUFFER

In accordance with chapter 1, section 3 of the Act on the Financing of Unemployment Benefits, in order to ensure liquidity and to balance out changes in unemployment insurance contributions due to foreseeable economic fluctuations in the national economy, the Employment Fund maintains a business cycle buffer. The business cycle buffer accrues on the basis of the difference between the Fund's income and expenses, and the maximum value of the buffer is an amount corresponding to the annual expenditure for an unemployment rate of seven percentage points. The statutory maximum value of the business cycle buffer changed on 1 January 2020, and it now corresponds to the annual expenditure for an unemployment rate of six percentage points.

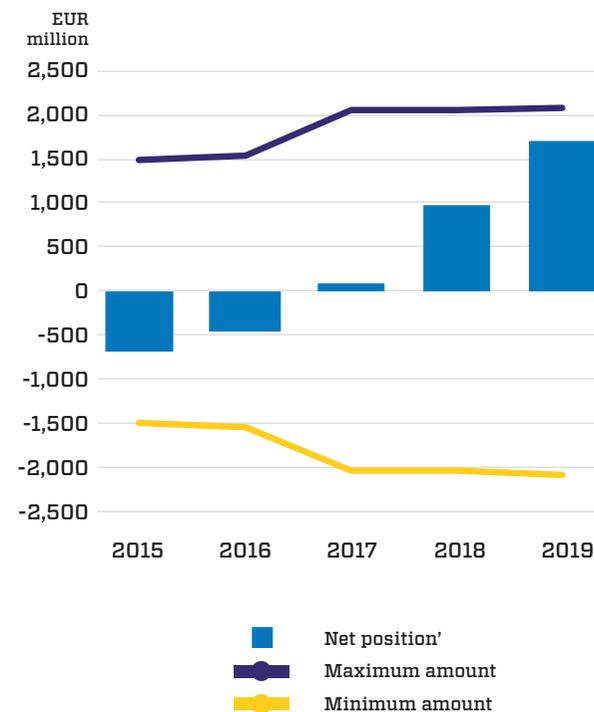
The maximum value of the buffer is calculated by dividing the annual expenditure for which the Employment Fund is liable, which was EUR 1,974 million in 2019, by the average

Unemployment rate



Based on information from Statistics Finland.

Business cycle buffer



“ The Employment Fund’s net position was EUR 1,668 million at the end of 2019.

unemployment rate for the year (6.7), and multiplying the result by 7. In 2019, the maximum permitted value of the buffer according to the Act was EUR 2,062 million. The Employment Fund’s net position was EUR 1,668 million at the end of 2019.

According to the investment principles accepted by the Supervisory Board, the Fund is required to have liquid investments in money market instruments with less than a year’s maturity in an amount that covers one month of the Fund’s expenses. This amount is approximately EUR 300 million. The liquidity buffer described above was clearly larger than the minimum amount in 2019.

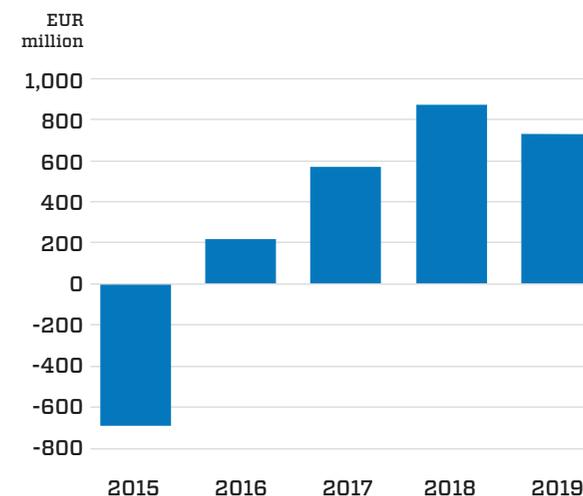
According to the 2020 budget submitted to the Ministry of Social Affairs and Health, the Fund’s net position will amount to EUR 1,556 million on 31 December 2020. When the financial statements were prepared, the Fund’s net position at the end of 2020 was expected to be around EUR 1,800 million positive.

DEBT FINANCING AND BOND MATURITY

The bond issued by the Employment Fund (then known as the Unemployment Insurance Fund) in the amount of EUR 600 million matured on 23 September 2019. Standard & Poor’s (S&P) has given the Employment Fund a credit rating of AA+ with a stable outlook. The Finnish government has also been granted the same credit rating.

The Employment Fund has access to a standby credit facility of EUR 400 million. The credit facility was not utilised during 2019.

Change in net position





Investment activities

The Employment 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.

The value of investment and financial assets possessed by the Employment Fund amounted to EUR 1,019 (1,687) million at the end of 2019.

The financial markets saw positive performance in 2019. The European Central Bank resumed its bond-buying programme in 2019, following a short break. The USA's central bank lowered its reference interest rate, and companies improved their financial performance.

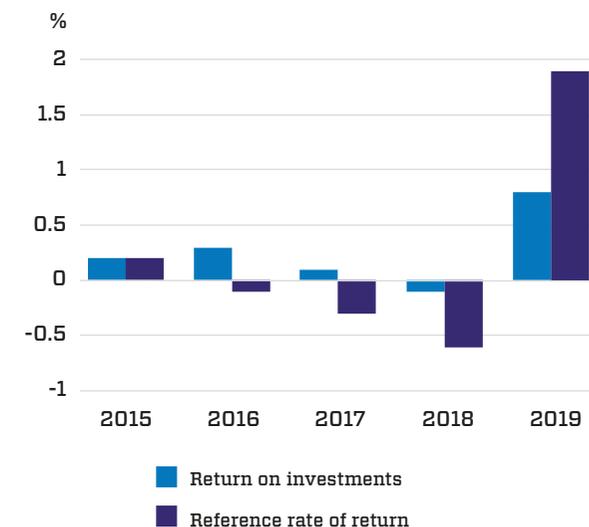
Share prices rose sharply in 2019, reaching historic highs on many markets. Long-term interest rates mainly decreased. Inflation was moderate, and the increasing use of rejuvenation measures by central banks put pressure on interest rates. The general trend on capital markets was reinforced at the end of the year when cyclical indicators, which forecast economic development, began to rise.

One of the focal areas of the Fund's financing and investment activities was to make preparations for the maturation of the EUR 600 million bond in September 2019. At certain times, the value of assets held in bank accounts was very high, and the Fund also sought to control the risk level of its investment portfolio by other means. The Fund invested actively in money market instruments, bonds and, to a lesser degree, also equities, as well as alternative investments. At the end of the financial period, EUR 446 (893) million of the Fund's assets were invested in money market

instruments, EUR 536 (661) million in bonds, EUR 18 (15) million in equities and EUR 19 (6) million in other asset classes.

In 2019, the Employment Fund achieved a return of 0.8 (-0.1) per cent on invested assets. The return surpassed the expectation entered in the investment plan, but it underperformed in comparison with the reference return on investment activities.

Return on investments





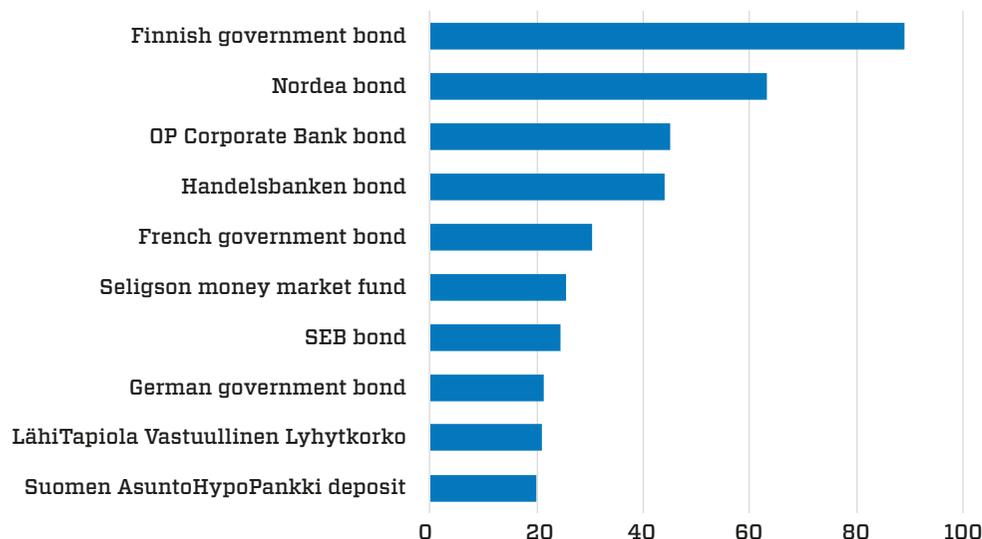
RESPONSIBLE INVESTMENT

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.

When we make investment decisions, we take environmental, social and governance (ESG) factors into consideration in addition to financial indicators. With the exception of index investments, we integrate ESG factors into all our investments insofar as is possible. We do our part to ensure that ESG factors are taken into consideration by commissioning an external party to review our investments two per year and report and any deviations.

We exclude companies whose operating methods are considered irresponsible with regard to factors such as corruption, child labour, employees' rights and human rights from our list of potential investments. We also invest in companies that comply with the UN Global Compact wherever possible.

Largest investments



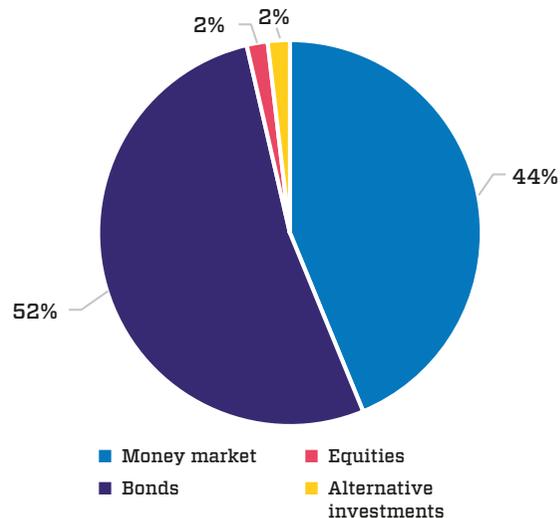
We take corporate responsibility into consideration whenever we make investment decisions.



DISTRIBUTION OF INVESTMENTS

The Fund invested actively in money market instruments, bonds and, to a lesser degree, also equities, as well as alternative investments. At the end of the financial period, EUR 446 (893) million of the Fund's assets were invested in money market instruments, EUR 536 (661) million in bonds, EUR 18 (15) million in equities and EUR 19 (6) million in other asset classes.

Investment spread



EUR 1 billion of the Fund's assets were invested at the end of the financial year.





Risk management

Risk management has been transformed: instead of focusing on individual uncertainties, organisations are now required to manage the related risks more systematically.

The purpose of the Employment Fund's risk management activities is to identify the threats that affect our organisation and that could jeopardise the continuity of the Fund's operations, impact the Fund's operating conditions, endanger the Fund's solvency or prevent the Fund from implementing its strategy.

A further important goal of risk management is to ensure that any risks that the Fund takes are proportional to the Fund's targets and risk appetite. The risk appetite is specified in the Employment Fund's risk management

principles, which the Employment Fund's Board of Directors has approved.

Risk management is an aspect of the Employment Fund's control system, alongside internal control. The senior management is responsible for these controls, and since April 2019, the Employment Fund has had a full-time risk manager who is responsible for monitoring the implementation of the controls. Risk management is strongly linked to internal control and internal audits.

The risk manager steers and monitors the implementation of risk management actions within the organisation and reports regularly to the Management Group, Audit Committee and Board of Directors on the status of risk management. The risk manager supports all members of the personnel in accordance with the Employment Fund's specific risk management principles. The personnel play an important role in the operational risk

management process and in identifying risks.

FINANCIAL RISKS

Good financial risk management safeguards the Employment Fund's liquidity, asset and capital management, and the adequacy of the business cycle buffer. The economy has been developing positively, so the Employment Fund has been able to build up a business cycle buffer. Indeed, one of the Employment Fund's most important duties is to ensure that the business cycle buffer is sufficient to enable it to safeguard liquidity and keep fluctuations in the unemployment insurance contributions to a minimum in spite of the changing cycles of the national economy.

The Fund manages its investment risks with the help of an investment plan approved by the Board of Directors. The risks of investments are limited to such a level that realisation of the risks could not cause the Employment Fund to suffer substantial losses.



According to the law, the Fund has the option of taking on debt. The Board of Directors decides whether to take on debt, and the debt is controlled via the debt management plan. The Fund had such a plan for 2019. No such plan has been made for 2020, as the net position is strongly positive, and there is no need to take out any long-term debt.

STRATEGIC AND REPUTATIONAL RISKS

Strategic risk management ensures that the Employment Fund achieves its strategic objectives. It is important for the Employment Fund to promote digitalisation. Digitalisation will enhance the efficiency of the Fund's operations and improve its services for customers.

It is also important for the Fund to ensure that it offers a good customer experience and that it safeguards the reputation and trust in the Employment Fund among customers and the most significant stakeholders. Key attributes to this end are a readiness to make changes, change management and good operational planning.

OPERATIONAL RISKS

Operational risk management looks after the risks associated with our service provision,

outsourcing, the corporate governance of suppliers, and project risks.

Operational risk management is particularly important when changes occur, and the Employment Fund assesses its risk appetite whenever changes take place. The largest changes affecting the Employment Fund began with the introduction of the Incomes Register, which was planned long before it entered into service. This required system changes as well as efforts to ensure the personnel had the right competences and coping tools as the changes progressed. The merger of funds to create the Employment Fund led to major changes to improve our services, and the changes will continue with regard to the Incomes Register, system changes and benefit services in 2020.

As changes are made, it is important to safeguard the Employment Fund's operational continuity, which is an essential aspect of risk management. Good continuity planning guarantees that the Employment Fund's key functions will continue uninterrupted and customers will receive service in spite of the unusual circumstances.

CYBER RISKS

The potential for cyber crime and information security threats has become one of the most serious risks affecting public administration and enterprises. Contingency planning for these threats requires risk management to have special readiness and foresight, and it must also conduct exercises in combating potential cyber crimes. The Employment Fund actively follows the status information released by the National Cyber Security Centre and other sources, and it conducts regular exercises on the potential escalation of risks. This area requires a constantly increasing focus due to the changes occurring in our environment.

REGULATORY RISKS

Operating in compliance with regulation is the cornerstone of the Employment Fund's activities. Regulatory risk management ensures that the Employment Fund's operations comply with laws and requirements, meet the relevant standards of responsibility and ethical operating methods, and exercise good data protection governance. In addition to risk management, regulatory compliance is assured through internal audits and internal control.

Personnel

At the end of 2019, the number of personnel was 162, or an average of 142 person-years of work. Men accounted for 46 of the employees and women accounted for 116. The average employee age was 40, and the average duration of employment at the Fund was 4.4 years for the personnel who were transferred from the Unemployment Insurance Fund and 6.1 years for those transferred from the Education Fund.

The average number of training days per person was 2.5.

The Employment 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 average rate of absence due to illness was 14 days per person.

REORGANISATION

Due to the need to restructure operations following the merger, the Employment Fund conducted joint consultation negotiations from 11 February 2019 to 7 March 2019. The joint consultation negotiations did not seek to realise cost savings; instead, they were based on the principle of reorganising operations to correspond to the new targets. The Fund's organisation was moulded on the basis of the negotiations, and new roles were defined. The new roles established at the Employment Fund included customer experience service manager, risk manager and development manager.

In the autumn, the Fund-wide targets were confirmed for the remainder of the year. The indicators used to measure performance against the Fund-wide targets included customer satisfaction, absences due to illness, and Lean training for every member of personnel.



The indicators used to measure performance included customer satisfaction, absences due to illness, and Lean training for every member of personnel.



A glimpse into the coming year

During its first year in operation, the Employment Fund laid the foundation for discharging its statutory duties and initiated projects related to its strategic goals. This work will continue in 2020.

At the beginning of 2020, the Fund successfully began utilising the data on the Incomes Register for granting adult education allowances. At the same time, preparations were made for the enactment of a reform to the adult education allowance. The draft bill for the reform was submitted to Parliament in February, and the law may take effect on 1 August 2020.

No significant changes are expected to occur in the Fund's operating environment in the coming year. In the Fund's assessment, the cyclical outlook is similar to the status in August 2019, when the budget for 2020 was approved. Improvements to the employment rate are slowing, and unemployment is close to the level in 2019. The Employment Fund expects to record a surplus of approximately EUR 100 million in 2020, bringing the net position of the business cycle buffer close to the statutory maximum by the end of the year.





Corporate governance

The corporate governance statement for the Employment Fund in 2019 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 Employment 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 the statement are consistent with the financial statements. The Employment Fund's Board of Directors reviewed this statement at its meeting on 24 March 2020.

COMPLIANCE WITH THE FINNISH CORPORATE GOVERNANCE CODE 2015 AND DEVIATIONS FROM THE RECOMMENDATIONS

The Employment Fund is an independent institution established by law. It has not issued any shares or interests for public trading.

The Employment Fund, formerly known as the Unemployment Insurance Fund (TVR), has issued bonds to be quoted on Nasdaq Helsinki Ltd. The bonds in circulation were repaid in September 2019. For this reason, the Employment Fund 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 the Employment Fund 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). The Decree on the Regulations of the Unemployment Insurance Fund applies to the Employment Fund as of 1 January 2019.

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

- **Recommendations 1, 2, 3 and 4:**
The Employment Fund's most senior decision-making body 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 Employment Fund's operations.

- **Recommendations 5, 6, 7, 8, 9 and 10:** The Employment Fund's Supervisory Board 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 vice 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 Employment Fund's operations.
- **Recommendations 10, 16, 17 and 18a:** The Employment Fund has no shareholders or similar owners, so there is no evaluation of whether the significant shareholders are independent of the management.
- **Recommendation 18b:** The Employment Fund 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 on 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:** The Employment Fund 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:** The Employment Fund is not a corporation, so the regulations on related-party transactions are not applicable as such to the Employment Fund's operations. However, as an issuer of bonds, the Employment Fund 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), the Employment Fund's most senior decision-making body is the Supervisory Board, which has 18 members. The Supervisory Board elects a chair and vice 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 the 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 the Employment Fund's Supervisory Board is three calendar years. The members appointed to the Unemployment Insurance Fund's Supervisory Board served the remainder of their terms on the Employment Fund's Supervisory Board when it began operating on 1 January 2019.

**The members of the Supervisory Board in 2019 were:**

Name	Year of birth	Education	Main occupation	Attendance at meetings of the Supervisory Board
Riku Aalto (Chair)	1965	Master of Administrative Sciences	President, Industrial Union	2/2
Antti Zitting (Vice Chair)	1956	Master of Science (Technology)	Chair of the Board, Sacotec Oy	1/2
Teija Asara-Laaksonen	1957	Matriculation exam	Vice President, Trade Union for the Public and Welfare Sectors (JHL)	1/2
Jorma Haapanen	1964	Master of Science (Agriculture and Forestry)	Deputy Mayor, City of Kotka	2/2
Jari Jokinen	1967	Master of Science (Technology)	Unit director, Academic Engineers and Architects in Finland (TEK)	2/2
Tauno Kekäle	1961	Doctor of Science (Business Administration)	CEO, Rector, Vaasa University of Applied Sciences Ltd	0/2
Antti Korpiemi	1961	Master of Science (Agriculture and Forestry)	CEO, Berner Ltd	2/2
Kirsi-Marja Lievonen	1962	Licentiate of Laws trained on the bench	HR Director, City of Vantaa	0/2
Petri Lindroos	1965	Master of Education	Director of Negotiations, Trade Union of Education (OAJ)	1/2
Salla Luomanmäki	1963	Master of Arts	Executive Director, Akava Special Branches	2/2
Jorma Malinen	1959	Automation Designer	President, Trade Union Pro	0/2
Matti Mettälä	1963	Master of Laws trained on the bench	EVP, Kesko Corporation	2/2
Taina Niiranen	1966	Master of Administrative Sciences	Director of Health and Wellbeing Services, Parkano municipality	2/2
Olli Nikula	1967	Master of Science (Economics and Business Administration)	CEO, Saint-Gobain Finland Ltd	2/2
Harri Ojanperä	1961	Master of Business Administration	Senior Vice President, SOK Travel and Hospitality Industry Chain Management	2/2
Silja Paavola	1956	Auxiliary Nurse	President, Finnish Union of Practical Nurses (SuPer)	2/2
Millariikka Rytönen	1975	Midwife-nurse, Master's degree	Chair, Union of Health and Social Care Professionals Tehy	1/2
Annika Rönni-Sällinen (as of 1 September 2019)	1976	Master of Laws	Chair, Service Union United PAM	0/2
Ann Selin (until 1 September 2019)	1960	Executive Master of Business Administration	Chair, Service Union United PAM	1/2

**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 vice chair and at least one half of the members are present at the meeting. Employers and employees must both be represented at the meetings. 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 vice chair shall become the decision.

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

The Supervisory Board convened twice in 2019, and also held one meeting via e-mail.

Members of the Supervisory Board

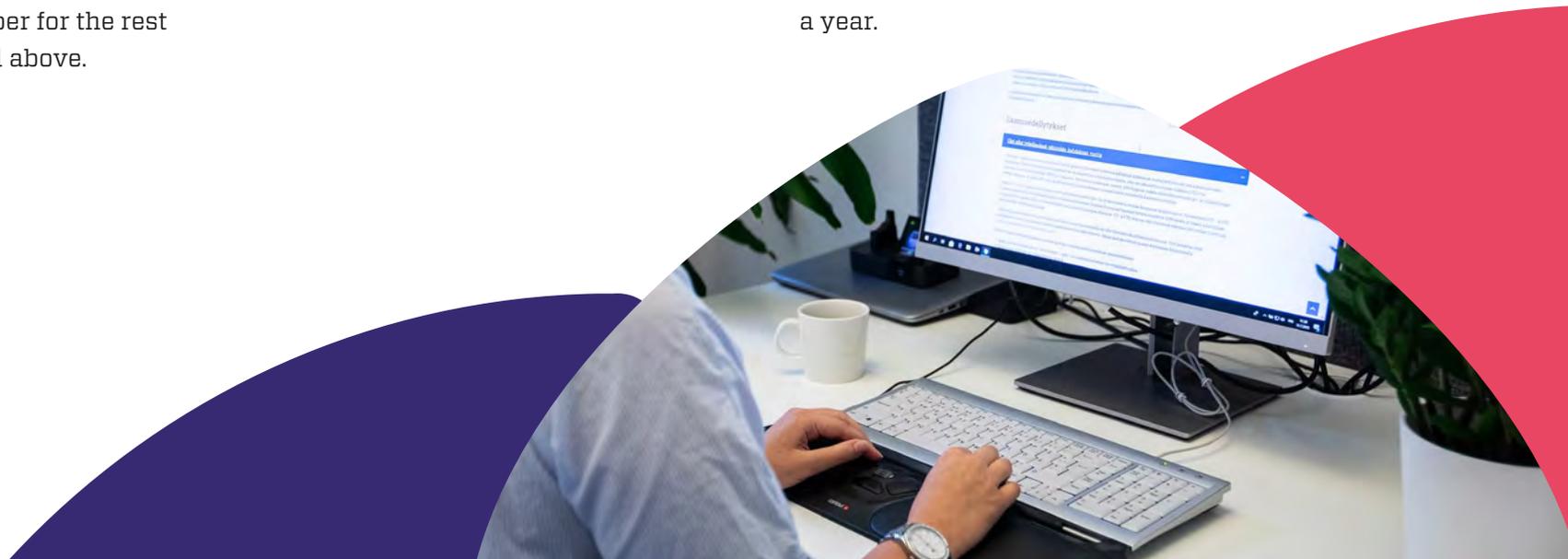
On 22 November 2017, based on the proposal of the labour market parties, the Government appointed the members of the Supervisory Board of the Unemployment Insurance Fund, which became the Employment Fund on 1 January 2019, for the term from 1 January 2018 to 31 December 2020.

BOARD OF DIRECTORS

According to the Decree on the Regulations of the Unemployment Insurance Fund (862/1998), the Employment Fund 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 vice 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 vice 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 Chair and the Vice Chair shall become the decision.

The Board of Directors is responsible for the Employment Fund's administration and the proper organisation of its operations. The Board of Directors follows the development of the Employment Fund with the help of the management's monthly reports and other information delivered by the management. The right to represent the Employment Fund 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 the Employment Fund, each alone. The main duties and operating principles of the Employment Fund'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.



**The members of the Board of Directors in 2019 were:**

Name	Year of birth	Education	Main occupation	Attendance at meetings of the Supervisory Board
Markku Jalonen (Chair)	1960	Licentiate of Social Sciences	Labour Market Director, Local Government Employers	12/12
Antti Palola (Vice Chair)	1959	Sea Captain	Chairman of the Board, Finnish Confederation of Professionals STTK	11/12
Tuomas Aarto	1973	Master of Laws trained on the bench	Director General, Service Sector Employers Palta	12/12
Sture Fjäder	1958	Master of Science (Economics and Business Administration)	President, Confederation of Unions for Professional and Managerial Staff in Finland (Akava)	6/12
Riikka Heikinheimo	1963	Doctor of Philosophy	Director, Confederation of Finnish Industries (EK)	12/12
Minna Helle	1971	Master of Laws	Director, Labour Market, Technology Industries of Finland	11/12
Jyrki Hollmén	1974	Master of Laws	Director, Chemical Industry Federation of Finland	8/12
Ilkka Kaukoranta	1986	Master of Political Sciences	Chief Economist, SAK	12/12
Ida Mielityinen	1973	Master of Political Sciences	Senior Expert, Confederation of Unions for Professional and Managerial Staff in Finland (Akava)	12/12
Katarina Murto	1971	Master of Laws trained on the bench	Director, Finnish Confederation of Professionals STTK	10/12
Jorma Palola	1954	Licentiate of Laws	Chief Negotiator, Local Government Employers	11/12
Vesa Rantahalvari	1967	Master of Administrative Sciences	Senior Expert, Confederation of Finnish Industries (EK)	12/12
Saana Siekkinen	1972	Master of Social Sciences	President, Central Organisation of Finnish Trade Unions (SAK)	11/12
Pirjo Väänänen	1971	Master's degree in Social Science from a university of applied sciences	Director, Employment, SAK	7/12

**Meeting practice and access to information**

The Chairman convenes 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.

Chair's duties

The Supervisory Board elects the Chair of the Board of Directors and the Vice Chair of the Board of Directors for one calendar year at a time. In 2019, the Chair was Markku Jalonen.

Chair 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
- maintains contact with the Managing Director and the members of the Board of Directors between the meetings, if necessary

- is responsible for ensuring that this working order is complied with in the work of the Board of Directors
- approves the invoices of the Managing Director.

Operations of the Board of Directors

The Board of Directors met 12 times in 2019. On the basis of the rules applying to the Employment Fund, 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. Since 2019, the Board of Directors has had an audit committee. The committee is not authorised to make decisions independently, but it can submit proposals and reports to the Board of Directors. The audit committee's duties include work related to preparing financial reports and internal control for the Board of Directors.

MANAGING DIRECTOR

The Employment Fund has a Managing Director who is responsible for the Fund's management in accordance with guidelines and orders issued by the Board of Directors. The Managing Director is responsible for ensuring that the Employment Fund's accounts comply 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.

The Employment Fund's Managing Director is Janne Metsämäki, LL.M. (b. 1960).



MANAGEMENT GROUP

The Management Group supports the Managing Director in leading the Employment Fund's operations and reaching the Employment Fund's strategic and operational goals. The Management Group convenes weekly.

In 2019, the members of the Management Group were:

Name	Year of birth	Education	Duties/responsibilities
Janne Metsämäki	1960	Master of Laws	Managing Director Director, Internal Services and Legal Affairs
Virpi Halme	1976	Master of Laws	Director, HR and Communications
Katja Knaapila	1966	Master of Business Administration	Director, Development and Renewal
Juho Oksanen	1978	Master of Science (Economics and Business Administration), Master of Social Sciences	Chief Financial Officer
Tapio Oksanen	1958	Master of Science (Economics and Business Administration)	Director, Customer Relations
Merli Vanala	1964	Master of Arts	

INTERNAL CONTROL AND RISK MANAGEMENT PRINCIPLES

The Employment Fund's internal control consists of all the practices and procedures that aim to give the Board of Directors and the Management a reasonable assurance of 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 implementing good governance policies at the Employment Fund. Internal control and risk management procedures are linked to the Employment Fund's corporate governance, decision-making, and strategic and operative planning.

The Employment Fund has internal control and risk management principles, which the Board of Directors decides upon. Furthermore, the Employment Fund's internal control is based on investment principles determined by the Supervisory Board, investment plans determined by the Board of Directors, (if necessary) debt servicing plans, information security principles, internal audit procedures, and the Fund's other procedures.

Objectives of internal control and risk management

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

The achievement of set objectives and the effectiveness of operations

- The Employment Fund collects and distributes the unemployment insurance contributions and liability components levied, as well as other income, effectively and in compliance with the law
- The assets held by the Employment Fund's control are well kept and managed well. 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 Employment Fund's operations and use of assets are effective in such a way that the objectives are achieved and the operations are economical, profitable and impactful
- The production of accurate and sufficient information relating to finances and operations
- Information is available about the Employment Fund's operations, finances and administration as required

for effective management, and the information is also used for management

- A true and fair view of the operations, finances, administration and effectiveness of the Employment Fund is reported to the Board of Directors and Supervisory Board

Legality and compliance of operations

The Employment Fund's activities comply with the law, the guidelines and regulations applying to the Fund, and the requirements of good governance.

Responsibilities of internal control and risk management

The Employment Fund's Board of Directors decides on the bases of internal control and risk management, and it requires that the Employment Fund's operations are organised so as to enable adequate internal control and risk management across every

level of the organisation and in all its activities.

The principles of the Employment Fund's internal control and risk management apply to all of the Employment Fund's functions, and each employee is responsible for implementing them.

The Employment Fund'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

The first line of defence consists of the Board of Directors and the Fund's Management Group. The Board of Directors is responsible for arranging internal control and risk management, and the Fund's Management Group is responsible for implementation.

Second line of defence – Compliance and Risk Control

The second line of defence consists of the independent Compliance and Risk Control functions which are responsible for developing, maintaining and monitoring the general internal control principles and the functionality of risk management in the Fund.

Third line of defence - Internal Audit

The third line of defence consists of Internal Audit, which is a separate and independent function, whose purpose is to assure that the Employment Fund'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 the Employment Fund.

Evaluation of internal control and risk management

Internal control and risk management are evaluated 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 (Enterprise Risk Management) framework.

FINANCIAL AUDIT

KPMG Oy Ab, a firm of authorised public accountants, serves as the Fund's auditor. The auditor with principal responsibility is Marcus Tötterman. The Supervisory Board decided that the auditor's fees and expenses will be paid according to the invoice approved by the Fund.

In 2019, the auditor's auditing fees amounted to EUR 76,298, and other remuneration was EUR 21,533.

PRINCIPLES OF ORGANISING INSIDER ADMINISTRATION

In 2015, the Unemployment Insurance Fund issued two bonds, worth EUR 600 million and EUR 300 million. When it issued these bonds, the Unemployment Insurance Fund – known as the Employment Fund since 1 January 2019 – fulfilled the requirements laid down in insider legislation, including the provisions applicable to issuers of bonds in the Market Abuse Regulation (MAR), which entered into force in summer 2016. The principles and guidelines on insider administration have been approved by the Employment Fund's Board of Directors. Since September 2019, the Employment Fund has not had any publicly quoted bonds in circulation.



CONTROL ENVIRONMENT

The Employment Fund's Managing Director and the Management Group are the most senior 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 Employment Fund always aims to give a true and fair view of its financial position whenever it releases financial information.

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

The Employment Fund'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.

The Employment Fund regularly receives 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 the Employment Fund and the Government.

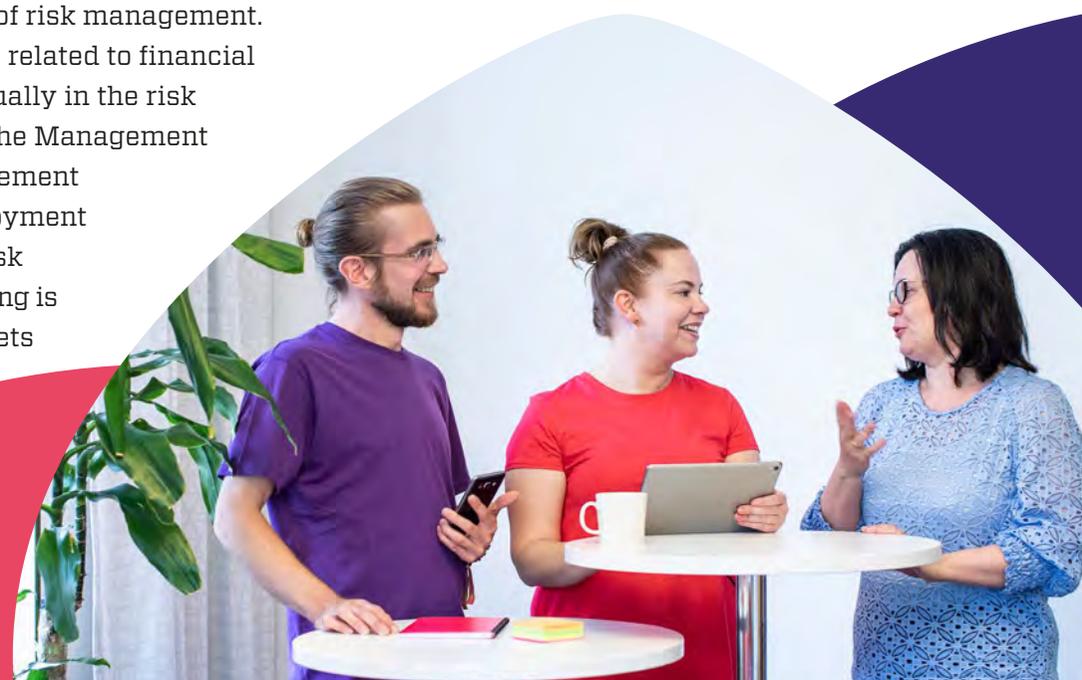
The finance department maintains the financial management systems and communicates the principles related to the financial statements and the report of the Board of Directors.

Risk management related to financial reporting

The Employment Fund constantly maintains an overview of the status of risk management. The most significant risks related to financial reporting are defined annually in the risk assessment prepared by the Management Group and the risk management working group. The Employment Fund'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 the Employment Fund is able to meet its commitments. The Fund prepared a budget by the end of August preceding the year under review. 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 the Fund, the Ministry of Finance, research organisations and banks.



Differences between the annual income in the budget and the financial statements are considered significant risks, and the amount in recent years has averaged 5% of the Employment Fund'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.

The Employment Fund aims to secure liquidity by allocating assets to such

investments, which are efficiently realisable without a significant risk related to the market value or return on 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 Employment Fund 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, reports are

prepared for Management and the Board of Directors monthly.

Every month, the Employment Fund's Board of Directors monitors and controls the Employment Fund's income, net position, compliance with the investment plan and debt financing through reports prepared by the finance department.



Every month, the Board of Directors monitors and controls the Employment Fund's income, net position, compliance with the investment plan and debt financing.





Remuneration report

The Employment Fund's remuneration report for 2019 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 2019.

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 the Unemployment Insurance Fund'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, vice chair and other members EUR 140 per meeting.

The Supervisory Board convened twice in 2019, and also held one meeting via e-mail. No fee is payable for the email meeting.





In 2019, the fees for the members of the Supervisory Board were paid as follows:

Name	Meeting fee of members of the Supervisory Board	Monthly fee of Chairman of the Supervisory Board	Travel expenses	31 December 2019 Total (EUR)
Aalto Riku (Chair)	460	1,440		1,900
Zitting Antti (Vice Chair)	140		43.00	183
Asara-Laaksonen Teija	140			140
Haapanen Jorma	280		291.70	572
Jokinen Jari	280			280
Kekäle Tauno	0			0
Korpiniemi Antti	280			280
Lievonen Kirsi-Marja	0		54.20	54
Lindroos Petri	140			140
Luomanmäki Salla	280			280
Malinen Jorma	0			0
Mettälä Matti	280			280
Niiranen Taina	280		274.47	554
Nikula Olli	280			280
Ojanperä Harri	280			280
Paavola Silja	280			280
Rytkönen Millariikka	140			140
Rönni-Sällinen Annika	0			0
Selin Ann	140			140
Total	3,680	1,440	663	5,783



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

	Fee EUR per month	Fee EUR per meeting
Chair of the Board	730	270
Vice Chair of the Board of Directors	575	165
Other members of the Board of Directors	330	125

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

In 2019, the Board of Directors convened 12 times (and held one strategy seminar).

In 2019, the fees for the members of the Board of Directors were paid as follows:

Name	Annual fees	Meeting fees	31 December 2019 Total (EUR)
Jalonen Markku (Chair)	8,760	3,240	12,000
Palola Antti (Vice Chair)	6,900	1,815	8,715
Aarto Tuomas	3,960	1,500	5,460
Fjäder Sture	3,960	750	4,710
Heikinheimo Riikka	3,960	1,500	5,460
Helle Minna	3,960	1,375	5,335
Hollmén Jyrki	3,960	1,000	4,960
Kaukoranta Ilkka	3,960	1,500	5,460
Mielityinen Ida	3,960	1,500	5,460
Murto Katarina	3,960	1,250	5,210
Palola Jorma	3,960	1,375	5,335
Rantahalvari Vesa	3,960	1,500	5,460
Saana Siekkinen	3,960	1,375	5,335
Väänänen Pirjo	3,960	875	4,835
Total	63,180	20,555	83,735

The fees for the audit committee were EUR 270 per meeting for the chair and EUR 125 per meeting for members.

In 2019, the audit committee convened three times.



In 2019, the fees for the members of the audit committee were paid as follows:

Name	Meeting fees for the audit committee	31 December 2019 Total (EUR)	Attendance at meetings of the audit committee
Mielityinen Ida (Chair)	810	810	3/3
Helle Minna (Vice Chair)	250	250	2/3
Kaukoranta Ilkka	375	375	3/3
Palola Jorma	375	375	3/3
Total	1,810	1,810	

REMUNERATION SCHEME FOR THE MANAGING DIRECTOR AND MANAGEMENT GROUP

As of 2016, a separate remuneration scheme 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 2019 are shown in the following table. Social security contributions are excluded.

Position	Salary and fringe benefits	Variable performance-related bonus	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Managing Director	156,251	14,535	170,786	157,610
Management Group	523,328	22,647	545,975	432,374
Total	679,579	37,182	716,761	589,985

TERMS OF EMPLOYMENT 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 are based on general employment pension legislation. The Fund has not provided a supplementary pension arrangement for the Managing Director.

The Managing Director's notice period is based on the Employment Contracts Act for both parties.



Financial statements



Financial Statements (IFRS)

Statement of changes in net position

EUR	Note	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Contributions collected			
Unemployment insurance contributions	5	3,344,591,850	3,800,919,963
Total contributions collected		3,344,591,850	3,800,919,963
Benefits paid			
Benefit payments	6	-2,640,205,885	-2,909,120,555
Administrative expenses	7	-18,584,627	-12,582,164
Total benefits paid		-2,658,790,513	-2,921,702,719
Net fair value gains/losses on investments	14	9,960,271	-2,582,972
Financing costs	8	-1,608,950	-4,499,178
CHANGE IN NET POSITION		694,152,659	872,135,094



Statement of net position

EUR	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,098,672	298,579
Intangible assets	10	7,015,268	6,407,896
Other receivables	12	328,038	328,038
Total non-current assets		9,441,978	7,034,513
Current assets			
Unemployment insurance contribution receivables	11	7,793,747	14,375,712
Accruals of unemployment insurance contributions	11	629,329,043	0
Other receivables	12	78,686,902	90,549,480
Investments	15	855,522,828	1,158,436,059
Cash and cash equivalents	16	164,299,747	416,757,606
Total current assets		1,736,632,267	1,680,118,858
Total assets		1,745,074,245	1,687,153,371
For previous periods		969,303,405	106,361,539
IFRS 9 adjustment, 1 Jan 2018		0	-9,193,228
Net position of the Education Fund, 1 Jan 2019		4,117,672	0
For the period		694,152,659	872,135,094
NET POSITION		1,667,573,736	969,303,405

EUR	Note	31 Dec 2019	31 Dec 2018
LIABILITIES			
Current liabilities			
Borrowing	17	0	599,329,140
Unemployment insurance contribution liabilities	11	5,110,010	2,395,459
Other liabilities	18	72,390,499	116,125,367
Total current liabilities		77,500,510	717,849,966
Total liabilities		77,500,510	717,849,966
Total net position and liabilities		1,745,074,245	1,687,153,371

**Cash flow statement**

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Unemployment insurance contributions collected	2,785,410,648	3,703,168,448
Benefits paid	-2,708,401,866	-2,902,122,123
Interest paid	8,461,329	-8,789,081
Net cash and cash equivalent used in ordinary operations	85,470,111	792,257,244
Cash flows from investing activities		
Purchases of property, plant and equipment	0	-538,698
Proceeds from the sale of property, plant and equipment	0	200
Purchases of intangible assets	-2,157,822	-3,522,569
Investments in financial instruments	-3,905,455,948	-3,181,476,562
Sales of investment instruments	4,173,272,979	2,877,702,591
Other non-current assets	0	328,038
Net cash and cash equivalents generated from investments	265,659,208	-307,507,000
Loans withdrawn and repaid	-603,587,179	-300,000,000
Net cash and cash equivalents generated from financing activities	-603,587,179	-300,000,000
Net increase/decrease in cash and cash equivalents	-252,457,860	184,750,244
Cash and cash equivalents at the beginning of the financial period	416,757,606	232,007,361
Cash and cash equivalents at the end of the financial period	164,299,747	416,757,606



Notes to the financial statements

Accounting policies of the financial statements

1. GENERAL INFORMATION

The Employment Fund (“the Fund”) (business ID 1098099-7), established in 2019, 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 objectives are to finance unemployment benefits and grant adult education 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 Employment 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 AND COMPARABILITY OF FINANCIAL PERIODS

2.1 Basis of preparation

The Employment Fund’s financial statements 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 2019. 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 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.

The Employment Fund collects and pays unemployment insurance contributions. The Fund 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 the Fund’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 the Employment Fund, or the basis for recognition and measurement of transactions. The Employment Fund applied the framework of IFRS standards and general principles for recognition and measurement when it prepared its IFRS financial statements. Due to these



factors, the primary statements of the Fund'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 4.2](#). The Employment Fund 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 presented financial periods, the Fund did not have 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. The Employment Fund 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](#).

Business cycle buffer

In order to ensure liquidity and balance out changes in unemployment insurance contributions due to foreseeable economic fluctuations in the national economy, the Employment 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 the Employment Fund'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.

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, liability component receivables, ECA receivables, benefit receivables and interest 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 receivables by the expected proportion of loss. Changes to expected credit losses are recognised through profit and loss.

The Employment Fund has adopted IFRS 16, Leases, published by the International Accounting Standards Board. IFRS 16 has been applied since 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 the Employment Fund will apply, and the related payments will be recognised as expenses in the income statement.

The Employment Fund 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.

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 Employment Fund.

2.2 Foreign currency translation

The financial statements are prepared in euros which is the Employment Fund's functional and presentation currency. The Fund's foreign currency transactions are translated into the operating currency at the exchange rates prevailing on the transaction dates. 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 Employment Fund determines and collects the unemployment insurance contributions based on chapter 7 of the Act on the Financing of Unemployment Benefits. Employers have reported the salaries they have paid to employees on the Incomes Register since 1 January 2019. The unemployment insurance contributions have been assessed on the basis of the income information reported to the Incomes Register. At the same time, the contributions have been assessed using more up-to-date information about the actual payroll sums. Unemployment insurance contributions are assessed four times per year based on the payroll information for the three preceding calendar months. Unemployment insurance contribution income is recognised in the financial statements on an accrual basis, and the unemployment insurance income for the final quarter of the year is recognised in the balance sheet under pre-payments and accrued income.

The Fund uses a model based on actual payments, although a small share of the Fund's customers use the prepayment model, previously used for all customers, where



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. The prepayments are invoiced in four equal instalments throughout the year.

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 contributions have not been paid in advance, prepayments of unemployment insurance contributions are taken into consideration in the financial statements. Almost all employers with a duty to pay contributions switched to the actual payments model at the beginning of 2019, while 60-70 employers continued using the prepayment model in 2020.

Liability components of employers' unemployment allowances

The Employment Fund assesses 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 2,125,500 (in 2020). An employer may be obligated to pay the employer's liability component if it has dismissed or laid off an elderly employee whose 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 components.

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

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

According to the Employment Contracts Act, when a court of law handles a reconciliation matter, it must provide the Employment Fund with the opportunity to be heard. 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 wrongful termination of employment. The court must order the employer to pay the amount deducted from the compensation to the Employment Fund and inform it of the final judgment or ruling on the case. The payment of the deduction to the Fund shall also take place when the employer and employee reach a settlement on the compensation payable for wrongful termination of employment.

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. As the receivables do not include any significant financial components, the Fund has used the simplified model permitted by IFRS 9.

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 Employment

Fund is liable for the costs incurred from unemployment allowances, employment promotion measures and from job alternation compensation, insofar as the state or individual unemployment funds are not liable for these. The above-mentioned benefits are paid from the unemployment funds.

In addition, the Employment 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 Employment Fund is tasked with processing prepayment applications and payment decisions and monitoring the sufficiency of prepayments. 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 2019, the Ministry of Social Affairs and Health paid the government contributions to the Fund as fixed monthly prepayments, unless otherwise proposed by the Employment 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 Employment 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 way the higher income earnings-related unemployment allowances are calculated was changed so that the level of allowances decreased slightly. 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 Employment 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).

The Fund's Board of Directors decided that no equalisation payments would be made for employee fund membership fees in 2018, as per section 19a of the Act on Unemployment Funds. In June 2019, the central labour market organisations proposed to the State that when the Act on Unemployment Funds is reformed, the provisions should be amended so that unemployment insurance contributions are not used for membership fee equalisation payments.

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

The Employment Fund's second-largest expense has been the contribution paid to the Finnish Centre for Pensions to cover the pension 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 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 Employment 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 makes an annual prepayment to Kela 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 Statistic Finland, and the estimate is confirmed by the Ministry of Social Affairs and Health. The final amount of the payment is based on a calculation prepared by the Ministry of Social Affairs and Health of the amount of benefits financed in this manner paid by Kela during the financial period.

Adult education benefits

The Employment Fund grants and pays adult education benefits and scholarships for qualified employees in accordance with the Act on Adult Education Benefits (1276/2000). The Employment Fund is also responsible for financing the adult education allowances

for employees and scholarships for qualified employees working for employers other than the State. The State is responsible for financing adult education allowances for entrepreneurs and scholarships for qualified employees working for the State. The responsibility for financing is stipulated in section 30 of the Act on Adult Education Benefits.

Financing of pay security

Under section 31 of the Pay Security Act (866/1998), the Employment 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 Employment 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 compensation laid down in paragraphs 6 and 7 of Article 65, incurred from unemployment allowance paid to the members of unemployment funds.

The Fund applies for compensation from Member States depending on how unemployment funds have paid unemployment allowances to those who have been working in other Member State. In turn, Member States apply for compensation from the Employment 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

In addition, the Employment Fund manages employers' training compensation. 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

organise training for its employees, to develop their vocational competence.

Training compensation can be received for a maximum of three training days per employee annually. The financing of training compensation has been designated, so that each calendar year, the Ministry of Finance pays the amount that the Fund has refunded to employers in the form of training compensation based on an application from the Employment Fund.

Pensions and employee benefits

The Employment 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 recognised 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 expenditure 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 asset's fair value less the costs of disposal or the value in use, whichever is higher. 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 the 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

The Employment 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 did not have a material impact on the Fund's financial statements. Classification and valuation of the Employment Fund's financial assets. In general, all of the Fund's investments are recognised at fair value through profit or loss because the Fund must only have liquid investment assets. The investment principles and investment plan emphasise the liquidity of investments in all market scenarios.

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.

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.

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.

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.

The Employment Fund's financial assets consist of investments and cash and cash equivalents. At the date of acquisition, the management of the 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 presented in the statement of net position as current assets unless the maturity is over 12 months and the management intends to dispose of it more than 12 months after 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 income from investments". All interest and dividend income from investments is included in net income from investments.

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 and recoverable benefits.



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, liability component receivables, ECA receivables, benefit receivables and interest 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 receivables by the expected proportion of loss. Changes to expected credit losses are recognised through profit and loss.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred to another party such 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.

Borrowing

Borrowings are recognised 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 recognised as transaction costs of the loan to the extent that it is probable that some or all facility will be withdrawn. In this case, the fee is deferred and recognised in the statement of net position until the loan is withdrawn. To the extent there is no evidence that it is probable that some or all of loans of the facility will be withdrawn, 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

IFRS 16 Leases

The EU's adopted standard is applied to the financial period from 1 January 2019 to 31 December 2019. IFRS 16 specifies the requirements concerning recognition, valuation and information to be presented in the financial statements. The standard introduces a single lessee accounting model. In principle, all leases with a term of more than one year are recognised in the balance sheet, unless the underlying asset

is of low value. On the first day of the lease, the lessee recognises a liability for its obligation to make lease payments (i.e., a lease liability) and an asset item for its right to use the asset (i.e., a fixed asset item). The lessee must recognise interest expenses on the liability and planned depreciation on the asset item. In addition, the lessee must redefine the amount of the lease liability in conjunction with certain events (such as a change in the term of the lease or changes to the lease payments due to index adjustments). The Fund has adopted IFRS 16 using the simplified approach, whereby comparison data is not adjusted. The Fund uses the transition relief permitted by IFRS 16 with regard to short-term leases (with terms of less than 12 months) and leases of low-value assets. The Fund has conducted a detailed analysis of the impacts of IFRS 16. The following is a summary of the impacts of adopting IFRS 16 in 2019:

- The balance sheet total on 1 January 2019 increased by approximately EUR 3,257,196 due to the recognition of lease liabilities and right-of-use assets in the balance sheet.
- The lease liability for right-of-use assets on 31 December 2019 is EUR 1,920,017.
- Operating profit increased as a consequence of the recognition of interest expenditure.
- The amount of planned depreciation increased significantly, and the amount of



lease expenditure decreased significantly in a corresponding amount.

- Cash flows between items on the cash flow statement were reclassified as the share applying to the lease principal will be recognised under cash flow from financing activities in the future.

2.10 Comparability of financial periods

The Education Fund

The Education Fund and the Unemployment Insurance Fund were merged to form the Employment Fund on 1 January 2019. Previously, the Unemployment Insurance Fund financed a large part of the Education Fund's expenses as a separate outward payment item. Since the merger, the expenses of the old Education Fund are now internal expenses of the Employment Fund. The amount paid out by the Fund in benefits has not changed significantly. Conversely, the administrative expenses of the Education Fund, which amounted to EUR 4.35 million in the financial period that ended on 31 December 2018, are now recognised among the Employment Fund's administrative expenses.

Transitioning to the actual earnings model for unemployment insurance contributions

The large-scale transition from the payroll total prepayment model to quarterly calculations of unemployment insurance contributions based on the actual payroll sum has had a non-recurring impact on the income from unemployment insurance contributions: the adjustment income, which in previous years had been allocated to the preceding insurance year, is not recognised as income in the same financial period. The new model based on actual earnings means that the actual income and the adjustment income allocated to previous years has been recognised in the financial period from 1 January 2019 to 31 December 2019. The share for 2018 is EUR 159.0 million, and the share for 2017 is EUR 0.2 million.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the management to make estimates and assumptions that have affected the income, expenses, assets and liabilities presented in the financial statements. Judgement is also needed 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 about the future that are most probable on 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 Employment 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 a sufficient level where all projected expenses could be covered with the insurance contributions. The unemployment insurance contributions (contribution rates) 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 2019, the forecast deviation was above average.

If necessary, 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 a 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 the factors mentioned above.

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 in activities from which it may earn revenues and incur expenses
- B. whose operating results are regularly reviewed by the entity's most senior executive 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 the most senior executive decision-maker is to allocate resources to and assess the performance of the operating segments of an entity.

The Employment Fund is tasked with collecting unemployment insurance contributions, the level of which has been determined by public authorities. The Fund pays the collected contributions onwards, mainly to unemployment funds.

The Employment Fund uses the collected contributions for conservative investment activities in order to cover the benefit payments. The Fund also covers any deficits it incurs with loan financing.

The Employment Fund is a non-profit, government-affiliated fund. The management 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. The Fund's management does not actually allocate resources to the entity's activities or review the effectiveness of operations.

For these reasons, the Employment Fund'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 the Fund's operations, nature of the operating environment and financial effects. According to the Employment Fund's management, the nature of the Fund's operations and operating environment and the financial impacts 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 Employment 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 Employment Fund's financial risks relate mainly to investments, and they comprise market risk, credit and counterparty risk and liquidity risk. Investments are diversified in accordance with the investment principles confirmed by the Supervisory Board across various asset classes so as to reduce financial risks. Risk limits are set to such a level that their realisation would not result in the Fund incurring losses that would give rise to pressures to increase the level of contributions. 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. The investments are itemised in [note 14](#), along with their fair values by asset class.

4.1 Financial risk factors

Market risk

The Board of Directors monitors the market risk of the investment portfolio of the Employment Fund monthly, 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 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. In 2019, the risk indicator was 25% (25%) for equity investments, 4–7% (4–7%) for bond investments, 10% (0%) for alternative investments, 1% (1%) for money-market investments, and 0.5% (1%) for bank deposits. On 31 December 2019 and 31 December 2018, the market risks were as follows:

31 Dec 2019	Risk (%)	Capital (EUR)	Risk (EUR)
Bank deposits	0.50%	164,295,041	821,475
Money market	1.00%	281,733,574	2,817,336
State and municipal bonds	4.00%	162,377,561	6,495,102
Bank bonds	4.50%	259,950,276	11,697,762
Corporate bonds	5.00%	113,704,273	5,685,214
Shares	25.00%	17,740,632	4,435,158
Total risk	3.33%	1,019,286,554	33,900,567

31 Dec 2018	Risk (%)	Capital (EUR)	Risk (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
Shares	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



The total risk was 3.33% (2.73%) of the Fund's assets and 1.0% (1.1%) of the Fund's income in 2019. 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 Fund's investment portfolio is dominated by fixed-income investments (money market investments and bonds). The Fund may make investments directly, or indirectly through investment funds. On the balance sheet date, 13.4% (9.3%) of investments were indirect.

All money market investments carry variable interest rates, while 24% (29%) of the bonds were at variable rates. Variable-rate investments expose the Fund to a cash flow interest rate risk, while investments at fixed rates expose the Fund to a 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 5,182,005 (EUR 7,272,962) 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 5,183,298 (EUR 7,274,941) 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 banks in the Nordic and OECD countries which have high credit ratings, best rated states (Finland, Germany, Holland and Sweden, France, Belgium, Austria), companies in Finland and OECD countries, and Finnish municipalities. Cash and cash equivalents are only held at banks with high credit ratings.

The Fund may make investments in funds with average credit ratings of BBB+ (BBB+) (S&P) or Baa1 (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 the Employment Fund's fixed-income investments and creditworthiness by group. The figures are expressed in thousands of euros.

Investments distributed by the issuer's rating (EUR thousand)*	31 Dec 2019	31 Dec 2019 (%)	31 Dec 2018	31 Dec 2018 (%)
AAA	29,834	3.0%	75,912	5.0%
AA+	149,966	14.9%	181,184	11.9%
AA	48,930	4.9%	2,018	0.1%
AA-	333,753	33.3%	699,970	45.8%
A+	38,075	3.8%	37,677	2.5%
A	22,447	2.2%	17,705	1.2%
A-	95,344	9.5%	130,568	8.5%
BBB+	62,096	6.2%	87,534	5.7%
BBB	103,345	10.3%	110,563	7.2%
BBB-	29,326	2.9%	42,653	2.8%
BB+	2,357	0.2%	935	0.1%
BB	-	0%	12,106	0.8%
BB-	2,999	0.3%	2,994	0.2%
B+	0	0%	0	0%
B	6,410	0.6%	0	0%
NR	78,436	7.8%	126,716	8.3%
Total	1,003,319	100%	1,528,537	100%

* The Fund's investments in bonds mainly consist of state and bank bonds. Their creditworthiness has been determined using the S&P credit rating. Most of the banks that the Fund has invested in have good credit ratings. However, not every regional bank and company has an official credit rating, so the credit quality of these entities is determined using credit ratings received from a third party.

The Employment Fund's investment portfolio is highly 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 were spread among 90 corporations on 31 December 2019, which corresponds to 20% of all fixed-income investments (93 corporations on 31 December 2018; 22.1% 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. The 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 (2018: BBB) (S&P). Counterparty risk is managed so that the Employment 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.

EUR million		
Committed credit facilities, not in use	31 Dec 2019	31 Dec 2018
Facilities expiring within a year		
RCF (State guarantee)	400	400
Facilities expiring after a year		
RCF (State guarantee)	-	-
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, if necessary. At the end of 2019, the Fund had no loans outstanding.



The Fund has the following issuance credit ratings, confirmed by Standard & Poor's (25 September 2019):

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

At the end of 2019, 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 17](#). The fixed interest rate periods for loans in the statement of net position were as follows. Amounts are in EUR millions. The liabilities for securities under settlement will mature within a couple of days of the reporting date.

Loan	Nominal value, 31 Dec 2019	Fixed interest rate period in years, 31 Dec 2019	Credit rating
Commercial paper	0	0	NR
Credit facilities	-	-	-
Total	0	0	

Loan	Nominal value, 31 Dec 2018	Fixed interest rate period in years, 31 Dec 2018	Credit rating
Employment Fund bond 2019	600	0.73	AA+/S&P
Commercial papers	0	0	NR
Credit facilities	-	-	-
Total	600	0.73	



The following tables show the Employment Fund's financial liabilities by group based on the maturities of outstanding contracts.

Maturities based on contracts of financial liabilities (EUR thousand) 31 Dec 2019	Under 6 months	6-12 months	1-3 years	4-5 years	Total cash flow based on contracts	Book value assets (-)/liabilities
Accounts payable	382	0	0	0	382	382
Borrowing	0					
Liabilities associated with right-of-use assets	619	619	682	0	1,920	1,920
Total	1,001	619	682	0	2,302	2,302

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	578	602,250	0	0	602,828	599,907

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.

Evaluation of the corporate responsibility of the investment portfolio

A corporate responsibility assessment of the investment portfolio was conducted to reflect the status on 31 December 2019. 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.

4.2 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 Employment Fund maintains a business cycle buffer that accrues on the basis of the difference between the Fund's income and expenses. In 2019, 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.

The maximum amount of the buffer is calculated by dividing the Employment 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 2019	31 Dec 2018
Business cycle buffer	1,668	969
Maximum amount of buffer	2,062	2,049
Minimum amount of buffer	-2,062	-2,049

**5 UNEMPLOYMENT INSURANCE CONTRIBUTIONS**

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Employer's unemployment insurance contributions		
Employer's insurance contributions	1,234,632,797	1,452,844,092
Employer's insurance contributions, co-owners	2,415,620	4,308,147
Total	1,237,048,417	1,457,152,239
Employees' unemployment insurance contributions		
Employee's insurance contributions	1,374,385,062	1,511,222,547
Employees' insurance contributions, co-owners	3,883,709	6,269,622
Total	1,378,268,772	1,517,492,170
Interest on overdue contribution and collection fee income		
Interest on overdue employer contributions	594,483	819,719
Interest on overdue employee contributions	756,334	1,019,319
Collection fee income	482,951	537,922
Total	1,833,767	2,376,961
Liability components of employers' unemployment allowances		
Liability components	21,975,355	34,993,257
Accruals	17,299,236	14,485,963
Total	39,274,592	49,479,220
Compensation in accordance with the Employment Contracts Act (ECA)		
Compensation and lay-off income according to the ECA	1,012,262	1,136,220
Settlement to the Ministry of Social Affairs and Health	-467,403	-570,675
Substitute payer's component ECA	0	-1,904
Total	544,860	563,642
Contributions from the Ministry of Social Affairs and Health		
Earnings-related unemployment allowance	674,060,726	764,228,240
Job alternation compensation	11,240,931	11,586,152
Previous year's equalisation payment	97,727	-1,958,660
Labour market training benefit	2,222,059	0
Total	687,621,443	773,855,731
Total unemployment insurance contributions	3,344,591,850	3,800,919,963



6 BENEFIT PAYMENTS

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Subsidies paid to unemployment funds (Employment Fund)		
Other earnings-related unemployment allowance	-663,135,857	-738,106,162
Additional days of allowance	-120,744,107	-159,708,257
Lay-off allowance	-146,571,923	-142,148,163
Job alternation compensation	-14,912,842	-14,800,150
Compensation for administrative expenses	-9,536,667	-10,582,013
Membership fee equalisation	0	-4,693,963
Equalisation payment for the previous year	936,286	1,945,606
Total	-953,965,110	-1,068,093,101
Subsidies paid to unemployment funds (Ministry of Social Affairs and Health)		
Other earnings-related unemployment allowance	-660,000,377	-747,241,026
Job alternation compensation	-11,240,931	-11,586,152
Unemployment allowance (entrepreneurs)	-6,491,130	-7,881,942
Compensation for administrative expenses	-7,569,218	-9,105,272
Equalisation payment for the previous year	-97,727	1,084,864
Total	-685,399,384	-773,855,731
Finnish Centre for Pensions		
Equalisation payment for the previous year	-10,379,281	0
Payment for the current financial period	-566,300,000	-620,000,000
Total	-576,679,281	-620,000,000
State Pension Fund		
Equalisation payment for the previous year	2,051,160	0
Payment for the current financial period	-9,770,000	-11,949,727
Total	-7,718,840	-11,949,727

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Social Insurance Institution of Finland (Kela)		
Equalisation payment for the previous year	-28,478	459
Basic allowance, additional component, employment programme additional benefit	-205,702,822	-228,100,000
Total	-205,731,301	-228,099,541
Adult education benefits*		
	-187,137,344	-187,289,504
Ministry of Economic Affairs and Employment		
Equalisation payment for the previous year	-17,980	-245,340
Payment for the current financial period	-23,571,873	-19,513,485
Total	-23,589,853	-19,758,826
Member State invoicing for unemployment allowances		
Invoiced by Member State	-44,343	-114,426
Invoiced by the Fund	59,570	40,819
Total	15,226	-74,006
Administrative compensation paid to insurance companies		
Administrative and supervisory compensation	0	-120
Total	0	-120
Total benefit payments	-2,640,205,885	-2,909,120,555

* 2019:

adult education allowances	EUR 176,363,882
scholarships for qualified employees	EUR 10,539,462

**7 ADMINISTRATIVE EXPENSES**

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Personnel expenses		
Salaries, bonuses and benefits	-6,784,421	-4,968,155
Pension expenses – defined contribution plans	-1,216,644	-910,515
Social security expenses	-146,448	-177,948
Total	-8,147,513	-6,056,618
Personnel expenses, management salaries and bonuses		
Management Group (excl. Managing Director)	-587,447	-438,112
Managing Director	-167,349	-152,195
Board of Directors and Supervisory Board	-90,385	-91,940
Pension expenses – defined contribution plans	-143,976	-118,479
Total	-989,157	-800,726
Other administrative expenses		
IT expenses	-1,992,432	-1,343,645
Other personnel expenses	-964,709	-666,233
Expenses for office premises	-208,155	-1,121,393
Office expenses	-1,646,969	-1,595,223
Other expenses	-2,058,060	-1,252,471
Amortisation	-3,602,722	-681,324
Other income	133,764	188,272
Total	-10,339,285	-6,472,017
Auditor's fee		
Statutory audit	-76,298	-53,529
Other fees	-21,533	0
Total	-97,830	-53,529
Total administrative expenses	-18,584,627	-12,582,164

Number of personnel	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Employees		
Full-time employees	131	90
Part-time and temporary employees	31	27
Total	162	117

**8 FINANCIAL EXPENSES**

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Loan financing expenses		
Revolving credit facility fees	-276,609	-538,157
Interest expenses from loans	-2,236,746	-3,961,021
Total	-2,513,355	-4,449,178
Total financial expenses	-2,513,355	-4,499,178

**9 PROPERTY, PLANT AND EQUIPMENT**

EUR	Renovation of office premises	Machinery and equipment	IFRS 16 Right-of-use asset	Total
Acquisition cost, 1 Jan 2019	1,012,928	1,740,697	3,257,196	6,010,821
Additions	0	0	0	0
Acquisition cost, 31 Dec 2019	1,012,928	1,740,697	3,257,196	6,010,821
Accumulated depreciation, 1 Jan 2019	985,822	1,469,224	0	2,455,046
Depreciation for the period	27,106	128,168	1,301,829	1,457,103
Accumulated depreciation, 31 Dec 2019	1,012,928	1,597,392	1,301,829	3,912,149
Carrying value, 1 Jan 2019	27,106	271,473	0	298,579
Carrying value, 31 Dec 2019	0	143,305	1,955,367	2,098,672

EUR	Renovation of office premises	Machinery and equipment	IFRS 16 Right-of-use asset	Total
Acquisition cost, 1 Jan 2018	1,012,928	1,471,348	0	2,484,276
Additions	0	269,349	0	269,349
Acquisition cost, 31 Dec 2018	1,012,928	1,740,697	0	2,753,625
Accumulated depreciation, 1 Jan 2018	877,390	1,294,655	0	2,172,045
Depreciation for the period	108,432	174,569	0	283,001
Accumulated depreciation, 31 Dec 2018	985,822	1,469,224	0	2,455,046
Carrying value, 1 Jan 2018	135,538	176,693	0	312,231
Carrying value, 31 Dec 2018	27,106	271,473	0	298,579

**10 INTANGIBLE ASSETS**

EUR	Computer software	Software development expenses	Intangible assets in progress*	Total
Acquisition cost, 1 Jan 2019	772,263	1,998,672	5,837,829	8,608,764
Additions	14,800	6,163,345	2,738,111	8,916,336
Decreases	0	0	-6,163,345	-6,163,345
Acquisition cost, 31 Dec 2019	787,143	8,162,017	2,412,595	11,361,755
Accumulated depreciation, 1 Jan 2019	689,067	1,511,801	0	2,200,867
Depreciation for the period	54,201	2,091,419	0	2,145,620
Accumulated depreciation, 31 Dec 2019	743,268	3,603,220	0	4,346,487
Carrying value, 1 Jan 2019	83,197	486,872	5,837,829	6,407,898
Carrying value, 31 Dec 2019	43,876	4,558,798	2,412,595	7,015,268
Acquisition cost, 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	8,608,767
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	486,872	5,837,829	6,407,898

* The item, "Intangible assets in progress", consists of capitalised development costs, giving rise to an internally generated intangible asset. The capitalised development expenditure for 2019 mainly consists of renewing the insurance and accounts ledger information system for unemployment insurance contributions.

**11 RECEIVABLES AND PAYABLES FROM UNEMPLOYMENT INSURANCE CONTRIBUTIONS**

Unemployment insurance contribution receivables (figures include credit losses) EUR	31 Dec 2019	31 Dec 2018
Employer's unemployment insurance contribution receivables	1,836,216	5,432,479
Employee's unemployment insurance contribution receivables	5,074,891	8,536,766
Overdue contribution and collection fee receivables	855,640	406,467
Deferred unemployment insurance contribution receivables	629,329,043	0
Total unemployment insurance contribution receivables	637,122,791	14,375,712
Unemployment insurance contribution liabilities	31 Dec 2019	31 Dec 2018
Prepayments	313,747	1,447,016
Refunds	4,796,263	948,443
Total unemployment insurance contribution payables	5,110,010	2,395,459

11.1 THE UNEMPLOYMENT INSURANCE CONTRIBUTIONS AND BENEFITS FOR RECOVERY INCLUDE ANTICIPATED CREDIT LOSSES

The model for forecasting anticipated credit losses is based on analysed historical data on the debtor's payment behaviour. Separate forecasting models have been created for each type of receivable.

EUR	Employers' unemployment insurance contributions	Employees' unemployment insurance contributions	Unemployment insurance contribution collection and delay sanctions	Benefits to be recovered	Total
1 Jan 2019	-1,128,638	-3,348,877	0	-1,792,941	-6,270,456
Change	-1,781,774	-484,830	-149,548	-101,521	-2,517,673
31 Dec 2019	-2,910,412	-3,833,707	-149,548	-1,894,462	-8,788,129
1 Jan 2018	0	0	0	0	0
Change	-1,128,638	-3,348,877	0	0	-4,477,515
31 Dec 2018	-1,128,638	-3,348,877	0	0	-4,477,515

Changes in the anticipated credit losses for the financial period are recognised in the income statement as follows:

- The change in credit losses on unemployment insurance contributions of EUR 2,416,152 (EUR 4,477,515 in 2018) is recognised in the income statement on the line, "Unemployment insurance contribution"
- The change in credit losses on education allowances of EUR 1,894,462 (EUR 0 in 2018) is recognised in the income statement on the line, "Benefit payments"



12 OTHER RECEIVABLES

Non-current other receivables (EUR)	31 Dec 2019	31 Dec 2018
Other receivables (rental deposit)	328,038	328,038
Total non-current other receivables	328,038	328,038

Current other receivables (EUR)	31 Dec 2019	31 Dec 2018
Prepayments and accrued income	806,613	119,917
Receivables from unemployment funds	38,856,030	19,086,517
Finnish Centre for Pensions capital accruals	3,100,000	0
Finnish Centre for Pensions compensatory interest	784,447	9,759,814
Receivables from the Education Fund	0	18,578,159
Receivables from the Government related to training compensation	11,958,295	84,222
Employer's liability component receivables and compensation based on the Employment Contracts Act	760,238	3,103,655
Receivables from the State Pension Fund	25,842	192,273
Receivables from the Ministry of Social Affairs and Health	0	32,900,000
Receivables from Kela	1,297,178	0
Prepayments	255,721	347,497
Securities in settlement	20,493,087	6,377,426
Tax assets	1,226	0
Others	9,502	0
Total current other receivables	78,348,179	90,549,480



13 MATERIAL EVENTS SINCE THE END OF THE FINANCIAL PERIOD

No material events have occurred since the end of the financial period.

**14 NET FAIR VALUE GAINS ON INVESTMENTS**

Investment income and positive valuation adjustments (EUR)	31 Dec 2019	31 Dec 2018
Dividend income	430,504	54,846
Interest income	7,436,709	7,920,422
Other income	34,566	12,525
Gains on disposals	5,751,020	1,435,321
Foreign exchange gains	314,786	-11,998
Change in value	6,319,892	-398,918
Total investment income	20,287,477	9,012,198

Investment expenses and negative value adjustments (EUR)	31 Dec 2019	31 Dec 2018
Interest expenses and capital accrual	4,348,435	-4,125,581
Other expenses	-208,557	-81,773
Losses on disposals	-11,050,195	-4,746,024
Foreign exchange losses	-303,888	-39,714
Change in value	-3,113,000	-2,602,079
Total investment expenses	-10,327,206	-11,595,171

Total investment income and expenses	9,960,271	-2,582,972
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15 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:

Level 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 information 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 2019	Level 1	Level 2	Level 3	Total
State and municipal bonds	162,377,561			162,377,561
Bank bonds	259,950,276			259,950,276
Corporate bonds	113,202,156			113,202,156
Investments in funds and shares	87,291,742	17,864,053		105,155,795
Mezzanine funds			2,036,518	2,036,518
Deposits		51,433,211		51,433,211
Certificates of deposit		13,007,239		13,007,239
Municipal papers		48,144,369		48,144,369
Commercial paper		81,733,593		81,733,593
Alternative investments			17,448,680	17,448,680
Total	622,821,735	212,182,465	19,458,198	854,489,398

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



Changes in Level 3 financial assets measured at fair value

EUR	1 Jan 2019	Unrealised profit/loss	Realised profit/loss	Purchases	Disposals	31 Dec 2019
Mezzanine funds	1,991,545	418,571	0	15,380	-388,978	2,036,518
Alternative investments	3,952,806	-140,491	0	16,000,000	-2,363,635	17,448,680
Total	5,944,351	278,080	0	16,015,380	-2,752,613	19,485,198

EUR	1 Jan 2018	Unrealised profit/loss	Realised profit/loss	Purchases	Disposals	31 Dec 2018
Mezzanine funds	1,169,003	1,306,051	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

Deposits, certificates of deposit, corporate bonds and municipal papers at Level 2 have been measured using the discounted cash flow method based on the Euribor or swap curve and on the 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 at 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.



16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents (EUR)	31 Dec 2019	31 Dec 2018
Bank deposits	164,299,746	416,757,606
Total cash and cash equivalents	164,299,746	416,757,606

17 BORROWING

Long-term borrowing (EUR)	31 Dec 2019	31 Dec 2018
Employment Fund bonds	0	0
Total long-term borrowing	0	0

Short-term borrowing (EUR)	31 Dec 2019	31 Dec 2018
Employment Fund bonds	0	599,329,140
Commercial paper	0	0
Revolving credit facilities (RCF)	0	0
Total short-term borrowing	0	599,329,140

**18 OTHER LIABILITIES**

EUR	31 Dec 2019	31 Dec 2018
Accounts payable	381,945	578,516
Accrued expenses and deferred income	5,035,388	2,382,867
Liability component income accruals	31,051,551	48,524,788
Finnish Centre for Pensions capital accruals	0	1,400,000
Ministry of Economic Affairs and Employment, pay security accruals	23,571,873	19,513,485
Finnish Centre for Pensions, debiting interest	0	6,169,306
Accrual for the State Pension Fund	0	0
Ministry of Social Affairs and Health liability	4,283	4,449,776
ECA Ministry share	475,109	570,675
Adm. expense accruals	295,176	200,286
Liabilities to unemployment funds	8,611,297	4,061,624
Holiday pay accruals	1,043,860	768,432
Lease liability	1,920,017	0
Benefits withholding tax liability	3,319,115	0
Interest accruals	0	610,274
Total other liabilities	72,390,499	89,230,028



19 LIABILITIES AND RECEIVABLES NOT RECOGNISED IN THE STATEMENT OF NET POSITION

Capital commitments, equity funds and alternative investments (EUR)	31 Dec 2019	31 Dec 2018
Committed capital	5,250,473	5,250,473
Realised	-5,018,979	-5,003,559
Total investment commitments	231,494	246,874

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

Operating lease commitments

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 2019	31 Dec 2018
Within one year	5,760	0
1-5 years	0	0
Over 5 years	0	0
Total	5,760	0

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

20 RELATED PARTIES

Related parties of the Fund consist of the Supervisory Board, the Board of Directors and the Management Group. The Employment Fund's 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 Financial Supervisory Authority supervises the Employment Fund's operations. The Ministry of Social Affairs and Health is also entitled to receive information about the Fund's activities.

The government contributions payable to the unemployment funds are 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.

The table below summarises the salaries, bonuses and benefits paid to related parties, including social security contributions. More detailed breakdowns by each operating organ are included in the section of the annual report entitled, "Employment Fund's remuneration report for 2019".

Remuneration of the Board of Directors and the Supervisory Board

EUR	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Salaries, bonuses and benefits	90,385	91,940
Pension expenses - defined contribution plans	16,155	16,384
Total	106,540	108,324

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

EUR	31 Dec 2019	31 Dec 2018
Salaries, bonuses and benefits	587,447	446,459
Pension expenses - defined contribution plans	98,875	75,633
Total	686,322	522,092

Managing Director's salaries and bonuses

EUR	31 Dec 2019	31 Dec 2018
Salaries, bonuses and benefits	167,349	162,745
Pension expenses - defined contribution plans	28,948	26,462
Total	196,297	189,207

**SIGNATURES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS**

Helsinki, 24 March 2020

Antti Palola
(Chair)

Vesa Rantahalvari
(Vice Chair)

Tuomas Aarto

Ida Mielityinen

Minna Etu-Seppälä

Katarina Murto

Sture Fjäder

Jorma Palola

Riikka Heikinheimo

Saana Siekkinen

Minna Helle

Pirjo Väänänen

Markku Jalonen

Janne Metsämäki
Managing Director

Ilkka Kaukoranta



AUDITOR'S STATEMENT

A report has been issued today on the audit conducted.

Helsinki, 25 March 2020

KPMG Oy Ab
Marcus Tötterman
Authorised Public Accountant



Auditors' report

To the Supervisory Board of the Employment Fund

AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Employment Fund (business ID 1098099-7) for the financial period from 1 January to 31 December 2019. The financial statements include the statement of changes in net position, the statement of net position, cash flow statement and notes, including a summary of the most significant account principles followed in the financial statements.

In our opinion, the financial statements give a true and fair view of the Fund's financial position, operating income and cash flows in accordance with the International Financial Reporting Standards (IFRS) approved for use in the EU, and the financial statements meet legal requirements.

Basis for the opinion

We conducted our audit in accordance with good auditing practice in Finland. Our

obligations in accordance with good auditing practice are described in more detail in the section "Auditor's obligations when auditing financial statements". 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Obligations of the Board of Directors and the Managing Director in relation to the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) approved for use in the EU, and for ensuring that the financial statements meet legal requirements. The Board of Directors and the

Managing Director are also responsible for such internal control as they deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to continuing as a 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 obligations when auditing financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material



misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgement and maintain professional scepticism throughout the audit. Additionally:

- We 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.

- We form 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- We make a conclusion on whether it is appropriate for the Board of Directors and the Managing Director to use the going concern basis of accounting and, based on the audit evidence obtained, we make a conclusion on whether 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 company to cease operating as a going concern.

- We 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 governance bodies on matters such as the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING OBLIGATIONS

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 annual report, but it does not include the financial statements or our audit opinion of the financial statements. Our opinion of the financial statements does not cover the other information.

In connection with our audit of the financial statements, we are obliged to read the other information and, in doing so, evaluate whether the other information is materially inconsistent with the financial statements or the knowledge we obtained in the audit, or otherwise appears to be materially misstated. We are further obliged to evaluate 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 in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki, 25 March 2020

KPMG OY AB

Marcus Tötterman
Authorised Public Accountant





Työllisyysrahasto

Sysselsättningsfonden | Employment Fund