

ANNUAL REPORT 2019

1 Purpose of the Fund

The Investors' Compensation Fund is a compensation fund which protects the customers of investment firms, as referred to in Chapter 11 of the Act on Investment Services. The purpose of the Investors' Compensation Fund (hereinafter the Fund) is to protect the claims of investors who are covered by the Fund protection as clients of the investment firms and credit institutions that are members of the Fund. The extent of this protection is defined in the Act on Investment Services and the Rules of the Fund.

The Fund was established in 1998, making 2019 its 22nd year of operation. The Fund operates administratively in conjunction with Finance Finland (FFI), allowing it cost-efficient access to certain administrative services offered by FFI. The Fund is, however, independent in its decision-making and has its own administrative bodies.

No claims were made to the Fund in 2019 that would have triggered the Fund's obligation to pay compensation. This obligation is triggered if a permanently insolvent member company does not reimburse its investors in accordance with their agreement.

The Fund's operations are supervised by the Finnish Financial Supervisory Authority. The Fund's rules and rule changes are validated by the Ministry of Finance.

2 Members of the Fund

Fund membership is compulsory for all Finnish investment firms and credit institutions who provide investment services and for all Finnish fund companies authorised to provide investment services. At the end of 2019 the Fund had a total of 66 members.

An amalgamation of deposit banks, in which the member banks are partially or fully responsible for each other's obligations, is considered a single bank when determining their contributions to the Fund. These banks included OP Financial Group (147 member banks), POP Bank Group (27 member banks) and Savings Banks Group (22 member banks).

In 2019, one new member joined the Fund, and one member resigned from the Fund. The Fund gives the Financial Supervisory Authority a statement on new business licence applications and business licence amendment requests.

3 Operating environment

The growth of global economy slowed down in 2019. Toll wars and rise of protectionism caused uncertainty in the financial market. Due to the slowdown of global economic growth, major central banks resumed monetary easing.

The US Federal Reserve System (Fed) and the European Central Bank (ECB) lowered their key interest rates, in addition to which ECB resumed its corporate bond purchases and Fed began to purchase short-term US Treasuries. Short and long interest rates dropped to a record-low level. ECB's monetary policy decisions were partially influenced by the fact that the euro area inflation rate stayed clearly below ECB's inflation target.

Finland's economic growth is estimated to have been 1% in 2019. Growth in service exports and household consumption have maintained economic growth, but consumer confidence in the Finnish economy has already weakened. Household consumption has grown due to higher employment, improved consumer purchasing power, and low interest rates. The solvency of the domestic banking sector remained strong and banks' public lending continued its moderate growth.

For the Fund's investments, the 2019 operating environment was still largely marked by central bank measures, such as the major central banks' decisions to begin monetary easing and increase their balance sheets. ECB deposit rate remained negative, which influenced the development of Euribor rates. The yields of high-grade government bonds with short and medium-term maturities were also negative.

4 Focus areas of operations

In 2019, the Fund launched a reform of contribution determination, with the objective of identifying a calculation model for contributions that is as simple, transparent and impartial as possible.

The Fund also revised its investment guidelines, which the Board uses when it makes the Fund's annual investment plan.

5 Administration of the Fund

Each member of the Fund appoints one representative to the delegation of the Fund. In 2019, the delegation convened once. The delegation was chaired by Jani Eloranta, with Kirsi Lauslahti acting as vice chair.

Members of the Board of the Fund at the end of 2019 were Taina Ahvenjärvi, Päivi Kuoppa, Antti Kuosmanen, Jaana Pohjanheimo, Jussi Sokka and Bengt Wahlström. Deputy members were Pia Hidén and Mari Pekonen-Ranta. The Board convened eight times in 2019. No attendance fees were paid. The Board was chaired by Päivi Kuoppa, with Jussi Sokka acting as vice chair.

The Fund's Secretary General was LL.M. Mirjami Kajander-Saarikoski, with LL.M Piritta Poikonen acting as the deputy secretary.

The Fund's auditor was KPMG Ltd, who named Tiia Kataja, Authorised Public Accountant, as the principal auditor.

6 Capital adequacy

According to the Act on Investment Services, the Fund's assets shall amount to a minimum of €12 million, out of which at least €4.2 million is to be covered by cash assets.

At the end of 2019, the Fund's capital was €7,170,408 (€6,953,884 a year earlier). These assets were supplemented by Svenska Handelsbanken's loan commitment in the amount of €7 million.

7 Contributions and other charges to members

As the minimum capital requirement of €4.2 million in cash assets had been exceeded, the Fund did not need to add to its assets by collecting contributions from members. Contributions were only charged, in accordance with the Rules, to cover expenses arising from the loan commitment. In addition to this, new members who joined the Fund after the minimum capital requirement was met were charged a weighted average contribution.

The costs arising from the administration of the Fund are covered by an administration fee charged to members. New members are charged a joining fee.

In 2019, the amount collected in contributions was €234,733 (€226,509), while administration fees were charged for €84,820 (€86,942). The year's joining fees totalled €1,600 (€3,200 the year before).

8 Investment of collected funds

According to law, the Fund's assets must be invested in a reliable and effective manner that safeguards the liquidity of the fund and observes the principle of diversification. Investment income must be added to the Fund's capital. The Fund's assets are invested according to investment guidelines adopted by the delegation, based on which the Board of the Fund validates an annual investment plan.

At the end of 2019, the Fund had investments in four different fixed-income funds. The book value of the investments was €5,450,415.83 (€4,216,602.61 in 2018). The fund also held bank deposits for a total value of €2,287,606 (€3,302,167).

Calculated at current values, the Fund's investment profits for 2019 were 1.0% (-0.4% the year before). The profits were lower than the portfolio's expected long-term return, which can be explained by the low interest rate levels that even became negative for part of the year.

9 Performance of the Fund

At the end of 2019, the Fund showed a surplus of €17,278 (€225,063 the year before). The weakened performance was mainly due to the fact that fund units redeemed in 2018 caused a value increase that was recognised as one-time revenue in that financial period.

Collected contributions (costs arising from the loan commitment excluded) were added to the Fund's capital. As per the Act on Investment Services, the surplus for the financial period will be added to the Fund's capital.

As the Fund has non-profit status, it does not pay income tax.

10 Developments after closing of the accounts and outlook for the future

There were no developments after the closing of the accounts.

The 2020 coronavirus pandemic has substantially increased the risk of China's economic development being weaker than forecasted. This increases the likelihood of weaker than estimated development elsewhere in the global economy. The global economic impact of the pandemic is, however, difficult to predict.

The Finnish economy is expected to weaken in the wake of the global economy slowing down. Growth of the Finnish economy is also shadowed by structural factors, such as population ageing, shrinking workforce, weak profitability development and small volume of investments.

The year 2020 is expected to be very challenging for investments. The Fund's investment income is again expected to be lower in 2020 than the long-term expected return. Interest rates in the euro area remain unusually low, even partially negative, which diminishes interest profits. Central banks' measures are still expected to have considerable effect on the interest rate market in 2020. The difficult negotiations concerning the future relations between Great Britain and EU cause uncertainty which will also reflect in the interest rate market.

Should interest rates or credit risk premiums rise, they have strong potential to lower the market value of fixed-income asset classes in the short term. Due to the Fund's core function, its investment operations may not seek additional profits through low liquidity asset classes or any other means that would increase risk significantly.

Helsinki, 11 March 2020

INVESTORS' COMPENSATION FUND
Board of Directors