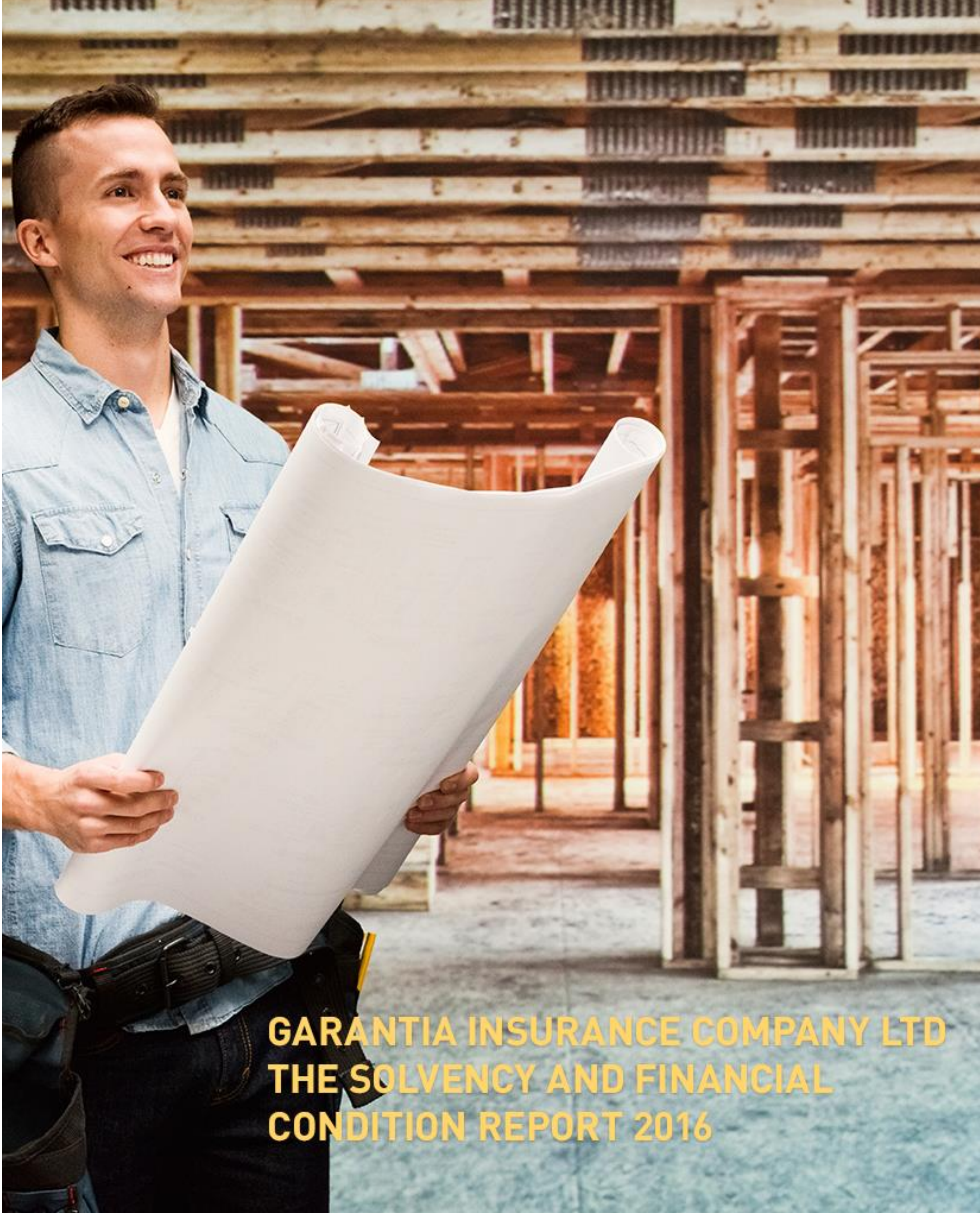

GARANTIA INSURANCE COMPANY LTD THE SOLVENCY AND FINANCIAL CONDITION REPORT 2016

GARANTIA

OMISTAMISEN TUKENA

CONTENT

GARANTIA INSURANCE COMPANY LTD

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

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

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri provides wealth management and financing services to institutional investors, companies and private individuals. The parent company Taaleri Plc's share is listed on NASDAQ OMX Helsinki. The operations of Taaleri are supervised by the Finnish Financial Supervisory Authority.

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

SUMMARY

In 2016 Garantia's premiums written increased by 22% compared to the comparison period and came to EUR 12.2 million (10.0). Strong growth in the construction sector and the recovery on the housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. The insurance exposure grew 13.3%. Claims paid remained at an exceptionally low level and the balance on the technical account was good. The claims ratio was 12% (15) and the combined ratio was 65% (64). Net return on investments recognised in profit and loss were EUR 3.2 (8.5) million and as a result earnings before tax was lower than it was in the comparison period at EUR 7.7 (8.5) million. The return on investments at fair value was 5.8% (4.6).

Garantia's values, Code of Conduct, strategy and business objectives form the basis for the company's risk management and solvency management. The purpose of risk management is to support the achievement of the company's targets by identifying the company's threats and opportunities and ensuring that they remain within the limits of risk appetite and risk-bearing capacity. Internal control that has been reliably organised ensures the observance of the company's business strategy, the set targets and the principles and procedures related to risk and solvency management. At Garantia, the principal goal of internal control and risk management is to secure the company's risk-bearing capacity and thus ensure the continuity of operations. Risk management includes the identification, measurement, monitoring, management and reporting of the individual risks and combined effect of risks that the company is exposed to. Risk and solvency management is also integrated as a fixed part of Garantia's business processes, and planning and monitoring of operations. In the autumn of 2015, Garantia updated the guidelines and documentation related to its management and administration system (system of governance) to conform with the Solvency II regulations and the new ownership structure. The updated management and administration system was introduced at the beginning of 2016 and it was defined and further developed during 2016.

In 2016, Garantia's risk position remained stable. The growth of insurance exposures took place in the well-diversified mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. The share of the insurance exposure classified in investment grade declined, however, as a result of the shortening of loan guaranties. The biggest industry, construction, accounted for 37% (33) of the insurance exposure. The proportion of construction guaranties that is reinsured is 52% (58). The largest individual exposure, as laid down in the EU Capital Requirements Regulation, was 38.9% (51.3) of the Taaleri Group's own funds and the exposures of a total of 1 (7) group of connected clients exceeded the 25% exposure limit prescribed by law. The risk level of investment activities was raised moderately when the share of finance sector fixed income investments was reduced and the share of corporate sector fixed income investments and equities was increased to secure the return level.

Garantia's solvency remained strong. Garantia's own funds amounted to EUR 100.9 (96.1) million and clearly exceeded the solvency capital requirement (SCR) of EUR 23.2 (19.0) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 435% (506) and the ratio to the minimum capital requirement was 1742% (2023). The increase in the solvency capital requirement resulted from a growth in the market risk related to investments.

Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds. Garantia does not use the matching adjustment or the volatility adjustment in the technical provisions calculation. Garantia applies the standard formula for the solvency capital requirement calculation. Garantia does not apply the transition arrangements of technical provisions or market risk calculations. The final figure for Garantia's solvency capital requirement is still being assessed by the Financial Supervisory Authority. The view of the executive management is that Garantia's solvency will remain strong despite a possible increase in the solvency capital requirement for insurance risk.

On 1 December 2016, Standard & Poor's Credit Market Services Ltd (S&P) confirmed Garantia Insurance Company Ltd's financial strength rating as A- and changed the rating outlook to stable.
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A. BUSINESS AND PERFORMANCE

A.1 Business

Garantia Insurance Company Ltd was established in 1993. It is a private non-life insurance company specialising in guaranty insurance. Its legal form is a limited liability company and it is domiciled in Helsinki. On 31 December 2016, the company had one office, which is located at the address Kluuvikatu 3, 00100 Helsinki.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri provides wealth management and financing services to institutional investors, companies and private individuals. The parent company Taaleri Plc's share is listed on NASDAQ OMX Helsinki. Taaleri Plc and its subsidiary and associated companies form a financial and insurance conglomerate primarily engaged in insurance activities as defined in the Act on the Supervision of Financial and Insurance Conglomerates. The conglomerate's parent company is Taaleri Plc.

Picture 1: Taaleri Group structure 31.12.2016

Garantia's operations, as an independent insurance company and as part of the Taaleri Group, are supervised by the Financial Supervisory Authority. The Financial Supervisory Authority's contact details are as follows: address: Snellmaninkatu 6, 00100 Helsinki, telephone: +358 (0)10 831 51, email: kirjaamo@finanssivalvonta.fi / firstname.lastname@finanssivalvonta.fi. In 2016, Garantia Insurance Company Ltd's appointed supervisor was Tiina Mäntyranta and the Taaleri Group's appointed supervisor was Matilda Borchers.

Garantia Insurance Company Ltd's annual general meeting of 8 March 2016 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the responsible auditor, and KPMG Oy Ab as the company's other auditor and Authorised Public Accountant Juha-Pekka Mylen as the responsible auditor. Ernst & Young Oy's contact details are as follows: address: Alvar Aallonkatu 5 C, 00100 Helsinki, telephone: +358 (0)207 280 190, email: firstname.lastname@fi.ey.com and KPMG Oy Ab's as follows: address: Töölönlahdenkatu 3 A, 00100 Helsinki, telephone: +358 (0)20 760 3000, email: contact@kpmg.fi / firstname.lastname@kpmg.fi.

Garantia's geographical area of operations is Finland. Garantia's product selection includes corporate guaranties, commercial bonds, investment guaranties and residual value guaranties and also residential mortgage guaranties offered to consumers via partners. In accordance with the authorisation granted by the Financial Supervisory Authority on 26 August 1993, Garantia may offer insurance in the non-life insurance classes 14 Credit and 15 Suretyship. On the basis of its authorisation, the company may also transact the reinsurance business of these non-life insurances. Based on agreements made with pension insurance companies Garantia is also responsible for calculation of the public quotation of employees' pension insurance (TyEL) interest rates according to valid calculation bases approved by the Ministry of Social Affairs and Health.

Garantia's financial statements and other financial reports are prepared in accordance with the Finnish Accounting Act, Limited Liability Companies Act and Insurance Companies Act, and in compliance with the decisions, regulations and guidelines issued by the public authorities supervising insurance companies. The information describing the profitability of business operations presented in this report is based on the above-mentioned regulations. The Taaleri Group prepares consolidated financial statements complying with International Financial Reporting Standards (IFRS). These statements include reporting on Garantia as part of the Financing segment.

A.2 Underwriting performance

Garantia's earnings before tax were EUR 7.7 million (8.5) due to lower net return on investments recognised in profit and loss than in the comparison period.

Gross premiums written (excluding the reinsurers' share) increased 21.9% to EUR 12.2 (10.0) million. Ceded reinsurance accounted for EUR 0.8 (1.0) million of the premiums written total, which means that net premiums written (with the reinsurers' share deducted) increased by 26.8% to EUR 11.4 (9.0) million. Strong growth in the construction sector and the recovery on the housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. There was a clear increase in new sales in corporate loan guaranties, but despite low interest rates, demand for corporate loan guaranties remained at a low level. Earned premiums declined, however, to EUR 9.5 (9.8) million on account of the change in the provision for unearned premiums. The change in the provision for unearned premiums was a result of strong growth in premiums written.

The insurance exposure grew 13.3% and was EUR 1,320 (1,164) million at the end of the year. Residential mortgage guaranties accounted for 35% (33) of the total exposure, loan guaranties 31% (37), commercial bonds 27% (22) and other guaranties 7% (8).

Claims paid remained at an exceptionally low level. The claims ratio was 12.4% (15.1) and claims incurred in relation to the insurance exposure was 0.09% (0.13). In 2016 a total of EUR 1.2 (1.9) million in claims were paid and about 72% of these were for residential mortgage guaranties, 15% for loan guaranties and 13% for commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.2 (0.0) million. A total of EUR 0.6 (0.7) million was recovered from claims paid during and prior to the financial year. EUR 0.2 (0.1) million of this concerned claims of recourse.

The company is not involved in any litigation, and no other claims have been made against the company. However, in 2011 a claim totalling EUR 5.0 million was made against Garantia, though the company considers this to be unfounded. There were no significant changes in this matter during 2016, and the processing of the case continues.

Operating expenses grew by 3.9% to EUR 5.0 (4.8) million. The operating expenses were increased by investments in personnel, in IT, in development of risk models and in the corporate image. The company's expense ratio was 52.4% (48.5) and the combined ratio was 64.9% (63.7).

The balance on the technical account before the change to the equalization provision was EUR 3.3 (3.6) million. The equalization provision declined by EUR 1.2 (increased by 3.5) million, so the balance on the technical account increased to EUR 4.5 (0.06) million. Regulations on the equalization provision changed as a result of the Insurance Companies Act that came into force on 1 January 2016, and the Financial Supervisory Authority confirmed Garantia's calculation bases for the equalization provision on 21 October 2016.

Garantia and Taaleri Private Equity Funds Ltd produced their first joint product, Tuulitehdas III, which offered investors in the fund the opportunity to subscribe the profit participation loan with a guaranty from Garantia. In loan guaranties, Garantia started cooperation with Nordic Investment Bank NIB to launch a loan facility for SMEs and midcaps. In commercial bonds, Garantia developed its eService by starting electronic delivery of guarantees to customers and their beneficiaries. Garantia also broadened its partner network in residential mortgage guaranties by launching cooperation with Aktia Bank.

A.3 Investment performance

The company's investments are used for covering the technical provisions and the equity capital, and their primary purpose is to secure the liquidity of insurance operations also in years with exceptionally high claims.

The investment income recognised in profit and loss was EUR 4.7 (9.1) million and costs were EUR 1.5 (0.6) million, so the net investment income recognised in profit and loss was EUR 3.2 (8.5) million. The valuation difference of investment assets grew from EUR 6.7 million to EUR 9.9 million during the financial year.

The investment income at fair value (excl. the cash and bank balances, and unallocated income, expenses and operating expenses) was 5.8% (4.6). Net investment income from capital employed at fair value was EUR 6.5 (5.2) million, or 5.4% (4.4).

The investment portfolio (incl. cash and bank balances) was EUR 127 (120) million at the end of the year. The investment portfolio did not contain investments in securitised asset items.

Investment income and costs by asset class, euro

Income (at fair values)	2016	2015
Property, plant & equipment held for own use	0	111 657
Bonds	3 724 833	1 992 696
Collective investment underatkings	3 012 158	3 306 594
Cash and deposits	0	0
Total	**6 736 991**	**5 410 946**

Costs	2016	2015
Property, plant & equipment held for own use	0	0
Bonds	0	0
Collective investment underatkings	-12 983	-13 034
Cash and deposits	-7 224	0
Un-allocated	-255 798	-228 260
Total	**-276 005**	**-241 294**
Net investment income	**6 460 987**	**5 169 652**

Investment allocation at fair value, euro

	31.12.2016	31.12.2015
Bonds	95 137 307	91 341 663
Collective investment underatkings	29 855 343	24 582 043
Equity funds	23 233 164	20 615 834
Bond funds	3 200 937	3 063 914
Real estate investment funds	983 730	902 295
Private equity funds	2 437 512	0
Total	**124 992 650**	**115 923 706**

Investment income at fair value is made up of dividend income, interest and other financing income, sale profits and unrealised positive change in value and costs from sale losses, impairment, unrealised negative change in value and other investment costs. In the table above, the “unallocated” item is made up of the allocation of operating expenses to investment operations. Garantia’s shareholders’ equity and reserves in the financial statements does not include profit or loss entered directly in shareholders’ equity and reserves.

A.4 Performance of other activities

Garantia does not accumulate material income or costs from any activities other than its insurance and investment activities.

Garantia’s rental and leasing liabilities comprise the rental costs for premises and parking spaces, employees’ company cars, IT equipment and office machines. The total rents and leases of the following financial year and rents and leases paid later on 31 December 2016 amounted to EUR 0.3 million. The leasing agreements are operating leases.

A.5 Any other information

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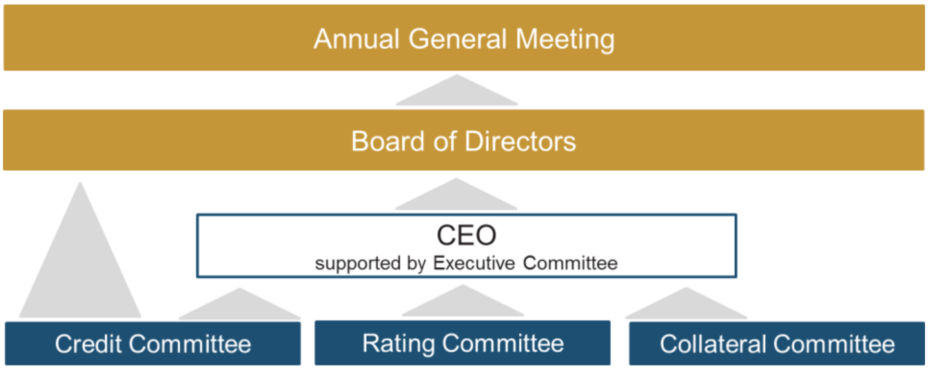
B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

Garantia's administration and decision-making bodies, and key functions

The decision-making bodies responsible for Garantia's administration and operations are the Annual General Meeting, Board of Directors (top management) and the CEO, who is supported by the Executive Committee (executive management). The Board has also appointed a Credit Committee, Collateral Committee and a Rating Committee, which, in accordance with the decision-making authorisations set by the Board, decide on matters within their purview.



Picture 2: Decision-making bodies and reporting relations

The Annual General Meeting is Garantia's supreme decision-making body and it uses its power of decision in accordance with the provisions of the Insurance Companies Act and the Articles of Association in the order described in these documents. The Annual General Meeting appoints the members of the Board of Directors and the Chairman of the Board.

It is the duty of the Board to advance the interests of the company and its shareholders. The Board of Directors has the general authority to render decisions in the company and together with the CEO it ensures that the company is managed in a professional manner and in accordance with sound and prudent business principles and reliable governance principles. It is the Board of Directors' duty to oversee the administration of the company and the appropriate organisation of its operations, and to ensure that supervision of the company's bookkeeping and asset management is arranged appropriately. To carry out its duty, the Board of Directors appoints the company's CEO and deputy CEO, and the members of the Executive Committee, confirms the company's strategy and annual plan (incl. risk appetite), confirms the company's management and administration system (incl. decision-making system, key principles), confirms separate rules of procedure for the Board of Directors, Executive Committee, Credit Committee, Collateral Committee and Rating Committee, makes guaranty decisions according to the decision-making system, decides on strategically significant individual investments and supervises the development of business and the appropriateness, scope and reliability of solvency and risk management.

The Annual General Meeting held on 8 March 2016 elected Hannu Tonteri as Chairman of the Board of Directors and Juhani Elomaa (Vice Chairman), Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny as members of the Board. All were re-elected to their positions. The term of the members of the Board of Directors lasts until the end of the following Annual General Meeting. The company's Board of Directors convened 19 times during the financial year. The Board of Directors had no separate committees during the financial period.

The CEO, supported by the company's Executive Committee, is responsible for the day-to-day management of the company and performs this task in accordance with regulations, regulatory requirements and the instructions and orders issued by the Board of Directors. The CEO, supported by the Executive Committee, is responsible for the management of the company's practices regarding operational activities and preparation of the matters to be presented to the Board of Directors, for implementing the Board's decisions in the company and supervising their fulfilment and for reporting their progress to the Board.

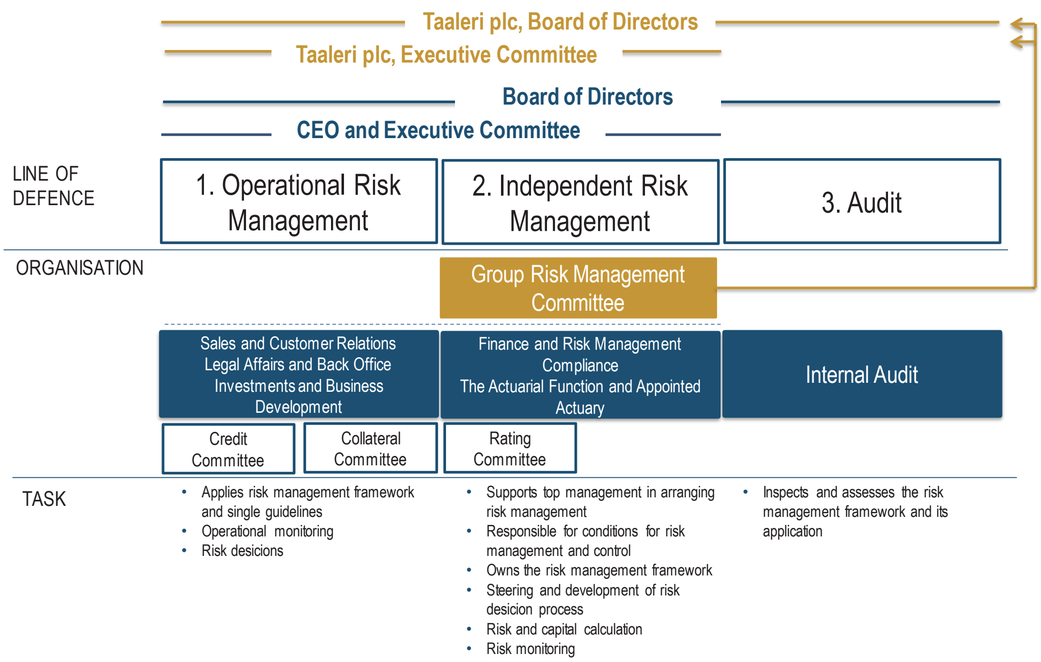
During the financial year, Vesa Aho M.Sc (Econ. & Bus. Adm.) was the company's CEO and Titta Elomaa M.Sc (Econ. & Bus. Adm.) was the Deputy CEO. The Executive Committee consisted of the CEO, the Deputy CEO, Tuukka Fabritius, Timo Lehikoinen (until 7 August 2016), Niina Pullinen and Martti Purhonen (as of 8 August 2016).

In addition to the Board of Directors and the CEO, the Credit Committee, Collateral Committee and Rating Committee, appointed by the Board of Directors, use their decision-making power at Garantia according to their rules of procedure The decision-making authorisations and guidelines of these decision-making bodies are described in the decision-making system confirmed by the Board of Directors, which also defines the powers confirmed for separately named persons.

The Credit Committee is responsible for decisions relating to guaranties, claims (not incl. residential mortgage guaranties) and investment within the decision-making authorisations framework confirmed by the Board. The Collateral Committee is responsible for assessment of counter-collateral offered to Garantia and for ensuring the quality and effectiveness of the collateral assessment process. The Rating Committee is responsible for approving counterparties' credit ratings and for ensuring the quality and effectiveness of the ratings process.

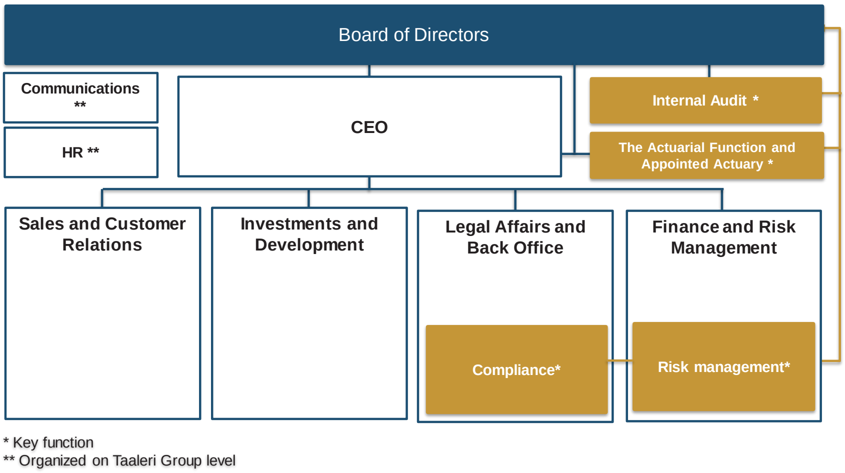
The Board of Directors approves the CEO's proposal on the structure of the company's organisation and the company's key functions and the persons responsible for these. The company's organisation consists of three business units, the Finance and Risk Management unit and four key functions. In addition, certain functions are organised on the Taaleri Group level.

Garantia's organisation structure is based on a model of three lines of defence in risk management and internal control. In accordance with this model, the tasks have been assigned to (1) units that take business risks in their operations by processing insurance policies, by making decisions binding on the company and by operating at the client interface (Sales and Customer Relations, Legal Affairs and Back Office, Investments and Business Development); (2) units that are responsible for risk control, carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with (Finance and Risk Management, Actuarial Function and the Appointed Actuary, function that supervises compliance with regulations); and (3) independent internal audit function (Internal audit).



Picture 3: Three lines of defence in risk management and internal control

The company's key functions are the function that supervises compliance with regulations (Compliance), the Finance and Risk Management unit's risk management function, Internal Audit and Actuarial Function and the Appointed Actuary. Each key function reports to the company's Board of Directors and the Taaleri Group's Group Risk Management Committee as outlined in the principles for internal control and risk management.



Picture 4: Organisation structure and key functions

The target of the function that supervises compliance with regulations is to strengthen clients' and the markets' confidence in Garantia. The function that supervises compliance with regulations monitors the legislation pertaining to the company, regulatory guidelines and other regulations and supervises compliance with these in all of the company's activities. The function is also responsible for compliance with the company's internal guidelines and rules. In addition to supervising compliance with regulations, the function also evaluates the adequacy of procedures carried out in the company to prevent and correct deficiencies that may have occurred in the compliance with regulations.

The target of the risk management function is to support the company's management in organising and developing risk management and in planning and decision-making (including guaranty decision-making), to implement and develop risk and capital requirement calculation and report on the risk and solvency position.

Internal Audit is an assessment, verification and consulting function that is independent of the company's operational activities. The task of Internal Audit is to support the company's management in the achievement of targets by providing a systematic approach to the assessment and development of the adequacy and efficiency of the organisation's risk management, control, and management and administration processes (system of governance).

The task of the Actuarial Function and Responsible Actuary is, in accordance with the Insurance Companies Act, to coordinate calculation of technical provisions and ensure the appropriateness and accordance with legal requirements of the assumptions used in the calculation methods, models and calculation regarding technical provisions, to assess the adequacy and quality of data used in the calculation of technical provisions, to report to the Board of Directors on the reliability and appropriateness of calculation of technical provisions, to provide the company's Board of Directors with statements on the insurance policy and reinsurance arrangements, to compile a report for the company's Board of Directors on the nature and required return of technical provisions, and on the requirements of maintenance of solvency and liquidity, and on the appropriateness of the company's technical risk management and to participate in the efficient implementation of the risk management system and the compilation of the risk and solvency assessment.

Changes to the system of governance

In the autumn of 2015, Garantia updated the guidelines and documentation related to its management and administration system (system of governance) to conform with the Solvency II regulations and the new ownership structure. The updated management and administration system was introduced at the beginning of 2016 and it was defined and further developed during 2016

Remuneration policy

The objective of Garantia's remuneration scheme is to ensure that personnel are committed to the long-term development of the company, to create an image of an attractive employer and motivate personnel to work together to achieve the company's targets. The Board of Directors assesses and confirms Garantia's remuneration scheme and the amount of the annual performance-related remuneration and supervises compliance with the remuneration scheme. The function that supervises compliance with regulations annually assesses the remuneration scheme's accordance with regulations and compliance with the remuneration scheme.

The monthly fees of the members of the Board are approved by the Annual General Meeting as proposed by the largest shareholder. Members of the Board are not paid separate meeting attendance fees or other financial benefits. The members of the Board were not in an employment or service relationship with the company and did not come under the scope of the remuneration scheme.

The Board of Taaleri Plc decides on the CEO's remuneration and on other terms and conditions of the CEO's service or employment relationship and Garantia's Board of Directors makes these decisions regarding the rest of the executive management. In other appointment, recruitment and salary decisions, a principle is observed according to which the maker and target of the decision may not be in a direct supervisor-subordinate relationship. Instead, the decision is made by a person on the decision-making level that is one above the target's supervisor.

Garantia's remuneration scheme consists of 1) fixed basic salary (salary in money and fringe benefits, based on how demanding a position is and on personal competence and performance) and a variable 2) short-term remuneration (based on achievement of the targets of the annual plan) and 3) long-term remuneration (based on realisation of strategic targets). The structure of the remuneration scheme is the same for the executive management and the personnel. In the short-term remuneration scheme the personnel (executive management) have the opportunity to receive a maximum amount equal to 3 (5) months' salary and in the long-term system this is 4 (4) months' salary. In the long-term remuneration scheme, the bonus is paid 3 years after the end of the earnings year. In the short-term remuneration scheme the payment instrument is money or a profit-sharing compensation in the personnel fund and in the long-term remuneration scheme it is money.

In the short term remuneration scheme the amount of the bonus is based on the achievement of the following targets defined in the annual plan: premiums written from new sales, the balance on the technical account before the change to the equalization provision and Taaleri Group's operating profit %, and three personal targets, which include qualitative targets. In the long-term remuneration scheme the amount of the bonus is based on the growth of the solvency capital in accordance with Solvency 1 regulations. The bonus in the long-term remuneration scheme will only be paid if the solvency capital amount in accordance with Solvency 1 at the end of the year preceding the year when payment is made is at least at the same level as it is at the end of the earnings year.

The retirement age of the executive management and personnel is not agreed on separately in the terms and conditions of the employment contracts. The executive management and personnel are covered by the Employees Pensions Act (TyEL), which provides pension insurance based on years of service and earnings as prescribed in the Act. No supplementary pension benefits have been arranged for the CEO or other executive management, but two members of the rest of the personnel come under the scope of the TEL supplementary pension scheme. No new persons have been added to the scheme after 2000. The Finnish government discontinued the TEL supplementary pension scheme on 31 December 2016 and Garantia has arranged a corresponding benefit in the form of a voluntary pension insurance for the persons in question

Information on material transactions with defined groups

Garantia has not carried out material transactions with Taaleri Plc, with persons who exercise a significant influence in the company or with members of the administrative, management or supervisory body.

B.2 Fit and proper requirements

The members of the company's Board, the CEO, Deputy CEO and persons responsible for key functions are required, in accordance with the Insurance Companies Act, to fulfil particular qualification requirements. In relation to this, the company's Board of Directors has approved separate written principles to ensure that the company's management and persons responsible for key functions fulfil the qualification requirements.

Garantia's management and persons responsible for key functions are required to be reputable and reliable. In the assessment of this, the person's honesty and financial position are considered. The assessment is based on evidence that covers perspectives related to crimes, finances and supervision. In order to determine these, personnel checks are made to ensure that the persons are able to control themselves and their property. Garantia's management and persons responsible for key functions are required to have general suitability for the position to which they are appointed. In order to determine this, a separate check is carried out on the persons. This covers the person's education, management experience, professional competence, skills and experience that are required in the position, etc.

Members of the Board must represent the type of general knowledge in insurance and financing operations that is necessary considering the quality and scope of Garantia's activities. When assessed as a whole, the members of the Board must have professional competence, experience and knowledge of the following matters: insurance and financing markets, the business strategy and business model, administration system, finance analyses and actuarial analyses, and the regulatory framework and its requirements.

The Board assesses the adequacy and appropriateness of the suitability and reliability requirements annually. The requirements are always reassessed if there are any material changes in the company's business operations, organisation or division of responsibility. A person's supervisor always assesses whether a person is sufficiently suitable and reliable for the task in question in connection with recruitment or internal transfer to another position and during performance appraisals.

B.3 Risk management system including the own risk and solvency assessment

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

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

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

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

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

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

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

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

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

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

The identification, measurement, monitoring, management and reporting of risks is described in more detail separately for each risk in chapter C. Risk Profile.

Garantia prepares an own risk and solvency assessment of its business operations and business strategy at least once a year as part of its normal operational annual planning (incl. risk survey, in the preparation of which the entire personnel are involved) or immediately if the company’s risk profile and/or risk management process has changed significantly. In the report, the company assesses its overall solvency position by examining the amount of qualitative and calculated risks in the company's risk profile in relation to its current risk appetite and the manner in which they may develop in the medium term in normal and stressed scenarios. The Risk Management function is responsible for preparing the report. The Actuarial Function participates in preparing the report. The report is dealt with by the company’s Executive Committee, which steers and is closely involved in the preparation of the assessment. The Board evaluates and approves the risk and solvency assessment, after which the report is delivered to the Financial Supervisory Authority. The report is also dealt with by the Taaleri Group’s Group Risk Management Committee and further by the Taaleri Group’s Audit Committee and Board.

B.4 Internal control system

Internal control covers the activities of all of the company’s units and this includes the arrangement of appropriate reporting on all of the company’s organisational levels. Internal control aims to ensure:

- the achievement of set objectives and targets;
- compliance with decisions by administrative bodies, internal plans, policies and procedures;
- economical and efficient use of resources;
- sufficient management of operational risks;
- reliability and validity of the information used for financial management and management of other operations;
- supervision of compliance with regulations (Compliance);
- sufficient safeguarding of operations, information and property; and
- sufficient and appropriate provision of IT and other systems to support operations.

Garantia’s Board of Directors is the supreme decision-making body in matters concerning internal control, risk management and solvency management. The Board approves the principles and policies (incl. the risk-taking limits) concerning internal control and risk management and their organisation and monitors and controls their effectiveness and the development of the risk and solvency position.

The CEO, supported by the Executive Committee, is responsible for the arrangement of internal control and risk management practices in accordance with the internal control and risk management principles that have been approved by the Board.

The spokespersons of the decision-making bodies in both the first and second lines of defence and the heads of the units in questions are responsible for planning of operations in their area of responsibility and for compliance with the related instruction frameworks for internal control and risk management and with individual guidelines. Persons with responsibility shall organise the operations in their area of responsibility and provide instructions in such a way that allows them to supervise daily operations in a reliable way and with a sufficient degree of accuracy. Functions that are significant for operations must be organised so that the person responsible for the operations has the opportunity to supervise and check that each employee is complying with the guidelines related to their operations.

The tasks and reporting relationships of the function supervising compliance with regulations are described above in chapter B.1. As the General Counsel responsible for the Compliance function is also responsible for the operations of the Legal Affairs and Back Office unit, Internal Audit supervises the adequacy and appropriateness of the compliance procedures carried out on the unit in question.

B.5 Internal audit function

Internal Audit is an assessment, verification and consulting function that is independent of the company's operational activities. The task of Internal Audit includes the following:

- to assess the adequacy and efficiency of supervision methods;
- to assess the efficiency of the Risk Management and the Compliance function;
- to assess the adequacy of supervisor supervision;
- to assess the economical and efficient use of resources;
- to assess the methods that safeguard property; and
- to assess the scope of the solvency management process.

Garantia's Internal Audit is arranged as part of the Taaleri Group's Internal Audit. The Internal Audit services for the Taaleri Group and therefore also for Garantia are procured from external service providers as an outsourced service. This ensures the independence and objectivity of the audit function. In 2016 the service was provided by PricewaterhouseCoopers Oy.

The Board of Taaleri Plc approves the audit plan of the Taaleri Group's Internal Audit, which also includes the audit plan of Garantia's Internal Audit that is prepared in cooperation with Garantia's Board of Directors. Internal Audit's plans are based on the key operational risks identified by Garantia and its management and the Group and its management, on key functions and processes, and the principles of internal control and risk management.

Internal Audit reports at least once a year on its observations, conclusions and recommendations to the Boards of Taaleri Plc and Garantia. Internal Audit reports on its observations, conclusions and recommendations to the Executive Committee, which has the task of responding to the observations and recommendations highlighted by Internal Audit before they are dealt with by the Boards.

B.6 Acturial function

An insurance company must have an Actuarial Function and an Appointed Actuary. The Insurance Companies Act provides a description of the following essential duties of the Actuarial Function and the Appointed Actuary:

- reliability and appropriateness of the technical provisions calculation, as well as the lawfulness of the manner in which the insurance premiums and technical provisions are determined and of their amounts
- ensure the appropriateness of the actuarial methods applied in the company;
- participate in the effective implementation and development of the risk management system, and in the preparation of the risk and solvency assessment;
- nature and required return of technical provisions, and the demands set by solvency on the company's risk management and investment activities;
- appropriate management of actuarial risks, incl. suitability of the reinsurance system.

Garantia procures its Actuarial Function and Appointed Actuary from an external service provider as an outsourced service. In 2016 the service was provided by Kaippio & Kaippio, with actuary SHV Janne Kaippio as the Appointed Actuary.

B.7 Outsourcing

The outsourcing principles approved by the Board ensure that when functions or services are outsourced, there is a comprehensive assessment of the suitability of outsourcing and the significance to Garantia of the function or service that is being outsourced.

Outsourcing must not endanger the requirements set out in Garantia's authorisation. Garantia's outsourced operations must also be organised so that they comply with the requirements set by regulations and regulatory requirements and guidelines on procedures, internal control and risk management. The outsourcing of a function or service must not impede the Financial Supervisory Authority's supervision of Garantia's operations, lower the quality of Garantia's administration system, result in an excessive increase in operational risk, or reduce the quality of the service offered to policy holders, insured parties and beneficiaries.

The Compliance function assesses the prerequisites of each function that will be outsourced with the head of the unit containing the function that is intended to be outsourced. The outsourcing proposals are discussed by the Executive Committee. When the outsourcing of a key function is being discussed, an overall assessment of the risks related to this is prepared, taking into account the scope and significance of the function to be outsourced. The Financial Supervisory Authority is notified in advance of projects to outsource key functions. Garantia's Board decides on the outsourcing of key functions and these decisions are given to the Board of Taaleri Group for information. The CEO decides on the outsourcing of functions that are not key functions. When functions are outsourced, a written contract is always drawn up with the party that will be responsible for the outsourced task. The contract provides a detailed description of the rights and obligations of the parties.

Garantia procures its Internal Audit, Actuarial Function and Appointed Actuary services, which are among the key functions as defined in the Insurance Companies Act, from an external service provider. Garantia has also outsourced a significant share of the maintenance and development of the IT systems that it uses to external service providers, and certain tasks related to HR and communications to its parent company Taaleri Plc and sister company Taaleri Wealth Management Ltd. The outsourcing partners are domiciled in Finland and Finnish law is applied to the concluded contracts.

B.8 An assessment of the adequacy of the system of governance

The company's Executive Committee assess the contents of the system of governance and principles regularly in connection with the annual planning so that the company can be sure that the system of governance and the related principles are up to date, adequate and appropriate in relation to the company-level and Group-level strategy and the scope of the company's business and risks. Internal Audit also participates in the assessment, if necessary. The assessment's scope, observations and conclusions are reported with documentation to the company's Board which then decides on the required changes and their related feedback procedure.

The company's view is that its management and administration system, i.e. its system of governance, has been compiled appropriately for carrying out and achieving the company's business and targets and that it meets the requirements that are set for it considering the nature, scale and complexity of the risks inherent in its business.

B.9 Any other information

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C. RISK PROFILE

Garantia's risk and solvency management process includes constant identification and assessment of risks in the business and operating environment. The principal risks associated with Garantia's business operations are credit risks and reserve risk (insurance risk) arising from guaranty operations, investment risks regarding assets covering technical provisions, strategic risks and operational and compliance risks.

The capital requirements for risk types in accordance with Solvency II regulations are described in more detail in chapter E.2 Solvency capital requirement and minimum capital requirement.

C.1 Underwriting risk

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

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

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

Garantia's risk position remained stable in 2016. The growth of insurance exposures took place in the well-diversified mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. As a result of the shortening of loan guaranties, the share of the insurance exposure classified as investment grade, i.e. with a rating of AAA–BBB-, excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, declined to 21% (30), however. The share of those with lower credit ratings of C+ or lower remained low and was 2.8% (2.5). The biggest sectors in the insurance exposure were construction at 37% (33) and manufacturing 26% (33). The proportion of construction guaranties that is reinsured is 52% (58).

Concentration risk is described in more detail in chapter C.6 Other material risks.

During 2016, Garantia assessed the economic capital model that is used in the steering of operations and its individual parameters. The main changes were the update of the LGD parameters (Loss Given Default), the introduction of a new rating model for companies and new PD parameters (Probability of Default), and adding concentration risk and the diversification benefits of and insurance and investment operations to the model. Garantia updated the procedures used to identify and manage risk clients and the reporting.

Sensitivity analysis of Insurance operations, 31.12.2016*				
Risk parameter	**Total, EUR thousand**	**Change in risk parameter**	**Effect on equity, EUR thousand**	**Effect on combined ratio, %**
Premium revenue	9 467	Up by 10 %	757	improvement 5.90 pp
Claims incurred	1 174	Up by 10 %	0	weakening 1.24 pp
Large claim, EUR 10 million	0	EUR 10 mn	0	weakening 105.63 pp
Operating expenses	4 966	Up by 10 %	-397	weakening 5.25 pp

Sensitivity analysis of Insurance operations, 31.12.2015*				
Risk parameter	**Total, EUR thousand**	**Change in risk parameter**	**Effect on equity, EUR thousand**	**Effect on combined ratio, %**
Premium revenue	9 849	Up by 10 %	473	improvement 5.79 pp
Claims incurred	1 492	Up by 10 %	0	weakening 1.51 pp
Large claim, EUR 10 million	0	EUR 10 mn	0	weakening 101.53 pp
Operating expenses	4 778	Up by 10 %	-382	weakening 4.85 pp

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

Trend in claims incurred					
EUR thousand	**Claims paid***	**Change in provision for outstanding claims***	**Claims incurred**	**% of insurance exposure**	**Claims ratio, %**
2016	-1 038	-100	-1 174	0.09 %	12.4 %
2015	-1 421	-71	-1 492	0.13 %	15.1 %
2014	-569	157	-412	0.03 %	3.7 %
2013	-2 526	121	-2 405	0.18 %	22.2 %
2012	-1 772	504	-1 268	0.09 %	11.7 %
2011	-4 827	-753	-5 580	0.44 %	50.8 %
2010	-2 098	26	-2 072	0.15 %	18.7 %

* incl. Reinsurers' share

Insurance exposure by product EUR million	2016	2015
Loan guarantees	407	431
Commercial bonds	353	258
Residential mortgage guarantees	467	383
Other guarantees	93	92
Total	**1 320**	**1 164**

Collateral position of insurance exposure EUR million	2016	2015
Reinsured	219	234
Collateral classes 1 and 2	93	83
Collateral classes 3 and 4	60	52
Uncovered position	948	795
Total	**1 320**	**1 164**

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

Insurance exposure by credit rating* EUR million	2016	2015
AAA - BBB-	165	204
BB+ - BB-	374	327
B+ - B-	208	143
C+ or weaker	22	17
Total	**769**	**690**

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

Insurance exposure by industry* EUR million	2016	2015
Construction	287	225
Manufacturing	196	224
Machinery and Equipment (incl. repair)	49	60
Metal	46	30
Forest and paper	39	54
Food	36	46
Other	26	34
Services	57	59
Wholesale and retail trade	47	34
Energy	39	46
Finance and insurance	36	14
Other industries	106	87
Total	**769**	**690**

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

C.2 Market risk

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

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

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

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

The risk level of investment activities was raised moderately during 2016 when the share of finance sector fixed income investments was reduced and the share of corporate sector fixed income investments and US equities was increased to secure the return level. Fixed income investments made up 79% (82) and equity investments 18% (17) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The share of investment grade fixed income investments (excluding fixed income funds) was 70% (78). The modified duration of the fixed income investments was 3.0 (2.5).

Investment mix at fair value		
EUR mn	2016	2015
Fixed income investments*	101	98
Equity investments	26	21
Land and buildings	1	1
Other investments	0	0
Total	**127**	**120**

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

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2016						
EUR mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	2	5	-	10	17	18 %
A+ - A-	0	13	-	-	13	14 %
BBB+ - BBB-	3	15	11	10	38	39 %
BB+ or weaker	2	11	12	5	29	29 %
Not rated	0	-	-	-	0	0 %
Total	**7**	**44**	**23**	**24**	**98**	**100 %**

Fixed-income portfolio (excl. bond funds) by maturity* and credit rating ** 31 Dec 2015						
EUR mn / years	0 - 1 years	1 - 3 years	3 - 5 years	Yli 5 years	Total	%
AAA - AA-	3	23	0	0	27	28 %
A+ - A-	3	16	3	0	22	23 %
BBB+ - BBB-	0	6	17	2	25	26 %
BB+ or weaker	0	10	12	0	21	22 %
Not rated	0	0	0	0	0	0 %
Total	**7**	**55**	**32**	**2**	**95**	**100 %**

* The maturity is presented until the end of the term to maturity. If the paper includes call option, the maturity is presented until the first possible Call date.

** Rating is based on 1. Garantia's Internal Credit Rating, 2. External rating affirmed by external rating agency or 3. "Shadow rating" provided by Banks to bond investors.

Sensitivity analysis of investment activities, 31.12.2016*				
Investment category	Investments at fair values, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	98.3	Change in interest rates	1 %	2.43
Equities	23.2	Market value	10 %	1.86
Equity investments	3.4	Market value	10 %	0.27

Sensitivity analysis of investment activities, 31.12.2015*				
Investment category	Investments at fair values, EUR million	Risk parameter	Change	Effect on equity, EUR million
Bonds	91.7	Change in interest rates	1 %	1.77
Equities	18.6	Market value	10 %	1.49
Equity investments	5.7	Market value	10 %	0.45

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

C.3 Credit risk

Garantia's exposure to credit risk as part of guaranty and investment operations is described above in chapter C.1. Underwriting risk and C.2. Market risk.

C.4 Liquidity risk

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

Garantia's technical provisions applied in capital adequacy calculations include EUR 6,004,729 of expected profits included in future premiums (EPIFP). Expected profits included in future premiums refer to the present value of the difference between the forecasted premiums written from the insurance exposure as at 31 December 2016 and the expected claims and operating expenses (excl. acquisition expenses) relating to these premiums, until the end of the insurance term. The estimate of the expected claims and operating expenses is based on the historical claims ratio excluding acquisition expenses.

C.5 Operational risk

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

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

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

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

In 2016, the key development activities of operational risk management were updated procedures for knowing your customer (KYC) and prevention of money laundering and terrorist financing, and the assessment and update of company- and unit-specific continuity planning, and the update of the product management process.

C.6 Other material risks

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

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

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

As part of the Taaleri Group, Garantia is subject to the regulations on large exposures as defined in the EU Capital Requirements Regulation. At the end of the year Garantia’s largest individual exposure was 38.9% (51.3) of the Taaleri Group’s own funds and the exposures of a total of 1 (7) group of connected clients exceeded the 25% exposure limit prescribed by law. The Financial Supervisory Authority approved an updated action plan drawn up by Garantia to reduce the exposure of guaranties to the level required by law by 30 October 2017.

C.7 Any other information

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

In the balance sheet that is in accordance with Solvency II, investments are valued at fair value on the final date of each reporting period.

The fair value of listed shares is taken to be the final available purchase price during continuous trading in the reporting period or, if this is not available, the last trading price. The fair value of private equity funds is taken to be the net asset value per unit calculated by the fund management company.

All debt instruments are valued at fair value on the final date of each reporting period. The fair value of bonds and other IOUs is taken to be the last trading price of the reporting period.
The fair value of other investments is taken to be the most probable assignment price.

The valuation of assets in the Solvency II balance sheet differs from the valuation of assets in the FAS balance sheet in that in the Solvency II balance sheet investments are valued at market value and intangible assets are value at zero. In the Solvency II balance sheet, the reinsurer’s share of technical provisions is entered in assets as the item “Reinsurance recoverables from Non-life and health similar to non-life”, whereas in the FAS balance sheet they are deducted from technical provisions.

The tables below show, for each Solvency II balance sheet item, the value of the assets, comparison with the FAS balance sheet and valuation principles. The increase in assets during the reporting period is a result of a positive result in investment and insurance activities.

Solvency II Balance sheet: Assets and the change, euro

	31.12.2016	31.12.2015	Change
Property, plant & equipment held for own use	125 805	151 323	-25 518
Investments (other than assets held for index-linked and unit-linked contracts)	125 025 912	115 956 968	9 068 944
Bonds	95 137 307	91 341 663	3 795 644
Collective Investments Undertakings	29 855 343	24 582 043	5 273 300
Deposits other than cash equivalents	33 262	33 262	0
Reinsurance recoverables from Non-life and health similar to non-life	-978 298	-1 268 253	289 955
Insurance and intermediaries receivables	634 736	403 202	231 534
Reinsurance receivables	136 197	35 877	100 320
Receivables (trade, not insurance)	98 059	22 595	75 464
Cash and cash equivalents	2 377 174	3 991 025	-1 613 851
Any other assets, not elsewhere shown	1 257 798	1 251 818	5 980
Total assets	**128 677 383**	**120 544 555**	**8 132 828**

The difference between Assets in Solvency II and FAS balance sheet 31.12.2016, euro

	Solvency II	FAS	Difference
Intangible assets	0	96 000	-96 000
Property, plant & equipment held for own use	125 805	125 805	0
Investments (other than assets held for index-linked and unit-linked contracts)	125 025 912	115 129 627	9 896 285
Bonds	95 137 307	91 954 292	3 183 015
Collective Investments Undertakings	29 855 343	23 142 072	6 713 271
Deposits other than cash equivalents	33 262	33 262	0
Reinsurance recoverables from Non-life and health similar to non-life	-978 298	0	-978 298
Insurance and intermediaries receivables	634 736	634 736	0
Reinsurance receivables	136 197	136 197	0
Receivables (trade, not insurance)	98 059	98 059	0
Cash and cash equivalents	2 377 174	2 377 174	0
Any other assets, not elsewhere shown	1 257 798	1 257 798	0
Total assets	**128 677 383**	**119 855 396**	**8 821 987**

Balance sheet item	Value of item in Solvency II balance sheet
Intangible assets	Zero
Property, plant & equipment held for own use	“Tangible assets” item in FAS balance sheet
Bonds	Total amount of the market values of bonds and certificates of deposit including accrued interest. Does not include bond investments made through funds.
Collective Investment Undertakings	Total amount of market value of fund investments.
Deposits other than cash equivalents	Amount of rent security deposits in FAS balance sheet
Reinsurance receivables	Reinsurers’ share of technical provisions defined in the calculation of technical provisions according to Solvency II. This includes the reinsurers’ shares of the provision for unearned premiums and the provisions for claims outstanding according to Solvency II.
Insurance and intermediaries receivables	“Debtors - Arising out of direct insurance operations” item in FAS balance sheet.
Reinsurance receivables	“Debtors - Arising out of reinsurance operations” item in FAS balance sheet.
Receivables (trade, not insurance)	“Other accrued income” item in FAS balance sheet
Cash and cash equivalents	“Cash and bank balances” not including rental security deposit item in FAS balance sheet.
Any other assets, not elsewhere shown	“Debtors - Other” item in FAS balance sheet

D.2 Technical provisions

The calculation of the provision for unearned premiums is based on the “Simplification for premium provision”, which is described in EIOPA's guidelines “Technical Specification for the Preparatory Phase (Part I)” in section TP.6.80. In the calculation of the provision for unearned premiums, the basis for calculating PVFP (present value of future premiums gross of commission) is the estimate of future gross premiums to be obtained from contracts that are part of the guaranty portfolio at the reporting reference date. In the residential mortgage guaranties (HALG) product group and the construction defect insurance product group the PVFP is assumed to be zero as those product groups are based on one-off payments.

The calculation principles for the provision for unearned premiums according to Solvency II differ from those used to calculate the provision for unearned premiums in FAS. In the valuation of the provision for unearned premiums in the FAS balance sheet, the provisions are divided into three groups, which are residential mortgage guaranties, construction defect insurance and other guaranties. In the provision for unearned premiums in the FAS balance sheet, the premiums written received as a one-off payment for residential mortgage guaranties and construction defect insurance is spread out over the assumed duration of the insurance. In other types of insurance, the provision for unearned premiums is calculated from the premiums written as a standard percentage share as defined in the calculation bases. In the Solvency II balance sheet, the same division into three groups that is used in the FAS balance sheet is used to value the provision for unearned premiums, and the calculation is carried out separately for each of these groups. Unlike the provision for unearned premiums in the FAS balance sheet, the valuation of the provision for unearned premiums according to Solvency II takes into consideration the claims ratio, expense ratio, acquisition expense ratio, present value of future premiums (PVFP) and the volume measure (VM).

The calculation of the risk margin in technical provisions is based on the simplification “Estimation of all future SCRs ‘at once’ (level 4 of the hierarchy)”, which is described in EIOPA's guidelines “Technical Specification for the Preparatory Phase (Part I)” in section TP.5.60. The modified duration of the net liabilities in the insurance portfolio used in the calculation is approximated by the guaranty portfolio’s average maturity.

The provision for claims outstanding according to Solvency II corresponds to the provision for claims outstanding according to the FAS balance sheet discounted with the one-year risk free rate according to the interest rate term structure published by EIOPA.

The reinsurers’ share of the technical provisions is included in assets in the Solvency II balance sheet, whereas it is deducted from the technical provisions in the FAS balance sheet. In the Solvency II balance sheet, the reinsurers' share of the provision for unearned premiums is calculated by applying the so-called Gross-to-Net “factor” presented in part TP.6.105. of EIOPA’s guidelines *Technical Specification for the Preparatory Phase (Part I).* The reinsurers’ share of the provision for claims outstanding corresponds to the reinsurers’ share of the provision for claims outstanding on the FAS balance sheet discounted with the one-year risk free rate according to the interest rate term structure published by EIOPA.

The level of uncertainty related to the value of the technical provisions is considered to be moderate. The uncertainty is a consequence of the realisation of future claims payments and operating expenses in relation to the applied forecasts. Future insurance payment forecasts do not contain considerable uncertainty. On account of the short maturity of the cash flow distribution of technical provisions and the low interest environment, technical provisions still do not contain significant interest rate risk.

No material changes have taken place in the assumptions used to calculate technical provisions compared with the previous reporting period.

Garantia does not apply the matching adjustment referred to in Article 77 b of Directive 2009/138/EC, the volatility adjustment referred to in Article 77 d of Directive 2009/138/EC, the transitional adjustment to the risk-free interest rate term structure referred to in Article 308 c of Directive 2009/138/EC, or the transitional deduction referred to in Article 308 d of Directive 2009/138/EC.

D.3 Other liabilities

The valuation of other liabilities on the Solvency II balance sheet differs from that in the FAS balance sheet in the respect that the Solvency II balance sheet includes deferred tax liabilities, which are not included in the FAS balance sheet. The rest of the other liabilities items are valued as they are on the FAS balance sheet.

The tables below show, for each liability item on the Solvency II balance sheet, the value of the liabilities, comparison with the FAS balance sheet, and valuation principles for other liabilities. The increase in the value of liabilities during the reporting period is a result of the increase in tax liabilities (valuation differences in investments) and technical provisions (insurance portfolio).

Solvency II Balance sheet: Liabilitites and the change, euro

	31.12.2016	31.12.2015	Change
Technical provisions – non-life	2 304 573	972 084	1 332 489
Best Estimate	349 186	-1 063 465	1 412 651
Risk margin	1 955 388	2 035 548	-80 160
Deferred tax liabilities	18 793 389	18 122 889	670 500
Insurance & intermediaries payables	75 000	125 000	-50 000
Reinsurance payables	377 005	355 445	21 560
Payables (trade, not insurance)	2 017 071	1 621 576	395 495
Any other liabilities, not elsewhere shown	180 977	239 184	-58 207
Total liabilities	**23 748 015**	**21 436 179**	**2 311 836**
Excess of assets over liabilities	**104 929 368**	**99 108 376**	**5 820 992**

The difference between Liabilities in Solvency II and FAS balance sheet 31.12.2016, euro

	Solvency II	FAS	Difference
Technical provisions – non-life	2 304 573	14 545 783	-12 241 210
Best Estimate	349 186	0	349 186
Risk margin	1 955 388	0	1 955 388
Reinsurer's share of technical provisions	0	-710 850	710 850
Equalisation provision	0	73 614 598	-73 614 598
Deferred tax liabilities	18 793 389	0	18 793 389
Insurance & intermediaries payables	75 000	75 000	0
Reinsurance payables	377 005	377 005	0
Payables (trade, not insurance)	2 017 071	2 017 071	0
Any other liabilities, not elsewhere shown	180 977	180 977	0
Total liabilities	**23 748 015**	**90 099 583**	**-66 351 568**
Excess of assets over liabilities	**104 929 368**	**29 755 813**	**75 173 555**

Balance sheet item	Numerical value used
Deferred tax liabilities	Total amount of deferred tax liabilities, which contains the deferred tax liabilities included in the valuation differences of the equalization provision, actual technical provisions, investments, and intangible assets. The tax liabilities contained in these items are calculated by multiplying their valuation differences with the corporate tax percentage.
Insurance & intermediaries payables	“Creditors - Arising out of direct insurance operations” item in FAS balance sheet.
Reinsurance payables	“Creditors - Arising out of reinsurance operations” item in FAS balance sheet.
Payables (trade, not insurance)	“Accruals and deferred income” item in FAS balance sheet
Any other liabilities, not elsewhere shown	“Creditors - Other” item in FAS balance sheet

D.4 Alternative methods for valuation

Garantia does not apply alternative methods for valuation.

D.5 Any other information

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E. CAPITAL MANAGEMENT

At least once a year, in conjunction with its annual planning, Garantia updates its capital plan. The plan includes capital management's principles and the limitations related to solvency/solvency targets, and ensures in an anticipatory manner that the company has adequate capital reserves for exceptional situations. The capital plan is based on the annual risk and solvency assessment. The capital plan is also updated if there is a material change in the risk situation, risk-bearing capacity or profitability outlook from that anticipated in the plan.

Garantia's goal is to be a reliable partner and the company maintains strong solvency to ensure the continuity and stability of its operations. The Board has set Garantia's target level for capitalisation above the statutory solvency capital requirement and the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and at the economic capital model defined at a confidence level of 99.9%. Garantia only distributes dividends or returns capital to the owner when this does not put the A- credit rating at risk. The qualitative target for Garantia's own funds is that the own funds should be formed in full of unrestricted Tier 1 basic own funds.

The principal means to maintain balance between risks and actual capitalisation is to ensure profitable business operations and active risk management. If an imbalance is detected, balance is restored with management of profit and risk position or by acquiring new capital.

E.1 Own funds

Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds. Garantia does not apply the transition arrangements in defining its basic own funds and Garantia's own funds do not include items classified as ancillary own funds. The amount and quality of own funds is sufficient to cover the solvency capital requirement and the minimum capital requirement.

The amount of Garantia's own funds increased to EUR 100.9 (96.1) million as a result of the positive development of the net profit and of the fair value of investments.

Own funds (Tier 1), euro

	31.12.2016	31.12.2015	Change
Ordinary share capital (gross of own shares)	10 200 000	10 200 000	0
Reconciliation reserve	90 729 368	85 908 376	4 820 993
of which Forseeable dividends, distributions and charges	-4 000 000	-3 000 000	-1 000 000
Total	**100 929 368**	**96 108 376**	**4 820 993**

Own funds to cover solvency capital requirement, capital requirements and ratios

	31.12.2016	31.12.2015	Change
Own funds (Tier 1), € mn	100 929 368	96 108 376	4 820 993
Solvency Capital requirement (SCR), € mn	23 181 969	19 001 069	4 180 900
Minimum Capital requirement (MCR), € mn	5 795 492	4 750 267	1 045 225
Own funds / SCR, %	435 %	506 %	-71 pp.
Own funds / MCR, %	1742 %	2023 %	-281 pp.

Garantia's shareholders' equity and reserves presented in the financial statements were EUR 29.8 (26.6) million and the own funds in accordance with the Insurance Companies Act the above-mentioned EUR 100.9 (96.1) million.

The largest item contributing to the shareholders' equity and reserves presented in the financial statements and the own funds in accordance with Solvency II is the equalization provision of EUR 73.6 (74.8) included in the technical provisions in the financial statements. The item in question includes deferred tax liabilities worth of EUR 14.8 (15.0) million in the Solvency II balance sheet.

The purpose of the equalization provision is to balance the impact of years with exceptional technical results. The equalization provision acts as a buffer, especially against growth in claims incurred. In Garantia's calculation bases for the equalization provision an amount corresponding to the claims incurred for the period in question of the provision is recognized annually into profit and loss until the equalization provision reaches the targeted amount. In the long term the equalization provision will gravitate to its target amount. The calculation of the target amount has been defined in the Insurance Companies Act. The calculation bases for the equalization provision used in Garantia's financial statements were confirmed by the Financial Supervisory Authority on 21 October 2016.

The difference between own funds in Solvency II and equity in FAS balance sheet 31.12.2016, euro

	31.12.2016	31.12.2015
Shareholder's equity and reserves (+)	**29 755 813**	**26 616 819**
Forseeable dividends, distributions and charges (-)	-4 000 000	-3 000 000
Valuation difference of Technical provisions - non-life (+)	10 552 062	9 413 686
Provision for unearned premiums and claims outstanding (net) in financial statements	13 834 933	11 654 023
Technical provisions - non-life in Solvency II	-2 304 573	-972 084
Reinsurance recoverables from Non-life in Solvency II	-978 298	-1 268 253
Equalisation provision (+)	73 614 598	74 788 747
Valuation difference of Investments	9 896 285	6 686 226
Book-value of investments in financial statements	-113 566 296	-107 400 926
Fair value of investments in Solvency II	123 462 581	114 087 153
Intangible assets (-)	-96 000	-274 213
Deferred tax liabilities (-)	-18 793 389	-18 122 889
Own funds	**100 929 368**	**96 108 376**

E.2 Solvency capital requirement and minimum capital requirement

On 31 December 2016 Garantia's solvency capital requirement was EUR 23.2 (19.0) million. The increase in the solvency capital requirement resulted from a growth in the market risk resulting from allocation changes and increase in market values. The solvency capital requirement describes the amount of unexpected loss once every 200 years.

The final figure of the solvency capital requirement is still being assessed by the Financial Supervisory Authority. The view of the executive management is that Garantia's solvency will remain strong despite a possible increase to the solvency capital requirement for insurance risk. Garantia applies the standard formula for the Solvency Capital Requirement calculation. Garantia does not use simplified calculation in the standard formula's risk modules or sub-modules, or company-specific parameters instead of the parameters of the standard formula.

Solvency capital requirement by component, euro

	31.12.2016	31.12.2015	Change
Basic solvency capital requirement	**28 666 569**	**23 420 186**	**5 246 383**
Market risk	20 608 282	14 662 457	5 945 825
Interest rate risk	2 971 327	2 267 995	703 332
Equity risk	9 627 715	7 570 406	2 057 309
Property risk	245 933	225 574	20 359
Spread risk	8 395 641	5 901 277	2 494 364
Currency risk	4 291 902	3 467 154	824 748
Concetration risk	7 859 259	2 655 826	5 203 433
Diversification benefit	-12 783 495	-7 425 775	-5 357 720
Counterparty default risk	360 788	355 020	5 768
Non-life underwriting risk	15 201 856	14 746 074	455 782
Premium and reserve risk	6 534 457	5 850 161	684 296
Lapse risk	1 460 126	1 502 406	-42 280
Catastrophe risk	12 111 712	12 069 057	42 655
Diversification effect	-4 904 439	-4 675 550	-228 889
Intangible asset risk	0	0	0
Diversification effect	-7 504 357	-6 343 365	-1 160 992
Operational risk	**310 892**	**331 150**	**-20 258**
Adjustment for loss-absorbing capacity	**-5 795 492**	**-4 750 267**	**-1 045 225**
Total	**23 181 969**	**19 001 069**	**4 180 900**

On 31 December 2016, Garantia's minimum capital requirement was EUR 5.8 (4.8) million. In the minimum capital requirement calculation (line of business: credit and suretyship), the net (of reinsurance/SPV) best estimate totalled EUR 1.3 (0.2) million and the net (of reinsurance) written premiums in the last 12 months were EUR 11.4 (9.0) million. In years 2015 and 2016 the minimum capital requirement was at its floor level, which is 25% of the solvency capital requirement. Therefore, the increase in the minimum capital requirement was entirely a result of the growth of the solvency capital requirement.

E.3 Use of duration-based equity risk sub-module in the calculation of the solvency capital requirement

Garantia does not use the duration-based equity risk sub-module.

E.4 Differences between the standard formula and any internal model used

Garantia applies the standard formula for the Solvency Capital Requirement calculation, and does not apply any internal model.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

Garantia's own funds cover the solvency capital requirement and the minimum capital requirement in terms of both amount and quality.

E.6 Any other information

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GARANTIA
OMISTAMISEN TUKENA

ANNEX I: TABLES TO BE PUBLISHED IN ACCORDANCE WITH THE COMMISSION IMPLEMENTING REGULATION (EU) 2015/2452

S.02.01.02 Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	125 805
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	125 025 912
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities – listed	**R0110**	
Equities – unlisted	**R0120**	
Bonds	**R0130**	95 137 307
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	95 137 307
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	29 855 343
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	33 262
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	-978 298
Non-life and health similar to non-life	**R0280**	-978 298
Non-life excluding health	**R0290**	-978 298
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	634 736
Reinsurance receivables	**R0370**	136 197
Receivables (trade, not insurance)	**R0380**	98 059
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	2 377 174
Any other assets, not elsewhere shown	**R0420**	1 257 798
Total assets	**R0500**	128 677 383

Liabilities		**C0010**
Technical provisions – non-life	**R0510**	2 304 573
Technical provisions – non-life (excluding health)	**R0520**	2 304 573
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	349 186
Risk margin	**R0550**	1 955 388
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
TP calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	18 793 389
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	75 000
Reinsurance payables	**R0830**	377 005
Payables (trade, not insurance)	**R0840**	2 017 071
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	180 977
Total liabilities	**R0900**	23 748 015
Excess of assets over liabilities	**R1000**	104 929 368

S.05.01.02 Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Credit and suretyship insurance	
		C0090	C0200
Premiums written			
Gross – Direct Business	**R0110**	12 217 588	12 217 588
Gross – Proportional reinsurance accepted	**R0120**		
Gross – Non-proportional reinsurance accepted	**R0130**		
Reinsurers' share	**R0140**	810 122	810 122
Net	**R0200**	11 407 466	11 407 466
Premiums earned			
Gross – Direct Business	**R0210**	10 363 075	10 363 075
Gross – Proportional reinsurance accepted	**R0220**		
Gross – Non-proportional reinsurance accepted	**R0230**		
Reinsurers' share	**R0240**	896 044	896 044
Net	**R0300**	9 467 031	9 467 031
Claims incurred			
Gross – Direct Business	**R0310**	718 011	718 011
Gross – Proportional reinsurance accepted	**R0320**		
Gross – Non-proportional reinsurance accepted	**R0330**		
Reinsurers' share	**R0340**	-35 421	-35 421
Net	**R0400**	753 432	753 432
Changes in other technical provisions			
Gross – Direct Business	**R0410**	-1 174 149	-1 174 149
Gross – Proportional reinsurance accepted	**R0420**		
Gross – Non-proportional reinsurance accepted	**R0430**		
Reinsurers' share	**R0440**		
Net	**R0500**	-1 174 149	-1 174 149
Expenses incurred	**R0550**	5 642 747	5 642 747
Other expenses	**R1200**		
Total expenses	**R1300**		5 642 747

The lines of business that are not applicable in the case of Garantia Insurance Company Ltd are not shown in the template

S.05.02.01 Premiums, claims and expenses by country

		Home country	Top 5 countries (by amount of gross premiums written) — non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross – Direct Business	R0110	12 217 588						12 217 588
Gross – Proportional reinsurance accepted	R0120							
Gross – Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	810 122						810 122
Net	R0200	11 407 466						11 407 466
Premiums earned								
Gross – Direct Business	R0210	10 363 075						10 363 075
Gross – Proportional reinsurance accepted	R0220							
Gross – Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	896 044						896 044
Net	R0300	9 467 031						9 467 031
Claims incurred								
Gross – Direct Business	R0310	718 011						718 011
Gross – Proportional reinsurance accepted	R0320							
Gross – Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340	-35 421						-35 421
Net	R0400	753 432						753 432
Changes in other technical provisions								
Gross – Direct Business	R0410	-1 174 149						-1 174 149
Gross – Proportional reinsurance accepted	R0420							
Gross – Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500	-1 174 149						-1 174 149
Expenses incurred	R0550	5 642 747						5 642 747
Other expenses	R1200							
Total expenses	R1300							

S.17.01.02 Non-life technical provisions

		Direct business and accepted proportional reinsurance – Credit and suretyship insurance	Total Non-Life obligation
		C0100	C0180
Technical provisions calculated as a whole	R0010		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	-951 517	-951 517
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-1 366 271	-1 366 271
Net Best Estimate of Premium Provisions	R0150	414 754	414 754
Claims provisions			
Gross	R0160	1 300 703	1 300 703
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	387 973	387 973
Net Best Estimate of Claims Provisions	R0250	912 730	912 730
Total Best estimate – gross	R0260	349 186	349 186
Total Best estimate – net	R0270	1 327 484	1 327 484
Risk margin	R0280	1 955 388	1 955 388
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	R0290		
Best estimate	R0300		
Risk margin	R0310		
Technical provisions – total			
Technical provisions – total	R0320	2 304 574	2 304 574
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	-978 298	-978 298
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	3 282 872	3 282 872

The lines of business that are not applicable in the case of Garantia Insurance Company Ltd are not shown in the template

S.19.01.21 Non-life insurance claims

Non-life insurance claims

Total Non-Life Business

Accident year / Underwriting year	**Z0010**	1-Accident year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Development year → Year	0	1	2	3	4	5	6	7	8	9	10 & +		In Current Year	Sum of years (cumulative)
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**		**C0170**	**C0180**
Prior	**R0100**											-14 942	**R0100**	-14 942	-14 942
N-9	**R0160**										0		**R0160**	0	0
N-8	**R0170**									-3 672			**R0170**	-3 672	-3 672
N-7	**R0180**								-71 894				**R0180**	-71 894	-71 894
N-6	**R0190**							-43 311					**R0190**	-43 311	-43 311
N-5	**R0200**						-38 246						**R0200**	-38 246	-38 246
N-4	**R0210**					-11 983							**R0210**	-11 983	-11 983
N-3	**R0220**				-152 163								**R0220**	-152 163	-152 163
N-2	**R0230**			-49 694									**R0230**	-49 694	-49 694
N-1	**R0240**		69 577										**R0240**	69 577	69 577
N	**R0250**	908 638											**R0250**	908 638	908 638
												Total	**R0260**	592 310	592 310

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Development year → Year	0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**		**C0360**
Prior	**R0100**												**R0100**	
N-9	**R0160**												**R0160**	
N-8	**R0170**												**R0170**	
N-7	**R0180**												**R0180**	
N-6	**R0190**												**R0190**	
N-5	**R0200**												**R0200**	
N-4	**R0210**												**R0210**	
N-3	**R0220**				246 278								**R0220**	247 024
N-2	**R0230**			0									**R0230**	0
N-1	**R0240**		193 302										**R0240**	193 887
N	**R0250**	857 194											**R0250**	859 791
												Total	**R0260**	1 300 703

S.23.01.01 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	10 200 000	10 200 000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	90 729 368	90 729 368			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	100 929 368	100 929 368			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	100 929 368	100 929 368			
Total available own funds to meet the MCR	R0510	100 929 368	100 929 368			
Total eligible own funds to meet the SCR	R0540	100 929 368	100 929 368			
Total eligible own funds to meet the MCR	R0550	100 929 368	100 929 368			
SCR	R0580	23 181 969				
MCR	R0600	5 795 492				
Ratio of Eligible own funds to SCR	R0620	435.38 %				
Ratio of Eligible own funds to MCR	R0640	1741.52 %				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	104 929 368
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	4 000 000
Other basic own fund items	R0730	10 200 000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	90 729 368
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	6 004 729
Total Expected profits included in future premiums (EPIFP)	R0790	6 004 729

S.25.01.21 Solvency capital requirement – for undertakings on standard formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	20 608 282		
Counterparty default risk	R0020	360 788		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	15 201 856		
Diversification	R0060	-7 504 356		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	28 666 570		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	310 892
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-5 795 492
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	23 181 970
Capital add-on already set	R0210	
Solvency capital requirement	R0220	23 181 970
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01 Minimum capital requirement – only life or only non-life or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	1 524 008

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100	1 327 484	11 407 466
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Overall MCR calculation

		C0070
Linear MCR	R0300	1 524 008
SCR	R0310	23 181 969
MCR cap	R0320	10 431 886
MCR floor	R0330	5 795 492
Combined MCR	R0340	5 795 492
Absolute floor of the MCR	R0350	3 700 000
		C0070
Minimum Capital Requirement	R0400	5 795 492