GARANTIA INSURANCE COMPANY LTD THE SOLVENCY AND FINANCIAL CONDITION REPORT 2017

GARANTIA

SECURING OWNERSHIP

CONTENTS

GARANTIA INSURANCE COMPANY LTD

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

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

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

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

SUMMARY

In 2017, Garantia's gross premiums written (excluding the reinsurers' share) increased 24.7% to EUR 15.2 (12.2) million. Strong growth in the construction sector and a busy housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. The insurance exposure grew 13.0% and was EUR 1 491 (1 320) million at the end of the year. Claims paid remained at an exceptionally low level and the balance on the technical account before changes to equalization provision increased to EUR 4.3 (3.3) million. The claims ratio was 10.1% (12.4) and the combined ratio was 60.3% (64.9). Net return on investments recognised in profit and loss were EUR 11.5 (3.2) million. The return on investments at fair value was 6.6% (5.8). Garantia's earnings before tax increased to EUR 16.8 million (7.7) as a result of the improvement of the balance on the technical account and a significantly higher net return on investments recognised in profit and loss.

Garantia's values, Code of Conduct, strategy and business objectives form the basis for the company's risk 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. Internal control covers the material activities of all of the company's units and this includes the arrangement of appropriate reporting on all of the company's organisational levels. Risk management includes the identification, measurement, monitoring, management and reporting of the individual risks and combined effect of risks that the company is exposed to. Risk and solvency management is also integrated as a fixed part of Garantia's business processes, and planning and monitoring of operations. Garantia assesses the adequacy and appropriateness of its management and administrative systems in conjunction with annual planning at least once every year. In 2017, the management and administrative system was revised to meet the requirements of new regulation and to carry out changes and corrections based on observations made in 2017.

Garantia's risk position remained stable in 2017. The growth of insurance exposures took place in the highly dispersed mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. Investment grade guaranties made up 21.3% (21.4) of the insurance exposure (excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance). The biggest industry, construction, accounted for 43.7% (37.4) of the insurance exposure. The proportion of construction guaranties that are reinsured is 55.0% (52.1). Garantia's largest individual exposure, as defined in the EU Capital Requirements Regulation, was 20.7% (38.9) of the Taaleri Group's own funds. The risk level of investment activities was raised moderately when the share of finance-sector fixed income investments was reduced, and the share of corporate-sector fixed income investments and equities was increased to secure the return level.

Garantia's solvency remained strong. Garantia's own funds amounted to EUR 106.8 (100.9) million and clearly exceeded the Solvency Capital Requirement (SCR) of EUR 27.1 (23.2) million. The solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 393.6% (435.4). The increase in the Solvency Capital Requirement resulted from a growth in the insurance risk and 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.

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

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

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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 2017, the company had one office, which is located at the address Kluuvikatu 3, 00100 Helsinki. As of 19 February 2018, the office has been located at the address Kasarmikatu 21 B, 00130 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.

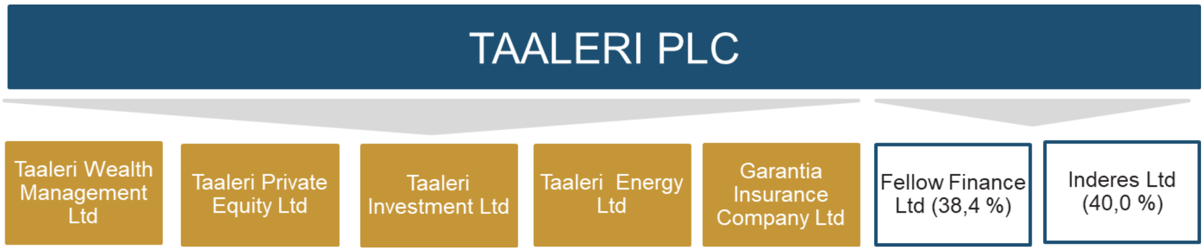

Image 1: Structure of the Taaleri Group 31 December 2017

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)10 183 51, e-mail firstname.lastname@finanssivalvonta.fi.

Garantia Insurance Company's annual general meeting of 9 March 2017 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky 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.

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 Financial Services segment.

A.2 Underwriting performance

Garantia's earnings before tax were EUR 16.8 million (7.7) as a result of the improvement of the balance on the technical account and a significantly higher net return on investments recognised in profit and loss.

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

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

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

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Pension fund act (1164/1992, as amended), related to which Garantia originally received a claim on 30 December 2011. Garantia considers that the claim is still unfounded which is why it has not been entered in the profit and loss account as a provision for outstanding claims.

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

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

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.

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

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

The investment portfolio (incl. cash and bank balances) was EUR 134 (127) million at the end of the year. The investment portfolio did not contain investments in securitised asset items.

Investment income and costs by asset class, euro

Income (at fair values)	2017	2016
Property, plant & equipment held for own use	0	0
Bonds	5 484 503	3 724 833
Collective investment underatkings	2 873 502	3 012 158
Cash and deposits		0
Total	**8 358 005**	**6 736 991**

Costs	2017	2016
Property, plant & equipment held for own use	0	0
Bonds	0	0
Collective investment underatkings	0	-12 983
Cash and deposits	-6 329	-7 224
Un-allocated	-411 269	-255 798
Total	**-417 598**	**-276 005**
Net investment income	**7 940 407**	**6 460 987**

Investment allocation at fair value, euro

	31.12.2017	31.12.2016
Bonds	101 459 725	95 137 307
Collective investment underatkings	32 239 695	29 855 343
Equity funds	27 979 035	23 233 164
Bond funds	0	3 200 937
Real estate investment funds	1 768 613	983 730
Private equity funds	2 492 046	2 437 512
Total	**133 699 420**	**124 992 650**

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 those to be paid later amounted to EUR 1.1 million on 31 December 2017 and consisted largely of leases for facilities. 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 governance 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.

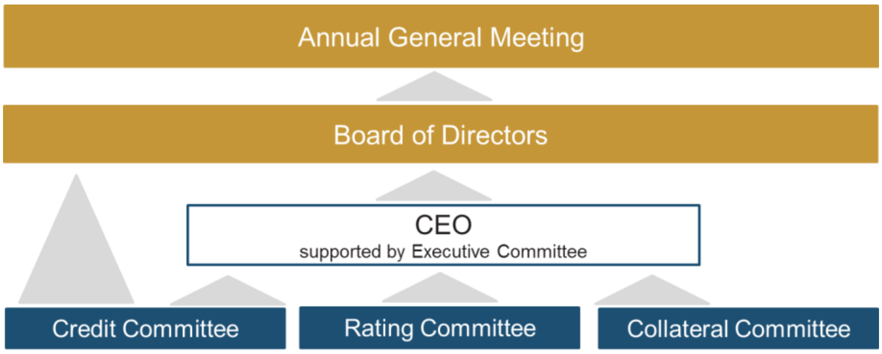

Image 2: Reporting relationships of Garantia's administrative and decision-making bodies

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 9 March 2017 elected Hannu Tonteri as Chairman of the Board of Directors and Juhani Elomaa (Vice Chairman), Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny as members of the Board. All were re-elected to their positions. The term of the members of the Board of Directors lasts until the end of the following Annual General Meeting. The company's Board of Directors convened 19 times during the financial year. The Board of Directors had no separate committees during the financial period.

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, Niina Pullinen and Martti Purhonen. No changes took place in the composition of the Executive Committee in the financial period.

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 (excl. 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 four 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 IT); (2) units that are responsible for risk control, carry out independent risk assessments and ensure that company guidelines and legislation and other regulations are complied with (Finance and Risk Management, Actuarial Function and the Appointed Actuary, compliance function); and (3) independent internal audit function (Internal audit).

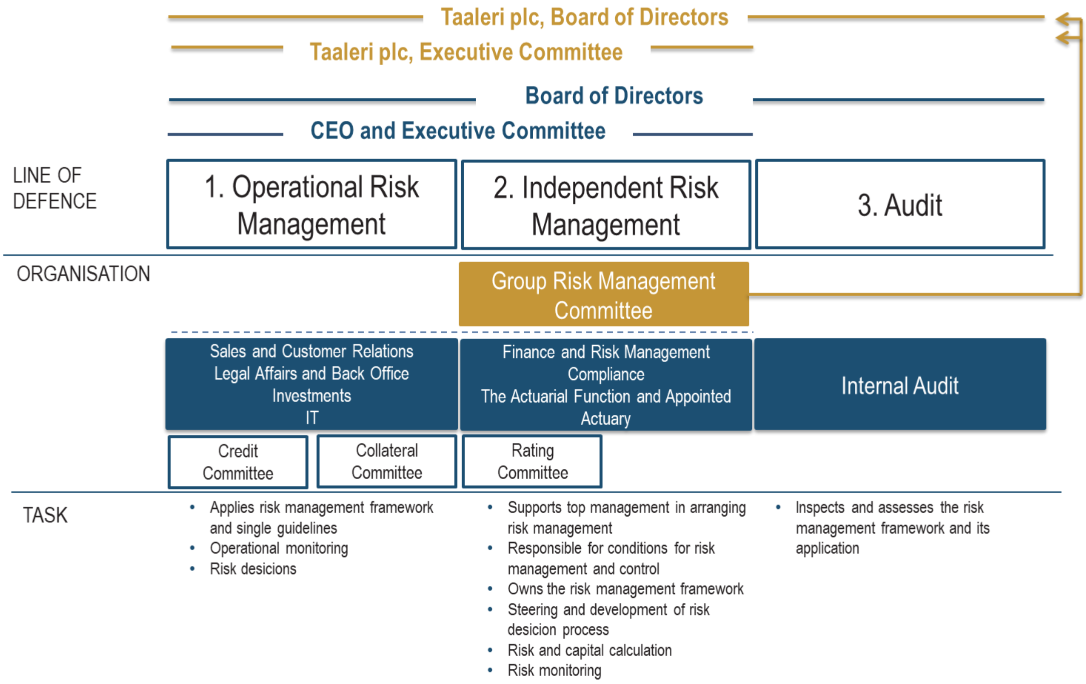

Image 3: Lines of defences of Garantia's internal control and risk management

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.

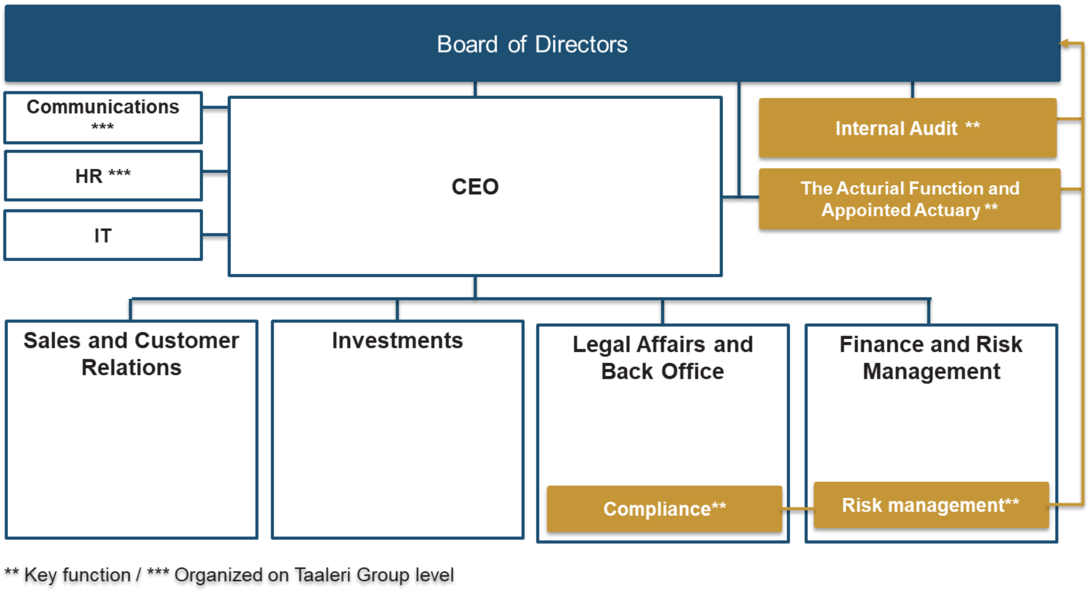

Image 4: Garantia's organisation structure and key functions

The target of the Compliance function is to strengthen clients' and the markets' confidence in Garantia. The compliance function monitors 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 the function's 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

Garantia assesses the adequacy and appropriateness of its management and administrative systems in conjunction with annual planning at least once every year. In 2017, the management and administrative system was revised to meet the requirements of new regulation and to carry out changes and corrections based on observations made in 2017. Key changes concerned knowing your customer / prevention of money laundering and terrorist financing and associated risk-based assessment, the management of guaranties and covenants, developing risk models, personnel qualifications and organising human resources.

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 the 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 Taaleri Group's compliance function annually assesses the remuneration scheme's compliance with regulations and that the remuneration scheme itself is being complied with. In addition, the Remuneration Committee of the Board of Taaleri Plc discusses, and the Board of Taaleri Plc approves Garantia's remuneration scheme as part of the Taaleri Group remuneration scheme. The Board of Taaleri Plc also monitors that provisions concerning remuneration systems and the general principles of the Taaleri Group's remuneration system are also observed in Garantia.

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. In 2017, the monthly fees paid to Board members came to EUR 0.2 (0.2) million.

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.

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

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

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

The total amount of variable remuneration for a single financial year, including both short and long-term remuneration by Garantia and Taaleri Plc's long-term equity-based incentive programme may not exceed the total amount of the total fixed salaries for one year (two years) as decided by the Board (Annual General Meeting).

The retirement age of the executive management and personnel is not agreed 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 other personnel members come under the scope of a supplementary pension scheme. A voluntary pension insurance was taken on 1 January 2017 to replace a pension arrangement that was based on the TEL supplementary pension system discontinued by the Finnish Government on 31 December 2016.

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 addition, other members of the company's personnel are subject to general 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. These principles follows the content of the insurance distribution directive (EU 2016/97) and the relevant national legislation under preparation (bill no. 172/2017).

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.

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.

The Board annually assesses the adequacy and appropriateness of the suitability and reliability requirements and the continued good reputation of the persons. 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. The results of the assessment of the good reputation of persons are submitted to the Financial Supervisory Authority annually.

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

Garantia's values, Code of Conduct, strategy and business objectives form the basis for the company's risk 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.

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

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

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

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

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

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

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 which the entire personal are involved in the preparation of) 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 qualitative assessment of principal risks in the risk and solvency assessment is based on unit-specific risk surveys conducted in the organisation that included the company's Executive Committee and most of its personnel. The scenarios that describe future trends are based on the scenarios used in the company's long-term and annual planning and which have been developed and discussed by the company's Board of Directors, Executive Committee, risk management and financial administration. The Risk Management function is responsible for coordinating and conducting the qualitative risk survey and preparing the report itself. 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 evaluation. 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 risks related to operations;
- 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, and also that the persons responsible for the Internal Audit function are not responsible for any other functions. In 2017 and 2016 the service was provided by PricewaterhouseCoopers Oy.

The Board of Taaleri Plc approves the audit plan of the Taaleri Group's Internal Audit annually, which includes the long-term (three years) and short-term (one year) audit plans and Garantia's Internal Audit plan 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, and the manner in which the insurance premiums and technical provisions are determined and the amount's accordance with regulatory requirements;
- ensure the appropriateness of the actuarial methods applied in the company;
- participate in the effective implementation and development of the risk management system, and 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 2017 the service was provided by Kaippio & Kaippio Oy 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.

The person responsible for a key outsourced function annually assesses the performance of the party carrying out the outsourced function and its ability and capacity to carry out the duties assigned to it in the future. The assessment is submitted to the Executive Committee, which will assess the risks related to outsourcing on the basis of the assessment and the sufficiency of measures that have been started or proposed. The Executive Committee reports on any significant observations it has made and on the measures that have been taken as a result to the company's Board.

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

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

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

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

During 2017, Garantia assessed the accuracy of individual parameters used in the economic capital model that is used in the steering of operations. The main changes were the update of the LGD parameters (Loss Given Default) and the introduction of a new rating model for residential mortgage guaranties and new PD parameters (Probability of Default) in accordance with the model. During the year Garantia renewed its collateral and covenant evaluation process and the procedures and reporting applied in the risk monitoring of residential mortgage guarantees.

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

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

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

Trend in claims incurred					
EUR thousand	Claims paid*	Change in provision for outstanding claims*	Claims incurred	% of insurance exposure	Claims ratio, %
2017	-343	-736	-1 079	0.07 %	10.1 %
2016	-934	-240	-1 174	0.09 %	12.4 %
2015	-1 421	-71	-1 492	0.13 %	15.1 %
2014	-569	157	-412	0.03 %	3.7 %
2013	-2 526	121	-2 405	0.18 %	22.2 %
2012	-1 772	504	-1 268	0.09 %	11.7 %
2011	-4 827	-753	-5 580	0.44 %	50.8 %
2010	-2 098	26	-2 072	0.15 %	18.7 %

* incl. Reinsurers' share

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

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

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

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

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

Industry classification is based on the classification of Statistics

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

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, control and report the related risks Market, counterparty (credit risk) and liquidity risk are the risks affecting the investment activities.

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

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

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

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

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

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

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

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

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

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

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

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

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.

The technical provisions that are based Garantia's capital adequacy calculations include EUR 5.9 million (6.0) in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance type credit and guarantee insurance. The expected profits included in future premiums refer to the present value of the difference between the forecast premiums written from the insurance exposure as at 31 December 2017 and the expected claims and operating expenses (excl. insurance acquisition costs) 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 the Solvency Capital Requirement and of economic capital, 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 2017, key development activities of operational risk management were re-assessed procedures for knowing your customer and prevention of money laundering and terrorist financing, and the implementation of these procedures, drafting of guidelines and organising operations in line with the requirements of the Data Protection Regulation, enhancement of internal control in outsourced functions, planning of personnel training and systematisation of the induction of new employees.

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 20.8% (38.9) of the Taaleri Group’s own funds.

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. As of 30 June 2017, the FAS balance sheet items “Debtors arising out of direct insurance operations” and “Other receivables” have been included in the Solvency II balance sheet (as negative) under technical provisions, whereas earlier they were recorded in the Solvency II balance sheet items “Insurance and intermediaries receivables” and “Any other assets, not elsewhere shown”.

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

	31.12.2017	31.12.2016	Change
Property, plant & equipment held for own use	99 572	125 805	-26 233
Investments (other than assets held for index-linked	133 732 682	125 025 912	8 706 770
Bonds	101 459 725	95 137 307	6 322 418
Collective Investments Undertakings	32 239 695	29 855 343	2 384 352
Deposits other than cash equivalents	33 262	33 262	0
Reinsurance recoverables from Non-life and health	-30 800	-978 298	947 498
Insurance and intermediaries receivables	0	634 736	-634 736
Reinsurance receivables	36 066	136 197	-100 131
Receivables (trade, not insurance)	18 237	98 059	-79 823
Cash and cash equivalents	414 065	2 377 174	-1 963 109
Any other assets, not elsewhere shown	0	1 257 798	-1 257 798
Total assets	**134 269 821**	**128 677 383**	**5 592 438**

The difference between Assets in Solvency II and FAS balance sheet 31.12.2017, euro

	Solvency II	FAS	Difference
Intangible assets	0	31 407	-31 407
Property, plant & equipment held for own use	99 572	99 572	0
Investments	133 732 682	127 379 143	6 353 539
Bonds	101 459 725	98 781 132	2 678 593
Collective Investments Undertakings	32 239 695	28 564 749	3 674 946
Deposits other than cash equivalents	33 262	33 262	0
Reinsurance recoverables	-30 800	0	-30 800
Debtors, Arising out of direct insurance operations (FAS)	0	522 668	-522 668
Reinsurance receivables	36 066	36 066	0
Receivables (trade, not insurance)	18 237	18 237	0
Cash and cash equivalents	414 065	414 065	0
Debtors, Other (FAS)	0	900 938	-900 938
Total assets	**134 269 821**	**129 402 095**	**4 867 726**

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 Investments 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 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	None. While prior to 30 June 2017 the FAS balance sheet item "Debtors arising out of direct insurance operations" was used as the value of this time, as of 30 June 2017 "Debtors arising out of direct insurance operations" has been included in the Solvency II balance sheet as a negative item in the provision for unearned premiums.
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	None. While prior to 30 June 2017 the FAS balance sheet item "Other receivables" was used as the value of this time, as of 30 June 2017 "Other receivables" has been included in the Solvency II balance sheet as a negative item in the outstanding claims provision.

D.2 Technical provisions

The technical provisions in the FAS balance sheet include the provision for unearned premiums and claims outstanding, and in addition the equalisation provision, while the technical provision in Solvency II balance sheet include only the provision for unearned premiums and claims outstanding. The equalisation provision, which is reported as part of technical provision in the FAS balance sheet, is included as part of basic own funds in the Solvency II balance sheet. Basic own funds are described in chapter E. Capital management.

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 gross premiums regarding the contracts in the portfolio during the reporting period. In the residential mortgage guaranties (HALG) product group and construction defect insurance product group, the assumed PVFP is zero as those product groups are based on a one-off payment.

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 the proportion of the insured risk. 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). In addition, the FAS balance sheet items “Debtors arising out of direct insurance operations” (as negative) and “Creditors arising out of direct insurance operations” have been included under provision for unearned premiums in the Solvency II balance sheet as of 30 June 2017.

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 using 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. In addition, the FAS balance sheet item “Other receivables” has been included (as negative) under outstanding claims provision in the Solvency II balance sheet as of 30 June 2017.

The reinsurers’ share of the technical provisions is included in assets in the Solvency II balance sheet, whereas it is subtracted from the actual 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. Furthermore, on account of the short maturity of the cash flow distribution of technical provisions and the low interest environment, technical provisions 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/EU, the volatility adjustment referred to in Article 77 d of Directive 2009/138/EU, the risk-free interest rate term structure referred to in Article 308 c of Directive 2009/138/EU, or the transitional deduction referred to in Article 308 d of Directive 2009/138/EU.

D.3 Other liabilities

According to the Solvency II balance sheet, the valuation of other liabilities differs from that in the FAS balance sheet in the respect that the Solvency II balance sheet includes deferred tax liabilities that are not included in the FAS balance sheet. In addition, the FAS balance sheet item “Insurance & intermediaries payables” has been included under provision for unearned premiums in the Solvency II balance sheet as of 30 June 2017, while earlier it was included under “Creditors arising out of direct insurance operations” in the Solvency II 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

	31.12.2017	31.12.2016	Change
Technical provisions – non-life	4 703 188	2 304 573	2 398 615
Best Estimate	2 592 390	349 186	2 243 204
Risk margin	2 110 798	1 955 388	155 410
Deferred tax liabilities	18 183 080	18 793 389	-610 309
Insurance & intermediaries payables	0	75 000	-75 000
Reinsurance payables	313 145	377 005	-63 860
Payables (trade, not insurance)	4 028 803	2 017 071	2 011 732
Any other liabilities, not elsewhere shown	239 425	180 977	58 448
Total liabilities	**27 467 642**	**23 748 015**	**3 719 627**
Excess of assets over liabilities	**106 802 179**	**104 929 368**	**1 872 811**

The difference between Liabilities in Solvency II and FAS balance sheet 31.12.2017, euro

	Solvency II	FAS	Difference
Technical provisions – non-life	4 703 188	19 968 575	-15 265 387
Best Estimate	2 592 390	0	2 592 390
Risk margin	2 110 798	0	2 110 798
Reinsurer's share of technical provisions (FAS)	0	-1 808 025	1 808 025
Equalisation provision (FAS)	0	72 535 691	-72 535 691
Deferred tax liabilities	18 183 080	0	18 183 080
Creditors, Arising out of direct insurance operations (FAS)	0	54 622	-54 622
Reinsurance payables	313 145	313 145	0
Payables (trade, not insurance)	4 028 803	4 028 803	0
Any other liabilities, not elsewhere shown	239 425	239 425	0
Total liabilities	**27 467 642**	**95 332 237**	**-67 864 595**
Excess of assets over liabilities	**106 802 179**	**34 069 858**	**72 732 321**

Balance sheet item	Numerical value used
Deferred tax liabilities	The total amount of deferred tax liabilities, including the deferred tax liabilities of valuation differences of the equalization provision, actual technical provisions (net), investments, intangible assets, other receivables and debtors and creditors arising out of direct insurance operations. The tax liabilities contained

	in these items are calculated by multiplying the items in question with the corporation tax percentage.
Insurance & intermediaries payables	None. While prior to 30 June 2017 the FAS balance sheet item “Creditors arising out of direct insurance operations” was used as the value of this item, as of 30 June 2017 it has been included in the Solvency II balance sheet as a negative item under provision for unearned premiums.
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	“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 and targets related to solvency, and ensures in an anticipatory manner that the company has adequate capital reserves for exceptional situations. The capital plan is based on an 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, the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and the economic capital model defined at a confidence level of 99.9%. Garantia only distributes dividends or returns capital to the owner when this does not put the A- credit rating at risk. The 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 106.8 (100.9) million as a result of the positive development of the fair value of the net profit for the financial year and investments.

Own funds (Tier 1), euro

	31.12.2017	31.12.2016	Change
Ordinary share capital (gross of own shares)	10 200 000	10 200 000	0
Reconciliation reserve	96 602 179	90 729 368	5 872 811
of which Forseeable dividends, distributions and charges	0	-4 000 000	4 000 000
Total	**106 802 179**	**100 929 368**	**5 872 811**

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

	31.12.2017	31.12.2016	Change
Own funds (Tier 1), € mn	106 802 179	100 929 368	5 872 811
Solvency Capital requirement (SCR), € mn	27 132 424	23 181 969	3 950 455
Minimum Capital requirement (MCR), € mn	6 783 106	5 795 492	987 614
Own funds / SCR, %	394 %	435 %	-42 pp.
Own funds / MCR, %	1575 %	1742 %	-167 pp.

Garantia's shareholders' equity and reserves presented in the financial statements were EUR 34.1 (29.8) million and the own funds in accordance with the Insurance Companies Act the above-mentioned EUR 106.8 (100.9) 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 72.5 (73.6) included in the technical provisions in the financial statements. The item in question includes the deferred tax liabilities of EUR 14.5 (14.7) million presented 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 part "Items in financial statements included in Solvency II technical provisions" in the table below adjusts the calculation to account for the fact that the three balance sheet items included in this part of the table have been included under technical provisions in the Solvency II balance sheet as of 30 June 2017.

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

	31.12.2017	31.12.2016
Shareholder's equity and reserves (+)	**34 069 858**	**29 755 813**
Forseeable dividends, distributions and charges (-)	0	-4 000 000
Valuation difference of Technical provisions - non-life (+)	13 426 562	10 552 062
Provision for unearned premiums and claims outstanding (net) in financial statements	18 160 550	13 834 933
Technical provisions - non-life in Solvency II	-4 703 188	-2 304 573
Reinsurance recoverables from Non-life in Solvency II	-30 800	-978 298
Items in financial statements included in Solvency II technical provisions	-1 368 984	0
Debtors, Arising out of direct insurance operations	-522 668	0
Debtors, Other	-900 938	0
Creditors, Arising out of direct insurance operations	54 622	0
Equalisation provision (+)	72 535 691	73 614 598
Valuation difference of Investments	6 353 539	9 896 285
Book-value of investments in financial statements	-127 379 143	-113 566 296
Fair value of investments in Solvency II	133 732 682	123 462 581
Intangible assets (-)	-31 407	-96 000
Deferred tax liabilities (-)	-18 183 080	-18 793 389
Own funds	**106 802 179**	**100 929 368**

E.2 Solvency Capital Requirement and minimum capital requirement

On 31 December 2017 Garantia's Solvency Capital Requirement was EUR 27.1 (23.2) million. The increase in the Solvency Capital Requirement resulted from a growth in the market risk and the non-life insurance risk. The increase in market risk is mainly the result of changes in allocation and an increase in market values. The increase in insurance risk is mainly the result of an increase in premium income and forecast premium income. The Solvency Capital Requirement describes the amount of unexpected loss once every 200 years.

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

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

	31.12.2017	31.12.2016	Change
Basic solvency capital requirement	**33 568 527**	**28 666 569**	**4 901 958**
Market risk	24 785 608	20 608 282	4 177 326
Interest rate risk	3 616 859	2 971 327	645 532
Equity risk	12 422 919	9 627 715	2 795 204
Property risk	442 153	245 933	196 220
Spread risk	10 225 910	8 395 641	1 830 269
Currency risk	4 582 038	4 291 902	290 136
Concetration risk	7 526 860	7 859 259	-332 399
Diversification benefit	-14 031 131	-12 783 495	-1 247 636
Counterparty default risk	256 502	360 788	-104 286
Non-life underwriting risk	17 111 992	15 201 856	1 910 136
Premium and reserve risk	7 371 630	6 534 457	837 173
Lapse risk	1 353 639	1 460 126	-106 487
Catastrophe risk	13 650 424	12 111 712	1 538 712
Diversification effect	-5 263 701	-4 904 439	-359 262
Intangible asset risk	0	0	0
Diversification effect	-8 585 575	-7 504 357	-1 081 218
Operational risk	**347 003**	**310 892**	**36 111**
Adjustment for loss-absorbing capacity	**-6 783 106**	**-5 795 492**	**-987 614**
Total	**27 132 424**	**23 181 969**	**3 950 455**

On 31 December 2017, Garantia's minimum capital requirement was EUR 6.8 (5.8) million. In the minimum capital requirement calculation (insurance type, credit and guaranties), the net (with reinsurance contracts/special purpose vehicles share deducted) best estimate used and technical provisions totalled EUR 2.6 (1.3) million and net (with reinsurance contract share deducted) premiums written calculated over the previous 12 months were EUR 14.2 (11.4) million. In 2016 and 2017, the minimum capital requirement was at its lower limit, which is 25% of the Solvency Capital Requirement. As a result, the increase in minimum capital requirement was entirely the result of the increase in 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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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**	99 572
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	133 732 682
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities – listed	**R0110**	
Equities – unlisted	**R0120**	
Bonds	**R0130**	101 459 725
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	101 459 725
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	32 239 695
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**	-30 800
Non-life and health similar to non-life	**R0280**	-30 800
Non-life excluding health	**R0290**	-30 800
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**	
Reinsurance receivables	**R0370**	36 066
Receivables (trade, not insurance)	**R0380**	18 237
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**	414 065
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	134 269 821

Liabilities		C0010
Technical provisions – non-life	R0510	4 703 188
Technical provisions – non-life (excluding health)	R0520	4 703 188
TP calculated as a whole	R0530	
Best Estimate	R0540	2 592 390
Risk margin	R0550	2 110 798
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	18 183 080
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	313 145
Payables (trade, not insurance)	R0840	4 028 803
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	239 425
Total liabilities	R0900	27 467 642
Excess of assets over liabilities	R1000	106 802 179

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**	15 235 465	15 235 465
Gross – Proportional reinsurance accepted	**R0120**		
Gross – Non-proportional reinsurance accepted	**R0130**		
Reinsurers' share	**R0140**	1 008 260	1 008 260
Net	**R0200**	14 227 205	14 227 205
Premiums earned			
Gross – Direct Business	**R0210**	11 566 770	11 566 770
Gross – Proportional reinsurance accepted	**R0220**		
Gross – Non-proportional reinsurance accepted	**R0230**		
Reinsurers' share	**R0240**	929 005	929 005
Net	**R0300**	10 637 765	10 637 765
Claims incurred			
Gross – Direct Business	**R0310**	1 859 030	1 859 030
Gross – Proportional reinsurance accepted	**R0320**		
Gross – Non-proportional reinsurance accepted	**R0330**		
Reinsurers' share	**R0340**	1 039 017	1 039 017
Net	**R0400**	820 013	820 013
Changes in other technical provisions			
Gross – Direct Business	**R0410**	1 078 907	1 078 907
Gross – Proportional reinsurance accepted	**R0420**		
Gross – Non-proportional reinsurance accepted	**R0430**		
Reinsurers' share	**R0440**		
Net	**R0500**	1 078 907	1 078 907
Expenses incurred	**R0550**	6 000 554	6 000 554
Other expenses	**R1200**		
Total expenses	**R1300**		6 000 554

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	15 235 465						15 235 465
Gross – Proportional reinsurance accepted	R0120							
Gross – Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	1 008 260						1 008 260
Net	R0200	14 227 205						14 227 205
Premiums earned								
Gross – Direct Business	R0210	11 566 770						11 566 770
Gross – Proportional reinsurance accepted	R0220							
Gross – Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	929 005						929 005
Net	R0300	10 637 765						10 637 765
Claims incurred								
Gross – Direct Business	R0310	1 859 030						1 859 030
Gross – Proportional reinsurance accepted	R0320							
Gross – Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340	1 039 017						1 039 017
Net	R0400	820 013						820 013
Changes in other technical provisions								
Gross – Direct Business	R0410	1 078 907						1 078 907
Gross – Proportional reinsurance accepted	R0420							
Gross – Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500	1 078 907						1 078 907
Expenses incurred	R0550	6 000 554						6 000 554
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	431 156	431 156
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-1 440 568	-1 440 568
Net Best Estimate of Premium Provisions	R0150	1 871 724	1 871 724
Claims provisions			
Gross	R0160	2 161 234	2 161 234
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	1 409 768	1 409 768
Net Best Estimate of Claims Provisions	R0250	751 466	751 466
Total Best estimate – gross	R0260	2 592 390	2 592 390
Total Best estimate – net	R0270	2 623 190	2 623 190
Risk margin	R0280	2 110 798	2 110 798
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	4 703 188	4 703 188
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	-30 800	-30 800
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	4 733 988	4 733 988

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											-11 039	R0100	-2 660	-11 039
N-9	R0160									-3 672	-3 891		R0160	-3 891	-7 564
N-8	R0170								-71 894	-61 295			R0170	-61 295	-133 189
N-7	R0180							-43 311	-25 778				R0180	-25 778	-69 088
N-6	R0190						-38 246	-40 031					R0190	-40 031	-78 276
N-5	R0200					-11 983	-13 270						R0200	-13 270	-25 253
N-4	R0210				-152 163	-186 415							R0210	-186 415	-338 578
N-3	R0220			-49 694	-48 645								R0220	-48 645	-98 339
N-2	R0230		69 577	-63 958									R0230	-63 958	5 619
N-1	R0240	908 638	-52 768										R0240	-52 768	855 870
N	R0250	571 064											R0250	571 064	571 064
												Total	R0260	72 354	671 226

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											0	R0100	0
N-9	R0160									0	0		R0160	0
N-8	R0170								0	0			R0170	0
N-7	R0180							0	0				R0180	0
N-6	R0190						0	0					R0190	0
N-5	R0200					0	0						R0200	0
N-4	R0210				246 278	-44 704							R0210	-42 706
N-3	R0220			0	-273 477								R0220	-273 374
N-2	R0230		193 302	163 163									R0230	163 749
N-1	R0240	857 194	113 849										R0240	114 590
N	R0250	2 191 101											R0250	2 198 974
												Total	R0260	2 161 234

E.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	96 602 179	96 602 179			
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	106 802 179	106 802 179			
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	106 802 179	106 802 179			
Total available own funds to meet the MCR	R0510	106 802 179	106 802 179			
Total eligible own funds to meet the SCR	R0540	106 802 179	106 802 179			
Total eligible own funds to meet the MCR	R0550	106 802 179	106 802 179			
SCR	R0580	27 132 424				
MCR	R0600	6 783 106				
Ratio of Eligible own funds to SCR	R0620	393,6330 %				
Ratio of Eligible own funds to MCR	R0640	1574,5321 %				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	106 802 179	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720	0	
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	96 602 179	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770		
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	5 946 729	
Total Expected profits included in future premiums (EPIFP)	R0790	5 946 729	

S.25.01.21 Solvency Capital Requirement – for undertakings on standard formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	24 785 608		
Counterparty default risk	R0020	256 502		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	17 111 992		
Diversification	R0060	-8 585 575		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	33 568 527		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	347 003
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-6 783 106
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	27 132 424
Capital add-on already set	R0210	
Solvency capital requirement	R0220	27 132 424
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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	2 071 979

		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	2 623 190	14 227 205
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	2 071 979
SCR	R0310	27 132 424
MCR cap	R0320	12 209 591
MCR floor	R0330	6 783 106
Combined MCR	R0340	6 783 106
Absolute floor of the MCR	R0350	3 700 000
		C0070
Minimum Capital Requirement	R0400	6 783 106