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GARANTIA INSURANCE COMPANY

The mission of Garantia is to improve capital efficiency. Our goal is to modernize inefficient collateral practices and provide our customers with easy and cost-effective guarantee solutions and new business opportunities through digital channels.

We are a specialised non-life credit and guaranty insurance company supervised by the Finnish Financial Supervisory Authority, and we have extensive experience in the financial sector. We collaborate closely with our customers and partners and build long-lasting customer relationships. We increase the trust between different parties and thus promote the generation of business transactions. Our customers are Finnish companies and consumers.

Our competitive advantages are based on a broad network for cooperation and partnership, solutions tailored for individual customers and a scalable way of working. On 11 September 2019, the international credit rating agency Standard & Poor's confirmed Garantia's rating as A- with a stable rating outlook, which is a testament to the reliability and strong solvency of our operations.

Garantia is a wholly owned subsidiary of Taaleri Plc and part of Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on NASDAQ OMX Helsinki. Taaleri Group's business consists of three segments: Wealth Management, Financing and Energy. Taaleri offers 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

Business and performance

Garantia's insurance business consists entirely of guaranty insurance. In 2019 gross premiums written accumulated from the company's guaranty insurance operations grew by 12.9% and totalled EUR 19.6 (17.4) million. The insurance exposure grew by 10.2% and was EUR 1 837 (1 667) million at the end of the year.

The balance on the technical account before changes in the equalisation provision, which describes the profitability of Garantia's insurance operations, fell during the financial year to EUR 5.9 (8.1) million. The decline in profitability was a result of the growth in claims incurred and operating expenses. However, claims incurred from guaranty insurance remained at a low level and were EUR 1.6 (-0.8¹) million. The relative increase in claims incurred was influenced by the fact that claims incurred were negative during the comparison period and returned closer to the normal level in 2019. The claims ratio, which describes the relative amount of claims incurred, was 12.2% (-6.4) and the combined ratio, which describes the overall profitability of insurance operations, was 55.7% (34.0). The profitability of the company's insurance operations was good during the past financial year.

The fair value of Garantia's investment assets amounted to EUR 150.8 (134.4) million at the end of the year. The purpose of the company's investment assets is to cover the technical provisions arising from insurance operations and the equity capital. The return on investments has a material impact on the company's profit for the financial year. In contrast with estimates, 2019 was a good year on the investment markets. The equity markets rose despite fears of slowing US economic growth after the Federal Reserve lowered the federal funds rate several times. Corporate bond risk premiums contracted, bringing good returns to fixed income investors. Uncertainties such as the trade war between the USA and China and Britain's exit from the EU seemed to have eased off. In general, nearly all asset classes reached positive returns. Garantia's net return on investments recognised in profit and loss totalled EUR 6.3 (1.9) million during the financial year and the return on investments at fair value rose to 8.1% (-1.7).

Garantia's earnings before tax amounted to EUR 13.8 (9.2) million. Earnings were positively influenced especially by the year-on-year increase in net return on investments.

Risk and solvency management

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 the company's units and this includes the arrangement of appropriate reporting on all 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 comprehensively evaluates its corporate governance system on an annual basis.

Risk position of insurance and investment operations

Garantia's risk position remained stable in 2019. Of the total insurance exposure, 45% (39) consisted of consumer exposures and 55% (61) of corporate exposures.

The growth of the total insurance exposure during 2019 was mainly attributable to the growth in the highly dispersed residential mortgage guaranty portfolio, that forms the bulk of the consumer exposures. The residential mortgage portfolio has a long history of low claims ratio, and the portfolio is dispersed with regards to the timing of underwriting. The exposures in the portfolio follow a straight-line amortisation schedule.

¹ In 2018 the company's claims incurred were EUR 0.8 million negative.



The share of the corporate insurance exposure classified as investment grade (with a rating between AAA and BBB-) made up 12.6% (10.7) of the corporate insurance exposure, while exposures rated BB- or above accounted for 72.4% (79.5). The slight weakening of the rating distribution was caused by a reduction in the creditworthiness of customer companies in the construction sector. However, the share of exposures with weak credit ratings of C+ or lower remained low and was 1.7% (1.7). The principal sectors in the corporate insurance exposure were construction at 50.9% (51.8) and manufacturing at 21.0% (21.6). The proportion of reinsured construction guaranties was 55.3% (53.5). At the end of the year, Garantia's largest individual exposure accounted for 21.2% (22.3) of Taaleri Group's own funds.

The risk level of investment activities was retained at a moderate level. At the end of the year, fixed income investments made up 84.4% (87.4), equity investments (incl. private equity investments) 14.4% (11.1) and real estate investments 1.2% (1.4) of the investment portfolio (incl. cash and bank balances).

Solvency

Garantia's solvency remained strong in 2019. Garantia's own funds amounted to EUR 112.7 (103.3) million at the end of the financial year and the corresponding Solvency Capital Requirement was EUR 48.6 (44.2) million. The company's solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 231.8% (233.4)². Therefore, the company's own funds are more than double the amount of the solvency requirement under the Insurance Companies Act and the Solvency II capital requirements concerning insurance companies; the own funds include a loss buffer totalling EUR 64.1 (59.1) million.

Garantia's basic own funds grew as a result of an increase in the net profit for the financial year and in the fair value of investment assets. The increase in the value of investment assets caused a corresponding increase in the solvency capital requirement for market risk.

Garantia's own funds consist fully 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. Garantia does not use the matching adjustment or the volatility adjustment in the calculation technical provisions. 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. Garantia does not apply the transition arrangements of technical provisions or market risk calculations.

Garantia's solvency capital requirement has included a capital add-on set by the Financial Supervisory Authority as of 30 June 2018. The Financial Supervisory Authority assesses the amount of the capital add-on at least once a year. The Financial Supervisory Authority previously adjusted its decision regarding the capital add-on on 17 June 2019, when the capital add-on was set at EUR 19.8 (17.8³) million. The updated add-on is included in the company's solvency capital requirement as of 30 June 2019.

In its decision regarding the capital add-on, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the Solvency Capital Requirement calculation. The Financial Supervisory Authority also stated that the requirement to use an internal model approach is not appropriate in Garantia's case.

Credit rating

Standard & Poor's Global Ratings Europe Limited (S&P) affirmed Garantia Insurance Company's financial strength rating (FSR) and the company's financial enhancement rating (FER) as A- with a stable rating outlook on 11 September 2019.

² The standard parameters of the Solvency II standard formula's insurance risk module used in the company's solvency calculation were revised, effective from 1 January 2020. If the new parameters had been applied on 31 December 2019, Garantia's solvency ratio would have been 219.3% at the end of the financial year.

³ The capital add-on that was in force until 30 June 2018 in parentheses.



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. The company has business locations in Helsinki and Turku. The address of the Helsinki office is Kasarmikatu 21 B, 00130 Helsinki and that of the Turku office is Linnankatu 13a A 18, 20100 Turku.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of 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 2019

On 31 August 2018, Garantia acquired the entire share capital of Suomen Vuokravastuu Oy (SVV), and on 31 December 2018 Suomen Vuokravastuu Oy was merged in an absorption merger into Garantia Insurance Company Ltd. Thus, Garantia did not have any subsidiaries at the end of the year or during the 2019 reporting period.

Garantia's operations, as an independent insurance company and as part of the Taaleri Group, are supervised by the Financial Supervisory Authority. The address of the Financial Supervisory Authority is Snellmaninkatu 6, 00100 Helsinki, the telephone number is +358 (0)10 183 51 and the e-mail addresses are in the form firstname.lastname@finanssivalvonta.fi.

The annual general meeting held on 22 February 2019 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Ulla Nykky as the responsible auditor. Ernst & Young's address is Alvar Aallonkatu 5 C, 00100 Helsinki, its telephone number is +358 (0)207 280 190 and its e-mail addresses are in the form firstname.lastname@fi.ey.com.

Garantia's primary geographical area of operations is Finland. In 2020, Garantia also announced that it would start the free provision of insurance services in some EEA states (Norway, Poland and Spain). Garantia's solutions for companies include corporate loan guaranties, commercial bonds, portfolio guaranties for residential leases, investment guaranties and residual value guaranties. Garantia's solutions for consumers include Takaamo and Securent residential lease guaranties and residential mortgage guaranties that are 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 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 the International Financial Reporting Standards (IFRS). These statements report on Garantia as part of the Group's Financing segment⁴.

A.2 Underwriting performance

Garantia's earnings before taxes amounted to EUR 13.8 (9.2) million in 2019. Earnings were positively influenced especially by the year-on-year increase in net return on investments, which totalled EUR 6.3 (1.9) million. The balance on the technical account before changes to the equalisation provision decreased to EUR 5.9 (8.1) million due to increases in claims incurred and operating expenses.

Garantia's gross premiums written increased by 12.9% to EUR 19.6 (17.4) million during the financial year. Ceded reinsurance accounted for EUR 1.0 (1.0) million of the premiums written total, which means that net premiums written (premiums written with the reinsurers' share deducted) increased by 13.9% to EUR 18.6 (16.3) million. The majority of the strong growth in premiums written was mainly attributable to residential mortgage guaranties, the demand for which was strong throughout the year. Low market interest rates kept demand for corporate pension loan guaranties, tied to the employees' pension insurance (TyEL) reference rate, at a moderate level, and the cooling of the construction sector business cycle reduced the demand for commercial bonds. Earned premiums grew by 8% to EUR 13.2 (12.3) million during the financial year.

The insurance exposure grew by 10.2% and was EUR 1 837 (1 667) million at the end of the year. Residential mortgage guaranties accounted for 44.5% (39.3) of the total exposure, commercial bonds 29.1% (30.8), corporate bond guaranties 19.7% (22.1) and other guaranties 6.7% (7.8).

Claims incurred totalled EUR 1.6 (-0.8⁵) million during the financial period. Claims paid increased and the provision entered for claims outstanding increased, but the claims ratio remained low at 12.2% (-6.4). The ratio of claims incurred against the gross exposure of the insurance portfolio was low at 0.09% (-0.05). The majority of the claims incurred during the financial period were related to commercial guaranties, while claims related to other product groups remained at a low level. The relative growth in claims incurred was partly explained by the fact that, in an exception from the norm, claims incurred were negative during the comparison period.

Claims incurred included EUR 1.0 (0.8) million in gross claims paid. On the other hand, EUR 0.6 (1.2) million was recovered from claims paid during and prior to the financial year, in addition to which the reinsurers' share of the claims paid was EUR 0.4 (0.2) million. The net outstanding claims provision in the balance sheet after accounting for the reinsurers' share increased by EUR 1.3 million (fell by EUR 0.4 million), increasing claims incurred. Garantia did not have any claims of recourse based on insurance compensation payments in its balance sheet at the end of the financial year or comparison period.

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) and subsequently declared bankrupt on 5 February 2018, related to which Garantia originally received a claim on 30 December 2011. The processing of the case in the district court has not yet begun, due to other pending investigations related to the pension fund. 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 16% to EUR 5.8 (5.0) million during the financial year. The growth was primarily a result of measures taken to develop business operations. The expense ratio was 43.4% (40.1).

The balance on the technical account before changes to the equalisation provision fell to EUR 5.9 (8.1) million, and the combined ratio rose to 55.7% (34.0). The decline in the balance on the technical account was a result of the growth in claims incurred and operating expenses. The equalisation provision decreased by EUR 1.6 (-0.8) million and the balance on the technical account came to EUR 7.5 (7.3) million.

⁴ The name of the segment from 1 January 2020 is Insurance.

⁵ In the 2018 financial year, the amount recovered from claims paid previously exceeded the amount of claims paid, meaning that claims incurred had a positive impact on profit.



During the financial period, Garantia guaranteed its fourth multi-issuer bond. Three medium-sized Finnish companies were the issuers of the five-year bond totalling EUR 40 million. Multi-issuer bonds offer medium-sized companies cost-effective access to the capital markets. The previous multi-issuer bonds guaranteed by Garantia were issued in 2013, 2014 and 2018.

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.

In contrast with estimates, 2019 was a good year on the investment markets. The equity markets rose despite fears of slowing US economic growth after the Federal Reserve lowered the federal funds rate several times. Corporate bond risk premiums contracted, bringing good returns to fixed income investors. Uncertainties such as the trade war between the USA and China and Britain's exit from the EU seemed to have eased off. In general, nearly all asset classes reached positive returns.

Garantia's net return on investments recognised in profit and loss amounted to EUR 6.3 (1.9) million and mostly comprised fixed-income returns, sales profits and reversals of impairments made in previous years. The fair values of investments rose substantially. The valuation difference between the fair value and the book value of investment assets was EUR 6.4 (1.8) million at the end of December.

The return on investments at fair value without operating expenses from investment activities was 8.1% (-1.7). Net investment income from capital employed at fair value was EUR 10.8 (-2.6) million, or 8.0% (-1.9).

Garantia's investment portfolio (incl. cash and bank balances) at fair value was EUR 150.8 (134.4) million at the end of the year.

Investment income and expenses by asset class, euro

Income (at fair values)	2019	2018
Property, plant & equipment held for own use		0
Bonds	7 371 605	372 024
Collective investment underatkings	3 613 527	-2 792 801
Cash and deposits	-2 052	-4 835
Total	10 983 080	-2 425 612

Expenses	2019	2018
Property, plant & equipment held for own use	0	0
Bonds	0	0
Collective investment underatkings	0	0
Cash and deposits	0	0
Un-allocated	-192 929	-207 296
Total	-192 929	-207 296
Net investment income	10 790 151	-2 632 908

Investment allocation at fair value, euro

	31.12.2019	31.12.2018
Bonds	127 254 263	117 519 620
Collective investment underatkings	23 524 781	16 884 218
Equity funds	19 028 291	12 342 091
Bond funds	0	0
Real estate investment funds	1 821 296	1 945 676
Private equity funds	2 675 194	2 596 452
Total	150 779 043	134 403 838



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 of operating expenses attributable 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.

At the end of 2019, Garantia had rental and leasing liabilities resulting from rents and leases payable in upcoming financial periods that amounted to EUR 0.8 (0.9) million. Rental and leasing liabilities comprised the rental and leas e expenses for business premises, company cars, IT equipment and office machines. The leasing agreements are operating leases by nature.

A.5 Other information



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 corporate governance 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 company's Board of Directors was composed of Hannu Tonteri (Chairman of the Board of Directors), Karri Haaparinne, Timo Hukka, Jukka Ohls, Antti Suhonen and Tomi Yli-Kyyny (1 January - 22 February) during the reporting period. The term of the members of the Board of Directors lasts until the end of the following Annual General Meeting. The Annual General Meeting was held on 22 February 2019. The company's Board of Directors convened 11 times during the reporting period. 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.

On 20 June 2019 Garantia's Board of Directors appointed Deputy CEO Titta Elomaa as the new CEO as of 1 July 2019. She had been responsible for the duties of the CEO since September 2018. The company's management team consisted of Titta Elomaa, Tuukka Fabritius, Niina Pullinen (until 28 September), Martti Purhonen (until 14 November), Henrik Allonen (as of 1 November) and Timo Lehikoinen (as of 1 December) during the financial year.



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 (excluding 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 two 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 principle, tasks are divided into (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; (2) units that are responsible for risk control, carry out independent risk assessments and ensure that company guidelines and acts and other legal provisions are complied with; and (3) independent internal audit. External control is the responsibility of the auditors and supervisory authorities.

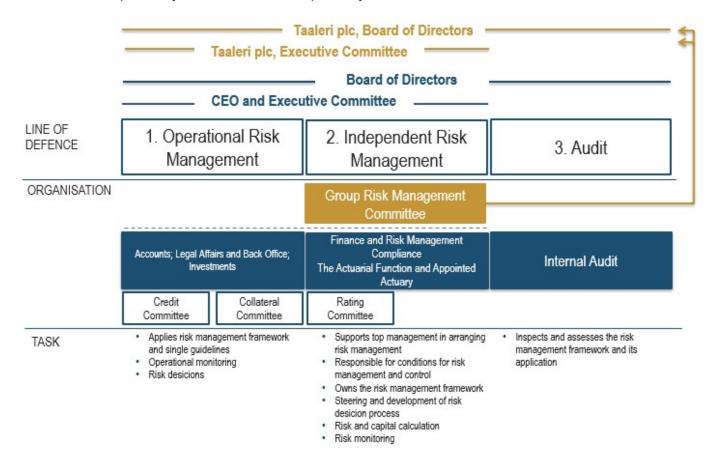


Image 3: Lines of defences of Garantia's internal control and risk management

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.





** Key function / *** Organized on Taaleri Group level

Image 4: Garantia's organisation structure and key functions

The target of the function that supervises compliance with regulations is to strengthen clients' and the markets' confidence in Garantia. The 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. The changes to the management and administration system



carried out in 2019 were related to acknowledging new regulations and the new strategy, improving the documentation of the internal economic capital model, and the validations and analyses carried out therein. The calculation bases of technical provisions in bookkeeping were also updated, and the internal audit's recommendations with respect to the own risk and solvency assessment (ORSA process) were implemented as part of the administration system.

Remuneration policy

The objective of Garantia's remuneration scheme is to ensure that personnel are committed to the long-term development of the company, to create an image of an attractive employer and motivate personnel to work together to achieve the company's targets. The Board of Directors assesses and confirms Garantia's remuneration scheme and the amount of the annual performance-related remuneration and supervises compliance with the remuneration scheme. The 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 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 are not in an employment or service relationship with the company and do not come under the scope of the remuneration scheme. In 2019, the fees paid to Board members totalled EUR 0.15 (0.17) 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.

In 2019, Garantia's remuneration scheme consisted of

- 1. a fixed basic salary and conventional fringe benefits, based on how demanding a position is and on personal competence and performance;
- 2. variable short-term remuneration, based on achievement of the targets of the company's annual plan; and
- 3. variable long-term remuneration, based on realisation of the company's strategic targets.

The structure of the company's variable remuneration scheme is the same for the executive management and the personnel. The personnel (executive management) have the opportunity to receive a maximum amount equal to 7 (9) months' salary as variable remuneration. The maximum remuneration amounts include both short-term and long-term remuneration. The financial instrument in both remuneration schemes is cash.

In the 2019 short-term remuneration scheme the accumulation of remuneration was based on targets relating to sales of new insurance, the profitability of insurance operations and personal targets.

In deviation from the above, the short-term remuneration objectives of persons operating in the company's independent control functions⁶ are determined in a such way that their fulfilment is not dependent on the company's business objectives being met or on the company's financial results.

The amount of the bonus accumulated from the long-term remuneration scheme was based on the growth of the solvency capital in accordance with Solvency II regulations. Long-term bonuses are paid in arrears three (3) years after the end of the earnings period. The bonus in the long-term remuneration scheme will only be paid if the company's solvency capital amount 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.

In addition to the actual remuneration objectives, a condition for accumulating and paying remuneration under both short- and long-term remuneration schemes is the fulfilment of qualitative criteria. In this context, qualitative criteria mean, for example, that the person to be rewarded has complied in their operations with legislative provisions, the

⁶ Independent control functions in the company are the risk management function and the compliance function.



company's internal instructions and procedures, acted in compliance with the company's values, and complied in their operations with the good governance principles confirmed by the company. Remuneration already paid can also be re-collected if information comes to light based on which the remuneration should have been left unpaid in the first place.

The company's Board of Directors may also unilaterally resolve to amend the remuneration scheme, to reduce the amount of the bonus or not to pay the bonuses if material changes take place in the company or its operating environment.

In addition to the remuneration presented above, the Board of Directors of Taaleri Plc may decide on encouraging the commitment of the key persons of its subsidiaries using a share-based incentive programme based on which the participating persons can receive a bonus paid partly as Taaleri shares and/or partly as cash for the work performance during the earning and commitment period. Garantia has not entered a provision in accordance with the Finnish accounting system for the bonuses estimated on the basis of the Taaleri Group's long-term remuneration scheme (synthetic options) in its financial statements as Taaleri Plc enters these remuneration programmes in the consolidated IFRS financial statements under shareholder's equity.

Key persons selected for the long-term equity-based incentive programme must possess some skill or ability that is critical to the Group's business operations, excellent cooperative skills, a strong vision of the future, a solid value base and a capacity to challenge current practices. In addition, key persons' actions have a direct or indirect impact on the performance of the Group. The Executive Committee of the Taaleri Group prepares a proposal to the Remuneration Committee on persons to be included in the incentive programme and the amount of their remuneration. The decision on the persons to be included in the system and the amount of their remuneration is made by the Board of Taaleri Plc.

On 28 October 2015, the Board of Directors of Taaleri Plc decided on an equity-based incentive system for key persons in the Group. Under the incentive programme, key persons received synthetic options and any bonus will be paid in cash in 2019-2020. Bonuses paid under the incentive programme correspond at the time of granting to a maximum of approximately 800,000 options based on the price increase of Taaleri Plc's shares, including the portion 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 40,000 at the end of the financial period for Garantia's personnel. The costs accumulated in the Taaleri Group 2019 financial statements (IFRS) from the options granted to Garantia's personnel were EUR 226,887.19.

On 30 October 2017, the Board of Directors of Taaleri Plc decided on an incentive programme for key persons in the 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 Group Executive Team, and in the 2018-2021 earnings period the target group includes 11 key persons. The possible bonus paid under the programme for the earnings 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 no more than 180,000 Taaleri Plc shares, for the 2018-2021 earnings period no more than 240,000 Taaleri Plc shares, and for the 2019-2022 earnings period no more than 225,000 Taaleri Plc shares, including the portion paid in cash. A total of 117,300 shares have been allocated to Garantia personnel, of which 62,400 shares were in circulation at the end of the 2019 financial year. The bonuses are paid partly in company shares and partly in cash. The purpose of the cash portion is partly to cover the taxes and tax-like charges payable by key persons on the bonus. The costs accumulated in the Taaleri Group 2019 financial statements (IFRS) from the shares granted to Garantia's personnel were EUR 3,118.85.

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. The company's CEO, other executive management or personnel do not have additional pension benefits with the exception of one (1) person who belongs in the operational management and who has a voluntary pension in-



surance policy. A voluntary pension insurance policy 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. New voluntary supplementary pension arrangements will not be granted.

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. The contents of the principles comply with the requirements of the Act on Insurance Distribution, which was enacted on the basis of the Directive on insurance distribution (EU 2016/97).

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 and evaluation of the fulfilment of the requirements 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. In the evaluation, possible conflicts of interest related to the person, duty and function and dangerous work combinations are investigated and, if necessary, the measures required to address any conflicts of interest are undertaken. The evaluation also includes an informed assessment of the sufficiency of the person's available time.

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 the personnel are submitted to the Financial Supervisory Authority annually, as the latter requires.

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 and the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and above 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 risk-taking limits and risk indicators. The Board of Directors approves the risk-taking limits and risk indicators annually as part of the capital plan (solvency limits), credit risk policy (concentration risks and risk-taking limits concerning insurance operations), reinsurance policy (concentration risks concerning reinsurance) and the investment plan (risk-taking limits concerning insurance activities).

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 solvency 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 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 and the Taaleri Group's corresponding bodies. 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 operational risks;
- reliability and validity of the information used for financial management and management of other operations;
- supervision of compliance with regulations (Compliance);
- sufficient safeguarding of operations, information and property; and
- sufficient and appropriate provision of IT and other systems to support operations.

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

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

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

The tasks and reporting relationships of the function supervising compliance with regulations are described above in section B.1. As the lawyer responsible for the Compliance function is also responsible for the operational tasks 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 services 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. Garantia's Board of Directors annually approves the audit plan (guidelines) of the internal audit, which describes the duties and the audited areas of the internal audit in greater detail. In 2016-2018, Garantia's internal audit was arranged as part of the Taaleri Group's internal audit. In 2019, Garantia prepared a separate commission agreement with PricewaterhouseCoopers Oy, which acted as the Taaleri Group's internal auditor from 2016 to 2019, to act as internal auditor.

The internal audit submits audit plans with long-term (3 years) and short-term (1 year) scope for approval by Garantia's Board of Directors. These plans must be in line with the principles and purpose of operations of Garantia's internal audit. The internal audit presents detailed and audit-specific plans to be approved by Garantia's Executive Committee. 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.

The internal audit reports on key observations, conclusions and recommendations regarding the functioning of internal control and risk management, and the management and administrative system regularly, and at least annually, to Garantia's Board of Directors. The person responsible for Garantia's internal audit is responsible for these matters being reported further to Taaleri Plc's Board of Directors to the extent required by Taaleri Plc's Board of Directors.

B.6 Actuarial Function

An insurance company must have an Actuarial Function and an Appointed Actuary. The Insurance Companies Act provides a description of the duties and responsibilities of the Actuarial Function and the Appointed Actuary. The most important of these are:

- 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 2019 and 2018 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 payroll computation, invoicing and debt collection in its rent guaranty business and a significant proportion of the maintenance and development of the IT systems that it uses to external service providers. In addition, Garantia has outsourced certain tasks related to HR and communications to its parent company Taaleri Plc and to its sister company Taaleri Wealth Management Ltd. The outsourcing partners are domiciled in Finland and Finnish law is applied to the concluded contracts.

B.8 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 normally reported 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 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 section E.2 Solvency Capital Requirement and minimum capital requirement.

C.1 Insurance risk

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

The aim in the management of the insurance risk, i.e. the credit risk in guaranty insurance, is to ensure that the negative profit impacts arising from client and counterparty risks remain at acceptable levels and that the returns are adequate in relation to the risks taken. In guaranty insurance, credit risks are reduced by means of client selection, active management of client relationships, monitoring of changes in the clients' operations, pricing, 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 processes and guidelines on credit risk assessment, distribution channel auditing, pricing, collateral and covenants approved by the Executive Committee. The risk management function monitors the functioning and quality of the insurance process. In addition to the daily insurance process, credit risks are identified and assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

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

Garantia's underwriting risk position remained stable in 2019. The growth of the total insurance exposure mainly affected highly dispersed mortgage guaranties, the historic claims ratio of which is low. The share of the insurance exposure classified as investment grade (with a rating between AAA and BBB-) made up 12.6% (10.7) of the corporate insurance exposure, while guaranties with a rating of at least BB- accounted for 72.4% (79.5). The slight weakening of the classification distribution was caused by a reduction in the creditworthiness of customer companies in the construction sector. However, the share of guaranties with lower credit ratings of C+ or lower remained low and was 1.7% (1.7). The principal sectors in the corporate insurance exposure were construction at 50.9% (51.8) and manufacturing at 21.0% (21.6). The proportion of reinsured construction guaranties was 55.3% (53.5).



Garantia also uses reinsurance for covering its insurance risk. The company hedges individual corporate loan guaranty projects with facultative reinsurance. The company has also had access to a quota share arrangement in order to cover the insurance risk arising from commercial bonds. The company also considers expanding the use of the reinsurance cover for residential mortgage guaranties as of 2020.

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

During 2019, Garantia assessed the accuracy of individual parameters used in the economic capital model that is used in the steering of operations. The main evaluations were the validations of the residential mortgage guaranties' PD and LGD models and the qualitative evaluation of the PD model used in the credit rating of corporate customers. Garantia also carried out a calibration of the parameters of the concentration risk model based on the gross exposure of Garantia's insurance portfolio.

ns, 31.12.2019 * Total, EUR thousand		equity, EUR	Effect on combined ratio, %
13 212	increases 10 %	1 321	improves 5,0 pp
1 618	increases 10 %	0	weakens 1,2 pp
0	EUR 10 mn.	. 0	weakens 75,7 pp
5 752	increases 10 %	-575	weakens 4,4 pp
	Total, EUR thousand 13 212 1 618 0	Total, EUR thousand Change in risk parameter 13 212 increases 10 % 1 618 increases 10 % 0 EUR 10 mm.	Total, EUR Change in risk thousand parameter equity, EUR thousand 13 212 increases 10 % 1 321 1 618 increases 10 % 0 EUR 10 mn. 0

^{*} Herkkyysanalyysi perustuu Vakuutusosakeyhtiö Garantian FAS-tilinpäätökseen.

Sensitivity analysis of Insurance operations, 31.12.2018 *								
Risk parameter	Total, EUR thousand	Change in risk parameter		Effect on combined ratio, %				
Premiums earned	12 282	increases 10 %	983	improves 3,09 pp				
Claims incurred	-783	increases 10 %	0	weakens 0,64 pp				
Large claim, EUR 10 million	0	EUR 10 mn.	0	weakens 81,4 pp				
Operating expenses	4 954	increases 10 %	-396	weakens 4,03 pp				

^{*)} The sensitivity analysis is based on Garantia Insurance Company Ltd's FAS financial statements.

I otal insurance exposure by product		
EUR million	2019	2018
Corporate loan guaranties	362	368
Commercial bonds	534	513
Residential mortgage guaranties	818	655
Other guaranties	123	130
Total	1 837	1 667
Total insurance exposure by collateral type		
EUR million	2019	2018
Reinsured	326	290
Covered by collateral classes 1 and 2	73	105
Covered by collateral classes 3 and 4	130	147
Uncovered position	1 309	1 124
Total	1 837	1 667
Collateral classes: 1 = secure, liquid collateral, 2 = secure	ure collater	al within
collateral haircut value, 3 = collateral within fair value, 4 or security.	= Other col	lateral
Corporate insurance exposure by credit rating *		

or security.						
Corporate insurance exposure by credit ratio	ng *					
EUR million	2019	2018				
AAABBB-	121	101				
BB+BB-	572	648				
B+B-	248	177				
C+ or weaker	16	16				
Total	958	941				
*) Total insurance exposure excl. residential mortgage guaranties, assumed reinsurance and residual value insurance.						

Corporate insurance exposure by industry *						
EUR million	2019	2018				
Construction	488	487				
Manufacturing	201	203				
Machinery and equipment (incl. repair)	93	50				
Chemicals	22	47				
Metals	37	46				
Food	30	36				
Other	18	25				
Wholesale and retail trade	58	37				
Finance and insurance	58	71				
Services	35	34				
Transport and logistics	28	16				
Water supply and waste management	26	30				
Other industries	64	63				
Total	958	941				
The industry classification is based on the classification taxonomy of						

^{*)} Total insurance exposure excl. 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. Garantia observes the principle of prudence defined in the Insurance Companies Act in its investment activities. 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. Investment activities should aim to ensure the security, convertibility into cash, rate of return and availability from location of investments, and to consider the nature of insurance agreements and the interests of the insured party.

Investment risks are managed through effective diversification of the investments by asset class, sector, geographical area, credit category and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily implementation of investment activity, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment activities and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with the annual planning.

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

The risk level of investment activities was retained at a moderate level. At the end of the year, fixed income investments made up 84.4% (87.4), equity investments 14.4% (11.1) (incl. private equity investments) and real estate investments 1.2% (1.4) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The proportion of investment grade fixed income investments (excl. fixed income funds) was 54.5% (51.2). The modified duration of bond investments was 3.3 (3.4).



Investments by asset class at fair value						
EUR million	2019	%	2018	%		
Fixed income investments *	127,3	84,4 %	117,5	87,4 %		
Equity investments	21,7	14,4 %	14,9	11,1 %		
Real estate investments	1,8	1,2 %	1,9	1,4 %		
Other investments	0,0	0,0 %	0,0	0,0 %		
Total	150,8	100,0 %	134,4	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 2019								
EUR million	0-1 yrs.	1-3 yrs.	3-5 yrs.	Over 5 yrs.	Total	%		
AAAAA-	0,2	3,8	-	4,6	8,5	6,7 %		
A+A-	0,4	-	14,8	1,1	16,3	12,8 %		
BBB+BBB-	-	2,1	27,8	14,6	44,5	35,0 %		
BB+ tai alle	10,3	22,4	25,1	-	57,9	45,5 %		
Yhteensä	10,9	28,3	67,7	20,3	127,3	100,0 %		

Fixed-income portfolio (excl. bond funds) by maturity * and credit rating ** 31 Dec 2018							
EUR million	0-1 v.	1-3 v.	3-5 v.	Yli 5 v.	Yhteensä	%	
AAAAA-	0,5	13,9	-	4,0	18,3	15,6 %	
A+A-	0,4	-	7,8	-	8,3	7,1 %	
BBB+BBB-	-	2,0	28,2	3,3	33,5	28,5 %	
BB+ tai alle	2,5	21,3	20,3	13,2	57,4	48,8 %	
Yhteensä	3,4	37,2	56,4	20,6	117,5	100,0 %	

^{*)} Maturity date is the end of the term to maturity. If the instrument includes a call option, maturity is the first possible call date.

^{**)} The rating of an instrument is an external rating agency issuer or senior debt rating, or if not available, Garantia's internal credit rating.



Sensitivity analysis of	investment activities, 31.12.2019 *		
Investment category	Investments at Risk parameter fair value, EUR million	Change	Effect on equity, EUR million
Bonds	127,3 Change in interest rates	1,0 %	3,32
Equities	19,0 Market value	10,0 %	1,52
Private equity	4,5 Market value	10,0 %	0,36
Sensitivity analysis of	investment activities, 31.12.2018 *		
Investment category	Investments at Risk parameter	Change	Effect on
	•		
	fair value,		equity, EUR
	•		
Bonds	fair value,	1,0 %	equity, EUR million
Bonds Equities	fair value, EUR million	J	equity, EUR million 3,17
	fair value, EUR million 116,6 Change in interest rates	1,0 %	equity, EUR million 3,17 0,99

C.3 Credit risk

Garantia's exposure to credit risk as part of guaranty and investment operations is described above in sections 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 solvency calculations include EUR 9.8 (9.1) million in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance type's 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 2019 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.

The main activities carried out to improve the management of operational risks in 2019 were the evaluation and description of the claims process for rent guaranties and the refinement of the documentation describing the arranging of the financial administration.

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. Reputational risk means the risk that unfounded or founded unfavourable publicity related to the company's business operations or relations weakens confidence in the company. Reputational risk is usually a consequence of a materialised operative or compliance risk which results in the deterioration of the company's reputation among its customers and other stakeholders. Regulatory risk means the risk that changes in laws or regulations will materially weaken the company's prerequisites for carrying out business operations.

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. Reputational risk is managed in an anticipatory and long-term way by conforming with Garantia's values, observing regulation and the Code of Conduct confirmed by the Board of Directors and by openly communicating with different stakeholders in an impartial way. 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 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 accounted for 21.2% (22.3) of the Taaleri Group's own funds.

C.7 Other information

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

On the company's Solvency II balance sheet, 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 bid 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 and mutual 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 or the most probably assignment price. The fair value of other investments is taken to be the most probable assignment price.

The valuation of assets on the Solvency II balance sheet differs from the valuation of assets in the FAS balance sheet in that on the Solvency II balance sheet investments are valued at market value and intangible assets are value at zero. On the Solvency II balance sheet, the reinsurers' share of technical provisions is booked in assets as the item "Reinsurance recoverables from Non-life and health similar to non-life", whereas on the FAS balance sheet they are deducted from technical provisions. In addition, the FAS balance sheet items "Debtors arising out of direct insurance operations" and "Other debtors" are included (as a negative figure) in technical provisions of the Solvency II balance sheet.

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 asset growth during the reporting period was mainly a result of the solid balance on the technical account and the excellent return of the investment portfolio during 2019.

Solvency II Balance sheet: Assets and changes in assets, euro			
	31.12.2019	31.12.2018	Change
Property, plant & equipment held for own use	64 000	69 211	-5 212
Investments (other than assets held for index-linked and unit-linked contracts)	150 171 518	133 485 399	16 686 119
Bonds	126 646 737	116 601 181	10 045 557
Collective Investments Undertakings	23 524 781	16 884 218	6 640 562
Deposits other than cash equivalents	0	0	0
Reinsurance recoverables from Non-life and health similar to non-life	-293 296	-1 738 143	1 444 847
Insurance and intermediaries receivables	0	0	0
Reinsurance receivables	139 056	0	139 056
Receivables (trade, not insurance)	31 757	403 013	-371 256
Cash and cash equivalents	607 525	918 439	-310 914
Any other assets, not elsewhere shown	0	0	0
Total assets	150 720 560	133 137 919	17 582 641

The difference between assets on Solvency II and FAS balance sheets 31.12.2019, euro			
	Solvency II	FAS	Difference
Intangible assets	0	356 930	-356 930
Property, plant & equipment held for own use	64 000	64 000	0
Investments	150 171 518	143 801 054	6 370 464
Bonds	126 646 737	123 893 455	2 753 282
Collective Investments Undertakings	23 524 781	19 907 599	3 617 182
Deposits other than cash equivalents	0	0	0
Reinsurance recoverables	-293 296	0	-293 296
Debtors, arising out of direct insurance operations (FAS)	0	1 334 979	-1 334 979
Reinsurance receivables	139 056	139 056	0
Receivables (trade, not insurance)	31 757	31 757	0
Cash and cash equivalents	607 525	607 525	0
Debtors, other (FAS)	0	0	0
Total assets	150 720 560	146 335 301	4 385 259



Balance sheet item	Value of item in Solvency II balance sheet
Intangible assets	Zero
Property, plant & equipment held for own use	"Tangible assets" item on 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 on 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	Zero. The FAS balance sheet item "Debtors arising out of direct insurance operations" has been included in the Solvency II balance sheet under the provision for unearned premiums.
Reinsurance receivables	"Debtors arising out of reinsurance operations" item on FAS balance sheet.
Receivables (trade, not insurance)	"Other accrued income" item on FAS balance sheet
Cash and cash equivalents	"Cash and bank balances" not including rental security deposit item on FAS balance sheet.
Any other assets, not else- where shown	Zero. The FAS balance sheet item "Other receivables" only includes claims of recourse, which have been included under the outstanding claims provision on the Solvency II balance sheet.

D.2 Technical provisions

On the FAS balance sheet, technical provisions includes the actual technical provision, which is formed from the provision for unearned premiums and provision for claims outstanding and the equalisation provision, whereas the Solvency II balance sheet is made up of the provision for unearned premiums and provision for claims outstanding. The equalisation provision, which is presented as part of the technical provisions on the FAS balance sheet, is a included in basic own funds on the Solvency II balance sheet. Own funds are considered in more detail 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 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 on the FAS balance sheet, the provisions are defined by guaranty. For each valid guaranty the share of the insurances' premium income that falls in coming financial years and the sum of these shares forms the provision for un-



earned premiums. On the Solvency II balance sheet, the same division into four groups (residential mortgage guarantees, construction defect insurance, rent guaranty and other guaranties) 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.

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 (excl. rent guaranty) 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.

The reinsurers' share of the technical provisions is included in assets in the Solvency II balance sheet, whereas it is discounted 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 section TP.6.105. of *EIOPA's guidelines Technical Specification for the Preparatory Phase (Part I)*. The reinsurers' share of the provision for claims outstanding corresponds to the reinsurers' share of the provision for claims outstanding on the FAS balance sheet discounted with the one-year risk free rate according to the interest rate term structure published by EIOPA.

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

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

Garantia does not apply the matching adjustment referred to in Article 77 b of Directive 2009/138/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 on the FAS balance sheet. In addition, the FAS balance sheet item "Insurance & intermediaries payables" is included in the provision for unearned premiums 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 liabilities during the reporting period was caused by the increase in guaranty insurance operations and by the increase in the best-estimate provision for claims outstanding, which resulted from the growth in known claims.



Solvency II Balance sheet: Liabilitites and changes in liabil	ities, euro		
	31.12.2019	31.12.2018	Change
Technical provisions – non-life	9 251 253	4 303 338	4 947 914
Best Estimate	5 198 545	548 426	4 650 118
Risk margin	4 052 708	3 754 912	297 796
Deferred tax liabilities	19 084 533	17 973 945	1 110 588
Insurance & intermediaries payables	0	0	0
Reinsurance payables	526 358	288 994	237 364
Payables (trade, not insurance)	2 980 763	2 119 439	861 324
Any other liabilities, not elsewhere shown	196 464	170 851	25 613
Total liabilities	32 039 370	24 856 567	7 182 803
Excess of assets over liabilities	118 681 190	108 281 352	10 399 838

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 equalisation 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. The FAS balance sheet item "Creditors arising out of direct insurance operations" has been included in the Solvency II balance sheet under provision for unearned premiums.
Reinsurance payables	"Creditors arising out of reinsurance operations" item on FAS balance sheet.
Payables (trade, not insurance)	"Accruals and deferred income" item on FAS balance sheet
Any other liabilities, not elsewhere shown	"Other" item on FAS balance sheet

D.4 Alternative methods for valuation

Garantia does not apply alternative methods for valuation.

D.5 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 principles and the limitations related to solvency and solvency targets 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 and the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and above 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 grew to EUR 112.7 (103.3) million. The growth in own funds resulted from a solid balance on the technical account and excellent return on investments.

Own funds (Tier 1), euro

	31.12.2019	31.12.2018	Change
Ordinary share capital (gross of own shares)	10 200 000	10 200 000	0
Reconciliation reserve	102 481 190	93 081 352	9 399 838
of which forseeable dividends, distributions and charges	6 000 000	5 000 000	1 000 000
Total	112 681 190	103 281 352	9 399 838

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

	31.12.2019	31.12.2018	Change
Own funds (Tier 1), € mn	112 681 190	103 281 352	9 399 838
Solvency Capital requirement (SCR), € mn	48 604 142	44 248 826	4 355 316
Solvency Capital requirement excl. capital add-on, € mn	28 755 869	26 436 970	2 318 899
Minimum Capital requirement (MCR), € mn	12 151 036	11 062 206	1 088 830
Own funds / SCR, %	232 %	233 %	-1,2 pp
Own funds / MCR, %	927 %	934 %	-16,9 pp

Garantia's shareholders' equity and reserves presented in the financial statements were EUR 42.3 (36.4) million and the own funds in accordance with the Insurance Companies Act the above-mentioned EUR 112.7 (103.3) 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 equalisation provision of EUR 71.7 (73.3) million included in the technical provisions in the financial statements. The item in question includes deferred tax liabilities of EUR 14.3 (14.7) million presented on the Solvency II balance sheet. Garantia does not have deferred tax assets on its Solvency II balance sheet, and therefore, their amount is 0 (0).

The purpose of the equalisation provision is to balance the impact of years with exceptional technical results. The equalisation provision acts as a buffer, especially against growth in claims incurred. According to Garantia's actuar-



ial principles for the equalisation 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 equalisation provision reaches the targeted amount. In the long term the equalisation provision will gravitate to its target amount. The calculation of the target amount has been defined in the Insurance Companies Act. The actuarial principles for the equalisation provision used in Garantia's financial statements were confirmed by the Financial Supervisory Authority on 21 October 2016.

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

	,	
	31.12.2019	31.12.2018
Shareholder's equity and reserves (+)	42 343 060	36 355 572
Forseeable dividends, distributions and charges (-)	-6 000 000	-5 000 000
Valuation difference of Technical provisions - non-life (+)	18 982 959	15 828 584
Provision for unearned premiums and claims outstanding (net) in financial st	28 527 508	21 870 065
Technical provisions - non-life in Solvency II	-9 251 253	-4 303 338
Reinsurance recoverables from Non-life in Solvency II	-293 296	-1 738 143
Items in financial statements included in Solvency II technical provisions	-1 274 473	-668 265
Debtors, arising out of direct insurance operations	-1 334 979	-669 139
Debtors, other	0	0
Creditors, arising out of direct insurance operations	60 506	875
Equalisation provision (+)	71 700 643	73 318 405
Valuation difference of Investments	6 370 464	1 838 716
Book-value of investments in financial statements	-143 801 054	-131 646 683
Fair value of investments in Solvency II	150 171 518	133 485 399
Intangible assets (-)	-356 930	-417 714
Deferred tax liabilities (-)	-19 084 533	-17 973 945
Own funds	112 681 190	103 281 352

E.2 Solvency Capital Requirement and minimum capital requirement

On 31 December 2019 Garantia's Solvency Capital Requirement was EUR 48.6 (44.3) million. The rise in the Solvency Capital Requirement during the reporting period was caused by the increase in market risk following the appreciations of the market value of the investment portfolio, by allocation changes to the investment portfolio, and by the increase in the capital add-on, which in turn resulted from growth in the gross exposure of the insurance portfolio. The Solvency Capital Requirement describes the amount of unexpected loss once every 200 years.

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.

In June 2019, the Financial Supervisory Authority set Garantia's capital add-on at EUR 19.8 million. In its decision, the Financial Supervisory Authority still stated that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation. The Solvency II standard formula treats credit and guaranty insurance as a single entity in which the capital requirement is mainly determined on the basis of one year's insurance premiums. The capital requirement for recession risk (catastrophe risk) in connection with guaranty insurance is also based on insurance premiums in the standard formula and no consideration is given to the amount or quality of the guaranty exposures. Thus, in the view of the Financial Supervisory Authority, the standard formula does not give a correct picture of Garantia's risk position. The Financial Supervisory Authority also stated that the requirement to use the internal model is not appropriate in Garantia's case. The capital add-on has been valid since 30 June 2018 and it will remain in effect until further notice. The Financial Supervisory Authority will assess the amount of the capital add-on at least once a year.

The standard parameters of the Solvency II standard formula's insurance risk module were revised, effective from 1 January 2020. If the new parameters had been applied on 31 December 2019, Garantia's Solvency Capital Requirement would have been EUR 51.1 million at the end of the financial year.



Solvency capital requirement by component, euro			
	31.12.2019	31.12.2018	Change
Basic solvency capital requirement	35 524 907	32 650 933	2 873 974
Market risk	23 703 654	19 933 801	3 769 853
Interest rate risk	3 853 989	3 786 836	67 153
Equity risk	8 447 320	4 917 500	3 529 820
Property risk	455 324	486 419	-31 095
Spread risk	12 774 631	12 238 300	536 331
Currency risk	2 524 622	887 716	1 636 906
Concetration risk	10 009 949	9 935 229	74 720
Diversification benefit	-14 362 181	-12 318 199	-2 043 982
Counterparty default risk	278 239	136 790	141 449
Non-life underwriting risk	21 019 380	21 270 504	-251 124
Premium and reserve risk	10 273 757	9 833 364	440 393
Lapse risk	2 160 330	2 212 234	-51 904
Catastrophe risk	15 821 615	16 433 159	-611 544
Diversification effect	-7 236 322	-7 208 253	-28 069
Intangible asset risk	0	0	0
Diversification effect	-9 476 366	-8 690 162	-786 204
Operational risk	419 929	395 279	24 650
Adjustment for loss-absorbing capacity	-7 188 967	-6 609 242	-579 725
Total excl. capital add-on	28 755 869	26 436 970	2 318 899
Capital add-on	19 848 273	17 811 856	2 036 417
Total	48 604 142	44 248 826	4 355 316

On 31 December 2019, Garantia's minimum capital requirement was EUR 12.2 (11.0) 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 5.5 (2.3) million and net (with reinsurance contract share deducted) premiums written calculated over the previous 12 months were EUR 18.6 (16.3) million. In 2018 and 2019, 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.

The loss-absorbing capacity of deferred taxes, which amounted to EUR 7.2 (6.6) million on 31 December 2019, is taken into account in Garantia's Solvency Capital Requirement. The loss-absorbing capacity is based entirely on the entry of deferred tax liabilities as income on the Solvency II balance sheet, while deferred tax liabilities are based on the valuation differences between the Solvency II balance sheet and bookkeeping. The largest individual deferred tax liability item is the deferred tax liability of the equalisation provision. The formation of deferred tax liabilities is described in the figures in sections D.3 and E.1.

Garantia does not have a loss-absorbing capacity based on probably taxable financial profit or deferred tax assets as a part of the Solvency Capital Requirement.

E.3 Use of duration-based equity risk sub-module in calculation of Solvency Capital Requirement

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

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

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

E.5 Non-fulfilment of the Solvency Capital Requirement and the minimum 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 Other information

The standard parameters of the Solvency II standard formula's insurance risk module were revised, effective from 1 January 2020. If the new parameters had been applied on 31 December 2019, Garantia's solvency ratio would have been 219.3% at the end of the financial year.



ANNEX I: TABLES TO BE PUBLISHED IN ACCORDANCE WITH THE COM-MISSSION 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	64 000
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	150 171 518
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	0
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	126 646 737
Government Bonds	R0140	
Corporate Bonds	R0150	126 646 737
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	23 524 781
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	0
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	-293 296
Non-life and health similar to non-life	R0280	-293 296
Non-life excluding health	R0290	-293 296
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
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	139 056
Receivables (trade, not insurance)	R0380	31 757
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	607 525
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	150 720 560

R0880

R0900

R1000

196 464

32 039 370 118 681 190



Any other liabilities, not elsewhere shown

Excess of assets over liabilities

Total liabilities

Liabilities	Ī	C0010
Technical provisions – non-life	R0510	9 251 253
Technical provisions – non-life (excluding health)	R0520	9 251 253
TP calculated as a whole	R0530	
Best Estimate	R0540	5 198 545
Risk margin	R0550	4 052 708
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	19 084 533
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	526 358
Payables (trade, not insurance)	R0840	2 980 763
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	



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

5.05.01.02 Fremiums, cialins and expenses by	iiiic oi busiii		1
		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	19 626 678	19 626 678
Gross – Proportional reinsurance accepted	R0120		
Gross – Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	1 034 599	1 034 599
Net	R0200	18 592 079	18 592 079
Premiums earned			
Gross – Direct Business	R0210	13 997 645	13 997 645
Gross – Proportional reinsurance accepted	R0220		
Gross – Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	755 458	755 458
Net	R0300	13 242 186	13 242 186
Claims incurred			
Gross – Direct Business	R0310	3 565 702	3 565 702
Gross – Proportional reinsurance accepted	R0320		
Gross – Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	2 204 816	2 204 816
Net	R0400	1 360 886	1 360 886
Changes in other technical provisions			
Gross – Direct Business	R0410	1 617 762	1 617 762
Gross – Proportional reinsurance accepted	R0420		
Gross – Non-proportional reinsurance accepted	R0430		
Reinsurers' share	R0440		
Net	R0500	1 617 762	1 617 762
Expenses incurred	R0550	6 179 010	6 179 010
Other expenses	R1200		
Total expenses	R1300		6 179 010



S.05.02.01 Premiums, claims and expenses by country

S.05.02.01 Premiums, claims and exper	ises by c	ountry						
		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	\sim						
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross – Direct Business	R0110	19 626 678						19 626 678
Gross – Proportional reinsurance accepted	R0120							
Gross – Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	1 034 599						1 034 599
Net	R0200	18 592 079						18 592 079
Premiums earned								
Gross - Direct Business	R0210	13 997 645						13 997 645
Gross – Proportional reinsurance accepted	R0220							
Gross – Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	755 458						755 458
Net	R0300	13 242 186						13 242 186
Claims incurred								
Gross – Direct Business	R0310	3 565 702						3 565 702
Gross – Proportional reinsurance accepted	R0320							
Gross – Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340	2 204 816						2 204 816
Net	R0400	1 360 886						1 360 886
Changes in other technical provisions								
Gross – Direct Business	R0410	1 617 762						1 617 762
Gross – Proportional reinsurance accepted	R0420							
Gross – Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440		-					_
Net	R0500	1 617 762						1 617 762
Expenses incurred	R0550	6 179 010						6 179 010
Other expenses	R1200		><	><	><	><	><	
Total expenses	R1300	\bigvee	><	><	><	><	><	6 179 010



S.17.01.02 Non-life technical provisions

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Premium Provisions Gross R0150 R0150 R0150 R0150 R0150 R0160 A 985 457 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Claims Provisions R0240 R0240 R0240 R0250 R0250 R0260 Total Best estimate - gross Total Best estimate - net R0270 R1080 R1080			Direct business and accepted proportional reinsurance Credit and suretyship insurance	Total Non-Life obligation
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 Technical provisions calculated as a sum of BE and RM Best estimate Premium provisions Gross Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Premium Provisions Gross Ro160 R0160 R			C0100	C0180
adjustment for expected losses due to counterparty default associated to TP calculated as a whole Technical provisions calculated as a sum of BE and RM Best estimate Premium provisions Gross Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Premium Provisions Ro150 Claims provisions Gross Ro160 A985 457 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Ro240 All recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Ro240 Ro250 Ro260 Anount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate Ro290 Ro300 Risk margin Ro310 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default Ro330 Ro330 Ro330 Ro330 Ro330 Ro340 Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total Ro330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total Ro330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total Ro330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total Ro330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total Ro330 Ro3	Technical provisions calculated as a whole	R0010		
Best estimate Premium provisions Gross R060 R060 R060 R060 R060 R060 R060 R0	adjustment for expected losses due to counterparty default associated	R0050		
R060	Technical provisions calculated as a sum of BE and RM			
R0060 213 088 213 08	Best estimate			
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Premium Provisions Gross R0150 R0160 R0160 R0160 A 985 457 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Claims Provisions R0240 R0250 Total Best estimate - gross Total Best estimate - net R0270 R0280 Amount of the transitional on Technical Provisions Technical provisions - total Technical provisions - total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total R0320 R0330 R0340 R0340 R0340 R0340 R0340 R0340	Premium provisions			
Adjustment for expected losses due to counterparty default -2 694 586 -2 694 586 -2 694 586 R0150 -2 907 674 -2 907 67 -2 907 674 -2 907 674 -2 907 67 -2 907 674 -2 907 67 -2 907 6	Gross	R0060	213 088	213 088
Net Best Estimate of Premium Provisions Gross R0160 R0160 A 985 457 A 985 45 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Claims Provisions R0250 R0260 Total Best estimate – gross R0260 Total Best estimate – net R0270 Risk margin R0280 Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate R0300 Risk margin R0310 R0310 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total R0300 R0310 R0330 R0340		R0140	-2 694 586	-2 694 586
Claims provisions Gross R0160 A 985 457 A 985 45 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Claims Provisions R0250 Total Best estimate – gross R0260 Total Best estimate – net R0270 Risk margin R0280 Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate R0300 Risk margin R0310 Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total R0330 Technical provisions minus recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total R0340 R0340 R0340 R0340 R0350 R0360 R0370 R0380 R0390	Net Best Estimate of Premium Provisions	R0150	1	
Gross R0160 4 985 457 4 985 45 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default Net Best Estimate of Claims Provisions R0250 2 584 167 2 584 167 Total Best estimate – gross R0260 5 198 545 5 198 545 Total Best estimate – net R0270 5 491 841 5 491 841 Risk margin R0280 4 052 708 4 052 708 Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole R0300 R0310 Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total			2 301 014	2 301 014
Adjustment for expected losses due to counterparty default R0240 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 401 290 2 584 167 2 584 164 3 606 3 184 184 4 052 70 4 05	•	R0160	4 985 457	4 985 457
Net Best Estimate of Claims Provisions R0250 2 584 167 2 58 54 4 052 708		R0240	2 401 290	2 401 290
Total Best estimate – net Risk margin Ro280 Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate Risk margin Ro300 Risk margin Ro310 Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Finite Re – total Ro270 5 491 841 5 491 84 For 184 Finite Re – total Ro280 Ro280 Ro290 Ro300 Ro300 Ro310 Ro310 Ro320 Ro320 Ro320 Ro330 Ro330 Ro330 Ro330 Ro340	Net Best Estimate of Claims Provisions	R0250		2 584 167
Risk margin Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate Risk margin Rosso Risk margin Rosso	Total Best estimate – gross	R0260		5 198 545
Amount of the transitional on Technical Provisions Technical Provisions calculated as a whole Best estimate Risk margin Rosand Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total Rosand Rosan	Total Best estimate – net	R0270	5 491 841	5 491 841
Technical Provisions calculated as a whole Best estimate R0300 Risk margin R0310 Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total R0340 R0340		R0280	4 052 708	4 052 708
Best estimate Risk margin Risk margin Ro310 Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total R0300 R0310 R0320 9 251 253 9 251 253 9 251 253 R0330 R0330 R0340				
Risk margin Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total R0310 R0320 9 251 253 9 251 253 9 251 25 R0330 R0330 R0340				
Technical provisions – total Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total R0320 R0320 9 251 253 9 251 253 9 251 253 R0330 R0330 R0340				
Technical provisions – total Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total R0320 9 251 253 9 251 253 9 251 25 R0330 R0330 R0340		RUSTU		
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total		R0320	9 251 253	9 251 253
adjustment for expected losses due to counterparty default – total Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	'	110020	3 231 233	3 231 233
Finite Re _ total		R0330	-293 296	-293 296
9 544 549 9 544 54	Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	9 544 549	9 544 549



S.19.01.21 Non-life insurance claims as development triangles

Accident year / Underwriting year

Prior N-9 N-8 N-7 N-6 N-5 N-4 N-3 N-2 N-1

Z0010	1- Accident year
-------	------------------------

Gross Claims Paid (non-cumulative)

363 238

Year	0	1	2	3	4	5	6	7	8	9	10 & +
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
R0100	\times	$>\!<$	> <	> <	\times	\times	> <	> <	\times	><	-261 483
R0160							-43 311	-25 778	-24 790	-38 427	
R0170						-38 246	-40 031	-29 115	-35 355		
R0180					-11 983	-13 270	-10 544	-15 625			
R0190				-152 163	-186 415	172 455	-157 846				
R0200			-49 694	-48 645	-716 274	-33 978					
R0210		69 577	-63 958	-84 654	-6 757						
R0220	908 638	-52 768	-63 701	-42 313							
R0230	571 064	-20 955	31 112		,						

Development year

10 & +

	C0170	C0180
R0100	-53 916	-261 483
R0160	-38 427	-132 306
R0170	-35 355	-142 747
R0180	-15 625	-51 422
R0190	-157 846	-323 969
R0200	-33 978	-848 591
R0210	-6 757	-85 792
R0220	-42 313	749 856
R0230	31 112	581 221
R0240	-20 021	343 217
R0250	816 259	816 259
R0260	443 133	644 243
		•

In Current Year

Sum of years (cumulative)

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

-20 021

Year

R0230 R0240

Development year

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100	> <	> <	> <	> <	\times	> <	\times	> <	X	> <	0
N-9	R0160							0	0	0	0	
N-8	R0170						0	0	0	0		
N-7	R0180					0	0	0	0			
N-6	R0190				246 278	-44 704	0	0				
N-5	R0200			0	-273 477	0	0					
N-4	R0210		193 302	163 163	163 163	0						
N-3	R0220	857 194	113 849	142 300	81 343							
N-2	R0230	2 191 101	705 880	517 740								
N-1	R0240	880 372	0									
N	R0250	4 365 385										

(discounted data)

	C0360
R0100	0
R0160	0
R0170	0
R0180	0
R0190	0
R0200	0
R0210	0
R0220	81 687
R0230	519 929
R0240	0
R0250	4 383 841
R0260	4 985 457



S.23.01.01 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	10 200 000	10 200 000	\langle		><
Share premium account related to ordinary share capital	R0030			\bigvee		><
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040			$\geq \leq$		><
Subordinated mutual member accounts	R0050		\sim			
Surplus funds	R0070		_	\langle	\sim	\sim
Preference shares	R0090		\sim			
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	102 481 190	102 481 190	\sim		
Subordinated liabilities	R0140		\sim	_		
An amount equal to the value of net deferred tax assets	R0160			$\overline{}$		
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		\sim		\sim		\sim
reserve and do not meet the criteria to be classified as Solvency II own funds			\longleftrightarrow	\longleftrightarrow	$<\!$	$\langle \ \ \ \ \ \ \ \ \ \ \ \ \ $
Own funds from the financial statements that should not be represented by the reconciliation reserve	R0220		\rightarrow	\rightarrow	\sim	><
and do not meet the criteria to be classified as Solvency II own funds Deductions				$\overline{}$		
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	112 681 190	112 681 190			
Ancillary own funds		-112 001 100	112 001 100	\setminus		
7.10.11.1.7 0.11.11.11.11.11.11.11.11.11.11.11.11.11			< >	$\langle \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \$		<
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item	R0310		\sim	\sim		\sim
for mutual and mutual – type undertakings, callable on demand			$\langle - \rangle$	$\langle \rangle$		
	R0320					
Unpaid and uncalled preference shares callable on demand			<	$\langle \rangle$		
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330		\sim	\sim		
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340		\sim	\sim		
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350		$\overline{}$	\bigcirc		
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360		\sim	\rightarrow		\sim
Supplementary members calls – other than under first subparagraph of Article 96(3) of			\leftarrow	$\overline{}$		
the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390		\sim	\searrow		
Total ancillary own funds	R0400			\mathbb{N}		
Available and eligible own funds		$\overline{}$	> <	\mathbb{N}	><	> <
Total available own funds to meet the SCR	R0500	112 681 190	112 681 190			
Total available own funds to meet the MCR	R0510	112 681 190	112 681 190			\setminus
Total eligible own funds to meet the SCR	R0540	112 681 190	112 681 190			
Total eligible own funds to meet the MCR	R0550	112 681 190	112 681 190			\searrow
SCR	R0580	48 604 142		\sim	><	><
MCR	R0600	12 151 036	><	\sim	><	><
Ratio of Eligible own funds to SCR	R0620	231,8345 %	><	\sim	><	><
Ratio of Eligible own funds to MCR	R0640	927,3381 %	><	> <	> <	> <
		C0060	Ţ			
Reconciliation reserve		>	\sim			
Excess of assets over liabilities	R0700	118 681 190	\bigvee			
Own shares (held directly and indirectly)	R0710		><			
Foreseeable dividends, distributions and charges	R0720	6 000 000	\sim			
Other basic own fund items	R0730	10 200 000	\sim			
Adjustment for restricted own fund items in respect of matching adjustment portfolios	R0740	1				
and ring fenced funds		100 101 :	$\langle \ \ \ \ \ \ \ \ \ \ \ \ \ $			
Reconciliation reserve	R0760	102 481 190				
Expected profits	D0776		\sim			
Expected profits included in future premiums (EPIFP) – Life business	R0770		\sim			
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	9 806 612	\sim			
Total Expected profits included in future premiums (EPIFP)	R0790	9 806 612		I		

Gross solvency

Yes/No

LAC DT



S.25.01.21 Solvency Capital Requirement (standard formula)

Solvency Capital Requirement — for undertakings on Standard Formula

		Gross solvency	USP	Simplifications
		capital requirement	001	Ompinications
		C0110	C0090	C0100
Market risk	R0010	23 703 654	> <	
Counterparty default risk	R0020	278 239	> <	
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	21 019 380		
Diversification	R0060	-9 476 365	> <	
Intangible asset risk	R0070	0	\sim	
Basic Solvency Capital Requirement	R0100	35 524 907	>	
Coloulation of Columns Comital Dominament		00400		

Calculation of Solvency Capital Requirement	_	C0100
Operational risk	R0130	419 929
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-7 188 967
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	28 755 869
Capital add-on already set	R0210	19 848 273
Solvency capital requirement	R0220	48 604 142
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	

C109 R0590 No Approach based on average tax rate

Calculation of loss absorbing capacity of deferred taxes

C0130 LAC DT R0640 -7 188 967 LAC DT justified by revision of deferred tax liabilities R0650 LAC DT justified by reference to probable future taxable economic profit R0660 LAC DT justified by carry back, current year R0670 R0680 LAC DT justified by carry back, future years Maximum LAC DT R0690 -7 188 967



S.28.01.01 Minimum capital requirement

Minimum Capital Requirement — Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

 MCR_{NL} Result

	C0010
R0010	3 075 846

Net (of reinsurance)

Medical expense insurance and proportional reinsurance
Income protection insurance and proportional reinsurance
Workers' compensation insurance and proportional reinsurance
Motor vehicle liability insurance and proportional reinsurance
Other motor insurance and proportional reinsurance
Marine, aviation and transport insurance and proportional reinsurance
Fire and other damage to property insurance and proportional reinsurance
General liability insurance and proportional reinsurance
Credit and suretyship insurance and proportional reinsurance
Legal expenses insurance and proportional reinsurance
Assistance and proportional reinsurance
Miscellaneous financial loss insurance and proportional reinsurance
Non-proportional health reinsurance
Non-proportional casualty reinsurance
Non-proportional marine, aviation and transport reinsurance
Non-proportional property reinsurance

Overall MCR calcul	lation
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Linear MCR SCR MCR cap MCR floor Combined MCR Absolute floor of the MCR

Minimum Capital Requirement

	estimate and TP calculated as a whole	written premiums in the last 12 months
	C0020	C0030
R0020		
R0030		
R0040		
R0050		
R0060		
R0070		
R0080		
R0090		
R0100	5 491 841	18 617 615
R0110		
R0120		
R0130		
R0140		
R0150		
R0160		
R0170		·

Net (of

	C0070
R0300	3 075 846
R0310	48 604 142
R0320	21 871 864
R0330	12 151 036
R0340	12 151 036
R0350	3 700 000
	C0070
R0400	12 151 036