Solvency and Financial Condition Report 2024

Garantia Insurance Company Ltd

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Garantia Insurance Company Ltd

Garantia is a non-life insurance company specialising in credit risk insurance. Garantia was established in 1993 and is supervised by the Financial Supervisory Authority. Garantia offers easy and cost-effective insurance solutions for consumers, businesses and lenders. Our products facilitate transactions and help our customers grow their business. We enable access to finance and make commercial transactions possible.

Our competitive advantages are based on strong customer insight, a scalable and efficient operating model, committed and self-motivated personnel, good risk selection competence and strong solvency. The international credit rating agency Standard & Poor's has confirmed Garantia's rating as A- with a stable outlook.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri is a Nordic investment and asset manager that focuses on businesses with industrial-scale opportunities within bioindustry and renewable energy. Taaleri has two business segments: Private Asset Management and Garantia. The Private Asset Management segment consists of renewable energy and other private equity funds. The Garantia segment includes Garantia Insurance Company Ltd. Taaleri Plc is listed on Nasdaq Helsinki.

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

SUMMARY

A. Business and performance

Garantia Insurance Company Ltd is an independent non-life insurance company specialising in credit risk insurance established in 1993 that offers easy and cost-effective insurance solutions for consumers, businesses and financiers. Our products for consumers include residential mortgage guarantees offered through banks and rent guarantees. For businesses, we offer products such as loan guarantees, commercial bonds and other structured guarantee products.

In the financial year 2024, the company changed the calculation principles of the provision for unearned premiums and the accounting treatment of premiums written. The change made to the calculation principles of the provision for unearned premiums had a material impact on the result for the financial year 2024 and on equity on the balance sheet. This report deals primarily with figures adjusted for one-off items caused by the changes. The changes and their impacts have been broken down in more detail in the company's Financial Statements and Report by the Board of Directors 2024 and in section A.2 of this report.

Garantia's adjusted gross premiums written decreased by 14.0% from the previous year to EUR 16.4 (19.0) million. The housing market remained as sluggish as the comparison period and the volume of housing transactions remained low. The number of new residential mortgage loans was well below the long-term average, which had an impact on demand for residential mortgage guarantees. Reported gross premiums written amounted to EUR 19.8 (19.0) million, of which EUR 3.5 (0.0) million were one-off items related to the change in the accounting treatment.

The adjusted net change in the provision for unearned premiums was EUR 3.5 (1.7) million in 2024. The decrease in the provision for unearned premiums was driven mainly by a reduction in underwriting volumes. Adjusted earned premiums declined by 4.1% to EUR 19.5 (20.3) million. The decrease in earned premiums is explained not only by the decline in premiums written but also by the reduction of the guarantee insurance portfolio.

The total guarantee insurance exposure contracted by 4.0% from the previous year and was EUR 1,679 (1,749) million. The volume of consumer exposures in the total guarantee insurance exposure increased and the volume of corporate exposures decreased. Of the total guarantee insurance exposure, EUR 1,404 (1,397) million, or 84% (80), consisted of consumer exposures and EUR 275 (352) million, or 16% (20), consisted of corporate exposures. The reduction in corporate exposures was mainly influenced by the ending of the guarantee exposures related to Multi-Issuer Bond IV, which matured in the autumn. The loan principal and the related guarantee exposure amounted to EUR 40 million.

Claims incurred remained at a low level and totalled EUR 1.0 (0.8) million. The claims ratio was 5.4% (4.2). There was one large individual insurance claim during the financial year, for which a claim of EUR 5.4 million was paid.

Operating expenses decreased by 3.0% to EUR 5.0 (5.1) million during the financial year. The decrease in operating expenses was driven mainly by a decrease in variable personnel expenses. The expense ratio remained at the previous financial year's level at 25.6% (25.3).

The adjusted balance on the technical account before changes in the equalisation provision fell to EUR 13.4 (14.3) million , and the combined ratio increased to 31.0% (29.5). The continued excellent profitability of insurance operations was attributable to the continued low level of claims incurred and operating expenses. The equalisation provision was reversed by EUR 1.0 (0.8) million and thus the adjusted balance on the technical account came to EUR 14.5 (15.1) million.

Garantia's investment portfolio (incl. cash and bank balances and accrued interest) at fair value was EUR 158.1 (164.0) million at the end of the year. 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 in years with exceptionally high claims. The market conditions developed favourably for investment operations during the financial year. Equity prices rose, market interest rates declined and credit risk spreads on fixed income investments narrowed. In particular, the decline in interest rate expectations and excellent equity market returns boosted the performance of investment operations. Net investment income on invested capital at fair value was EUR 15.2 (10.2) million, or 10.1% (6.7).

Garantia's earnings before tax amounted to EUR 27.6 (23.5) million. The favourable financial performance was supported by the excellent performance of investment operations and the continued low level of claims incurred.

B. System of governance

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.

The Annual General Meeting appointed Titta Elomaa (chair), Kenneth Kaarnimo (vice-chair), Peter Ramsay, Jorma Timonen and Eija Koskimies as members of the Board of Directors at its meeting on 23 February 2024. Titta Elomaa has previously served as

CEO of Garantia. Over the period 1 January to 23 February 2024, the Board of Directors of the company consisted of Karri Haaparinne (chair), Antti Suhonen (vice-chair), Kenneth Kaarnimo, Laura Paasio and Peter Ramsay.

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 is 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 assesses the adequacy and appropriateness of its management and governance system at least once every year.

Garantia's internal control and risk management are organised according to the Three Lines of Defence model. In accordance with this model, the tasks have been assigned to: (1) units that take business risks in their operations by processing insurance policies and investments, by making decisions binding on the company and by operating at the client interface (Operational Risk Management); (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 (Independent Risk Management); and (3) independent internal audit (Internal Audit). External control is the responsibility of the auditors and supervisory authorities.

There were no material changes in the company's system of governance in 2024.

C. Risk profile

The principal risks associated with Garantia's business operations are credit risk arising from guarantee insurance operations, and the market risk regarding investment operations.

In guarantee insurance operations, credit risk refers to the risk of the guaranteed counterparty being unable to meet its contractual obligations towards the beneficiary of the guarantee. The amount of credit risk is mainly dependent on the creditworthiness of the guaranteed counterparties and the amount of any counter-collateral. The market risks regarding investment operations consist of interest, equity, property, currency and credit & counterparty risks affecting the value and return of investment assets.

The risk position of Garantia's guarantee insurance operations has remained stable. The total guarantee insurance exposure declined compared with the end of the previous year. The proportion of consumer exposures in the total guarantee insurance exposure increased and the proportion of corporate exposures decreased.

The volume of consumer exposures at the end of the financial year was EUR 1,404 (1,397) million and their proportion in the total guarantee insurance exposure was 84% (80). Consumer exposures consist of residential mortgage guarantees and rent guarantees granted to households. A residential mortgage guarantee is a supplementary collateral underwritten to cover a housing loan. A rent guarantee protects the landlord of a dwelling against the tenant defaulting on commitments specified in the lease contract.

The majority of the consumer exposures is made up of residential mortgage guarantees. The risk position of the residential mortgage guarantee portfolio did not change substantially during the year. The portfolio is well diversified by counterparty, geographical location of collateral property and underwriting year, and the creditworthiness of the mortgage borrowers in the portfolio is very good on average. In addition, the credit risks of the residential mortgage guarantee portfolio are managed through an excess-of-loss portfolio reinsurance arrangement, whereby the reinsurer is liable for mortgage guarantee portfolio claims exceeding Garantia's retention threshold up to EUR 20 million. The decline in consumer purchasing power, the weakening of the economy and increase in unemployment have weakened the ability of mortgage holders to repay their mortgages, and house prices have fallen over the past two years. However, due to mortgage holders' good creditworthiness, this has not had a significant impact on the level of claims.

The volume of corporate exposures was EUR 275 (352) million at the end of the financial year, and their proportion in the total guarantee insurance exposure was 16% (20). Corporate exposures include corporate loan guarantees, commercial bonds and other business-related guarantees. The guaranteed companies are mainly medium-sized and large Finnish companies and other organisations. In addition to risk selection, counter-collateral, reinsurance, and risk-mitigating contractual terms and conditions are also used to hedge against the credit risks of corporate exposures.

The share of investment grade exposures, or exposures rated between AAA and BBB-, made up 37.0% (31.1), while exposures with a rating of at least BB- accounted for 67.3% (71.4) of the rated corporate insurance portfolio. The share of exposures with weak credit ratings of C+ or lower decreased slightly and was 2.1% (2.8). The creditworthiness of the company's corporate counterparties has remained good on average, despite the creditworthiness of some counterparties having been affected by the deteriorating economic outlook.

The principal sectors in the corporate insurance portfolio were manufacturing at 17.3% (19.1), water and waste management at 17.2% (10.3), trade at 14.6% (20.8) construction at 13.9% (12.3), finance and insurance operations at 12.7% (11.7), and services at 10.5% (4.6). The proportions of other sectors accounted for less than 10% in the corporate insurance portfolio.

The risk level of investment operations was moderately increased by increasing the allocation to large equity index funds and by increasing the duration of fixed income investments. At the end of the year, fixed income investments made up 77.8% (86.6), equity and private equity investments 20.7% (12.0) and real estate investments 1.5% (1.4) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Nordic companies and credit institutions with strong creditworthiness. A total of 69.4% (66.0) of fixed income investments had an investment grade credit rating. The modified duration of the fixed income investments was 3.2 (2.4).

D. Valuation for solvency purposes

Garantia calculates its solvency as required by chapter 3 of the Insurance Companies Act (2018/521) (so-called Solvency II capital adequacy). For the solvency calculation, the company prepares a Solvency II balance sheet, which is different from the company's FAS balance sheet.

The valuation of assets on the Solvency II balance sheet mainly differs from the valuation of assets on the FAS balance sheet in that on the Solvency II balance sheet investments are valued at fair value. At the end of 2024 the value of the assets on the company's Solvency II balance sheet was EUR 158.2 (164.0) million, and the value of the assets was EUR 1.4 million lower than on the FAS balance sheet.

The valuation of the liabilities on the Solvency II balance sheet differs substantially from the FAS balance sheet. The main differences arise from the different valuation method for actual technical provisions, differences in the treatment of the equalisation provision and in the recognition of tax liabilities. The largest single difference was due to the equalisation provision, which is regarded as equity on the Solvency II balance sheet, whereas on the FAS balance sheet it is part of technical provisions. At the end of 2024, the company's Solvency II balance sheet liabilities were EUR 30.3 (39.9) million and the valuation difference compared with the FAS balance sheet amounted to EUR 50.7 million.

At the end of 2024, the difference between the assets and the liabilities on the company's Solvency II balance sheet was EUR 127.9 (124.2) million. Net assets were EUR 52.2 million higher than on the FAS balance sheet.

E. Capital management

Garantia's solvency strengthened on the previous year due to a reduction in the solvency capital requirement and the growth of Garantia's basic own funds. The company's basic own funds amounted to EUR 112.9 (109.2) million at the end of the financial year and the solvency capital requirement was EUR 43.0 (44.4) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 262.7% (245.7).

The company's solvency is strong as its own funds are more than double the amount of the capital requirement calculated under the requirements of the Insurance Companies Act and the Solvency II rules. At the end of the financial year, the company's basic own funds included a loss buffer totalling EUR 69.9 (64.8) million.

Basicown funds grew mostly as a result of a strong balance on the technical account and the increase in the value of investment assets. Basic own funds include, as a deduction, foreseeable dividends, the amount of which remained at the same level as in the previous year.

The reduction in the solvency capital requirement during the financial year resulted from a reduction of the capital requirement for insurance risk and a reduction of the capital add-on associated with insurance risk set by the Financial Supervisory Authority. The reduction in the amount of insurance risk was due to a decrease in guarantee insurance exposure, especially in corporate exposures. The capital requirement for market risk, on the other hand, increased as a result of allocation changes in the investment portfolio.

Garantia's basic own funds consist fully of unrestricted Tier 1 basic own funds. Garantia does not apply 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 of 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 related to insurance risk 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 5 June 2024, when the amount of the add-on was set at EUR 7.0 (11.9[1]) million.

On 12 December 2024, Standard & Poor's Global Ratings (S&P) confirmed Garantia Insurance Company Ltd's credit rating as A- with a stable outlook. The rating concerns the company's Issuer Credit Rating (ICR), the Financial Strength Rating (FSR), and the Financial Enhancement Rating (FER), which depicts the company's capacity and willingness to meet its commitments on financial guarantees.

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 guarantee insurance. Its legal form is a limited liability company and it is domiciled in Helsinki. The company has one (1) office, which is located in Helsinki at the address Kasarmikatu 21 B, 00130 Helsinki.

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 engage in the reinsurance of such non-life insurance. 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 principles approved by the Ministry of Social Affairs and Health.

Garantia does not have any subsidiaries or associated companies.

Garantia's guarantee insurance solutions for consumers include residential mortgage guarantees that are offered to consumers via partner banks and rent guarantees offered under the Takaamo brand name, for example. Garantia's solutions for companies comprise corporate loan guarantees, commercial bonds and other business-related guarantees.

Garantia's primary geographical area of operations is Finland.

During the 2024 financial year, Garantia employed an average of 21 (23) people.

Garantia is a wholly owned subsidiary of Taaleri Plc (Business ID 2234823–5) and part of the Taaleri Group. Taaleri is a Nordic investment and asset manager that focuses on businesses with industrial-scale opportunities within bioindustry and renewable energy. Taaleri has two business segments: Private Asset Management and Garantia. The Private Asset Management segment consists of renewable energy and other private equity funds. The Garantia segment includes Garantia Insurance Company Ltd. Taaleri Plc is listed on Nasdaq Helsinki.

Taaleri Plc and its subsidiaries and associated companies form an insurance group pursuant to chapter 26 of the Insurance Companies Act, to which group supervision will be applied. The group's parent company is Taaleri Plc. There is no separate

[1] The updated capital add-on that was in force as of 30 June 2023 in parentheses.

solvency capital requirement for the insurance group.

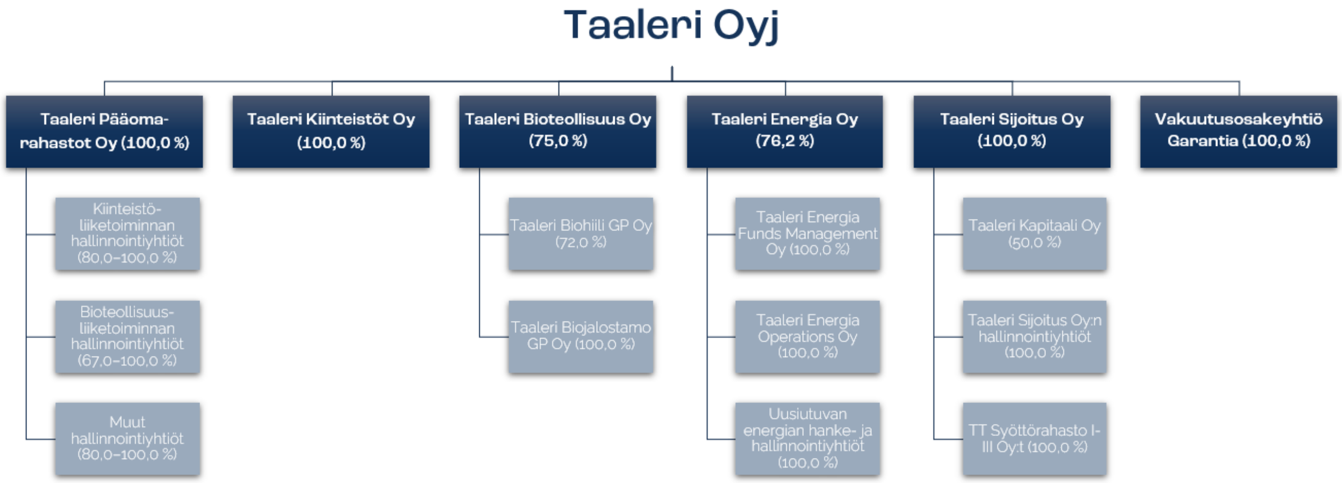

Image 1: Structure of the Taaleri Group on 31 December 2024

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 23 February 2024 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Johanna Winqvist-Ilkka as the principally responsible auditor. Ernst & Young's address is Korkeavuorenkatu 32-34, 00130, 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 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 information that is compliant with the abovementioned regulations. The Taaleri Group prepares consolidated financial statements complying with the International Financial Reporting Standards (IFRS). Garantia is consolidated in the consolidated financial statements as a subsidiary and reported as part of the Strategic Investments business segment.

The Report by the Board of Directors and the Financial Statements for 2024 are available at: https://garantia.fi/en/about-us/financial-information/.

A.2 Underwriting performance

Changes to accounting principles in 2024

In the financial year 2024, the company changed the calculation principles of the provision for unearned premiums and the accounting treatment of premiums written. The change made to the calculation principles of the provision for unearned premiums had a material impact on the result for the financial year 2024 and on equity on the balance sheet.

The one-off impact of the change in the accounting treatment of premiums written on premiums written was EUR 3,464,881, but it had no impact on net profit for the financial year or equity.

The impact of the change made to the calculation principles for the provision for unearned premiums on earned premiums and profit before tax was EUR 28,282,356. The one-off impact of the change on the provision for unearned premiums on profit and equity for the financial year was EUR 22,625,881. The profit adjusted for one-off items is not fully comparable with previous financial years due to the change made to the calculation principles for the provision for unearned premiums.

The accounting treatment of premiums written has been changed so that from the financial year 2024 onwards insurance premiums for the contractually specified insurance periods, which have started during the financial year, are recognised as premiums written, whether invoiced or not. The recognition also takes into consideration the possibility of cancellation of contracts.

Invoiced and yet to be invoiced premiums recognised in premiums written are presented on the balance sheet as part of receivables arising out of direct insurance operations. In previous financial periods, insurance premiums for the contractually agreed premium invoicing periods that had started during the financial year were recognised as premiums written, and the receivables arising out of direct insurance operations only included premiums that had been invoiced but not yet paid.

As a result of the change in the calculation principles of the provision for unearned premiums, Garantia's provision for unearned premiums includes the amounts of projected future claims and expenses of current insurance contracts from the financial year 2024 onwards. In previous financial periods the provision for unearned premiums has included that proportion of the accumulated premiums written where the respective risk is attributable to future financial periods.

Underwriting performance in 2024

Garantia's adjusted gross premiums written decreased by 14.0% from the previous year to EUR 16.4 (19.0) million. The decline in premiums written resulted from a reduction in sales of residential mortgage guarantees as a result of the weak housing market.

The adjusted net change in the provision for unearned premiums was EUR 3.5 (1.7) million in 2024. The decrease in the provision for unearned premiums was driven mainly by a reduction in underwriting volumes. Adjusted earned premiums declined by 4.1% to EUR 19.5 (20.3) million. The decrease in earned premiums is explained not only by the decline in premiums written but also by the reduction of the guarantee insurance portfolio.

The total guarantee insurance exposure declined by 4.0% during the year and was EUR 1,679 (1,749) million at the end of the year. Of the total guarantee insurance exposure, EUR 1,404 (1,397) million, or 84% (80), consisted of consumer exposures and EUR 275 (352) million, or 16% (20), consisted of corporate exposures. The reduction in corporate exposures was mainly influenced by the ending of the guarantee exposures related to Multi-Issuer Bond IV, which matured in the autumn. The loan principal and the related guarantee exposure amounted to EUR 40 million.

Claims incurred remained at a low level and totalled EUR 1.0 (0.8) million. The claims ratio was 5.4% (4.2) and the ratio of claims incurred against the total guarantee insurance exposure was 0.06% (0.05). There was one large individual insurance claim related to a single corporate counterparty during the financial year. However, due to the claims of recourse recognised on the basis of the secure counter-collateral, the claim did not have an impact on profit.

Operating expenses decreased by 3.0% to EUR 5.0 (5.1) million during the financial year. The decrease in operating expenses was driven mainly by a decrease in variable personnel expenses. The expense ratio remained at the previous financial year's level at 25.6% (25.3).

The adjusted balance on the technical account before changes in the equalisation provision fell to EUR 13.4 (14.3) million , and the combined ratio increased to 31.0% (29.5). The continued excellent profitability of insurance operations was attributable to the continued low level of claims incurred and operating expenses. The equalisation provision was reversed by EUR 1.0 (0.8) million and thus the adjusted balance on the technical account came to EUR 14.5 (15.1) million.

A.3 Investment performance

The company's investments are used for covering the technical provisions and the equity capital, and their primary purpose is to secure the liquidity of insurance operations in years with exceptionally high claims. Investment operations are guided by an investment plan that is approved annually by the Board of Directors, which contains the main principles of investment operations, portfolio allocation limits and risk limits.

Garantia's investment income at fair value is made up of dividend income, interest income, sale gains and unrealised positive changes in the value of investments and costs incurred from losses on the sale of investments, impairment, unrealised negative change in value and other investment expenses. Garantia's shareholders' equity and reserves in the financial statements does not include gains or losses entered directly into shareholders' equity and reserves before entry on the profit and loss account.

The market conditions developed favourably for investment operations during the financial year. Equity prices rose, market interest rates declined and credit risk spreads on fixed income investments narrowed. In particular, the decline in interest rate expectations and excellent equity market returns boosted the performance of investment operations.

Garantia's net investment income recognised in profit and loss amounted to EUR 13.1 (8.3) million and it was boosted especially by fixed-income returns and impairment reversals of investments on which impairments had been recognised in previous financial years. The valuation difference between the fair value and the book value of investment assets was EUR 7.3 (5.1) million at the end of December.

Garantia's investment portfolio (incl. cash and bank balances and accrued interest) at fair value was EUR 158.1 (164.0) million at the end of the year.

Investments by asset class at fair value

EUR million	2024	%	2023	%
Fixed income investments	123,0	77,8 %	142,1	86,6 %
Equity investments	32,7	20,7 %	19,6	12,0 %
Real estate investments	2,4	1,5 %	2,3	1,4 %
Total	158,1	100,0 %	164,0	100,0 %

Net return on investments at fair value

	Net return on investments at fair value	Capital employed	Net return on investments, %	Net return on investments, %				
		2024		2024	2023	2022	2021	2020
	in euros	in euros	%	%	%	%	%	%
Fixed income investments	12 096 986	117 062 933	10,3	10,3	6,9	-12,2	2,5	2,5
Loan receivables [1]								
Bonds	12 075 429	115 123 975	10,5	10,5	7,0	-12,4	2,5	2,6
Other financial instruments and deposits [1] [2]	21 557	1 938 958	1,1	1,1	0,4	-0,2	-0,4	-0,2
Equity investments	3 485 581	30 686 854	11,4	11,4	7,6	-6,0	29,0	-2,8
Listed equities [3]	3 346 834	25 606 463	13,2	13,2	9,6	-12,1	27,9	-3,2
Private equity investments [4]	138 747	5 080 390	2,7	2,7	3,4	12,1	33,1	-1,0
Unlisted equities [5]								
Real estate investments	-62 067	2 486 668	-2,5	-2,5	1,7	5,7	4,9	4,3
Direct real estate investments								
Real estate investment funds and collective investments	-62 067	2 486 668	-2,5	-2,5	1,7	5,7	4,9	4,3
Other investments								
Hedge funds [6]								
Commodities								
Other investments [7]								
Total	15 520 500	150 236 455	10,3	10,3	6,9	-11,2	6,1	1,8
Unallocated income, expenses and operating expenses	-274 231							
Net return on investments at fair value	15 246 270	150 236 455	10,1	10,1	6,7	-11,3	5,9	1,7

1) Includes accrued interest.

2) Includes cash and bank balances, and receivables and payables relating to trading of securities.

3) Includes balanced funds if they cannot be allocated elsewhere.
4) Includes private equity funds and mezzanine funds and also infrastructure investments.
5) Includes unlisted real estate investment companies.
6) Includes all types of hedge fund units irrespective of the fund's strategy.
7) Includes items that cannot be allocated to other groups.
8) Change in market value from beginning and end of reporting period less cash flows during the period.
Cash flow = difference between sales/returns and purchases/costs
9) Capital employed = market value at the beginning of the reporting period + daily/monthly time-weighted cash flows.

At the end of the financial year, 77.8% (86.6) of the investment portfolio was allocated to fixed income investments, 20.7% (12.0) to equity and private equity investments, and 1.5% (1.4) to real estate investments. Investment income at fair value was 10.3% (6.9). Net investment income on invested capital at fair value was EUR 15.2 (10.2) million, or 10.1% (6.7).

A.4 Performance of other activities

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

At the end of 2024, Garantia had rental and leasing liabilities resulting from rents and leases payable in upcoming financial periods that amounted to EUR 0.9 (0.6) million. Rental and leasing liabilities comprised the rental and lease expenses for business premises, company cars, IT equipment and office machines. The leasing agreements are operating leases by nature.

A.5 Other information

Significant civil cases and disputes

Garantia has no significant civil cases in progress at the time of reporting.

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: 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 Chair of the Board.

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 governance 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. The Board of Directors appoints the company's CEO and deputy CEO and the members of the Executive Committee and confirms separate charters for the Board of Directors, Executive Committee, Credit Committee, Collateral Committee and Rating Committee. The charters contain, for example, the members appointed in each committee by the Board of Directors, and they describe the duties, ways of working and reporting relationships of the committees. The Board of Directors also makes guarantee insurance underwriting decisions in accordance with the company's decision-making system, makes the decisions for strategically significant investments, and supervises the performance of the company's business and the appropriateness, scope and reliability of solvency and risk management.

The Board of Directors annually confirms the most suitable decision-making system for the company's targets and scope of business, containing the descriptions and definitions regarding the company's decision-making system and limits of liability. The decision-making system ensures that at least two people who are responsible for the company's operations participate in making decisions that are significant for the company before such decisions are implemented.

During the financial year, the company's Board of Directors was composed of Titta Elomaa (Chair), Kenneth Kaarnimo (Vice-Chair), Peter Ramsay, Jorma Timonen and Eija Koskimies. Titta Elomaa has previously served as CEO of Garantia. Over the period 1 January to 23 February 2024, the Board of Directors of the company consisted of Karri Haaparinne (chair), Antti Suhonen (vice-chair), Kenneth Kaarnimo, Laura Paasio and Peter Ramsay.

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 23 February 2024.

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.

Henrik Allonen was the company's CEO during the financial year. The company's Executive Committee was composed of Henrik Allonen, Jussi Blomgren, Assi Ikonen, Timo Lehikoinen and Riku Saastamoinen 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 in accordance with their charters. 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 guarantees, claims and investment within the decision-making authorisations framework confirmed by the Board. The Collateral Committee is responsible for assessment of counter-collateral offered to Garantia and for ensuring the quality and effectiveness of the collateral assessment process. The Rating Committee is responsible for approving counterparties' credit ratings and for ensuring the quality and effectiveness of the ratings process.

The Board of Directors approves the CEO's proposal on the structure of the company's organisation and the company's key functions and the persons responsible for these. The company's organisation consists of four (4) business units and four (4) key functions. In addition, certain functions including HR and communications are organised on the Taaleri Group level.

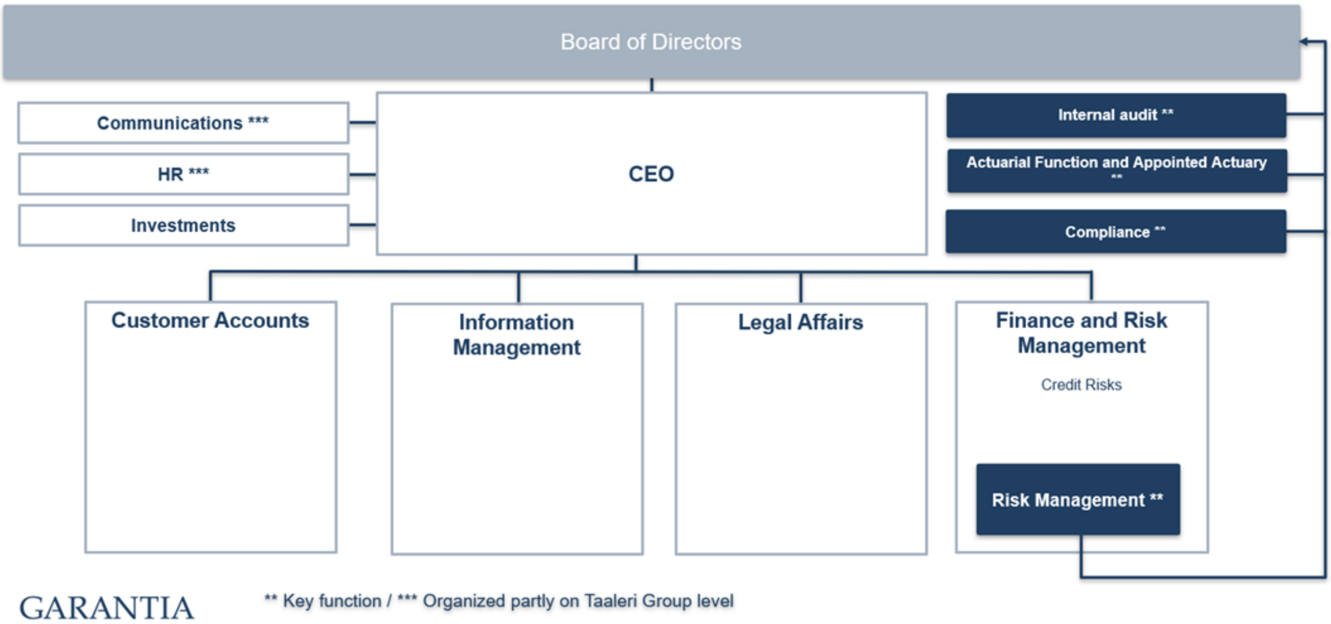

Image 2: Garantia's organisational structure and key functions

Garantia's internal control and risk management are organised according to the Three Lines of Defence model. In accordance with this model, the tasks have been assigned to: (1) units that take business risks in their operations by processing insurance policies and investments, by making decisions binding on the company and by operating at the client interface (Operational Risk Management); (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 (Independent Risk Management); and (3) independent internal audit (Internal Audit). External control is the responsibility of the auditors and supervisory authorities.

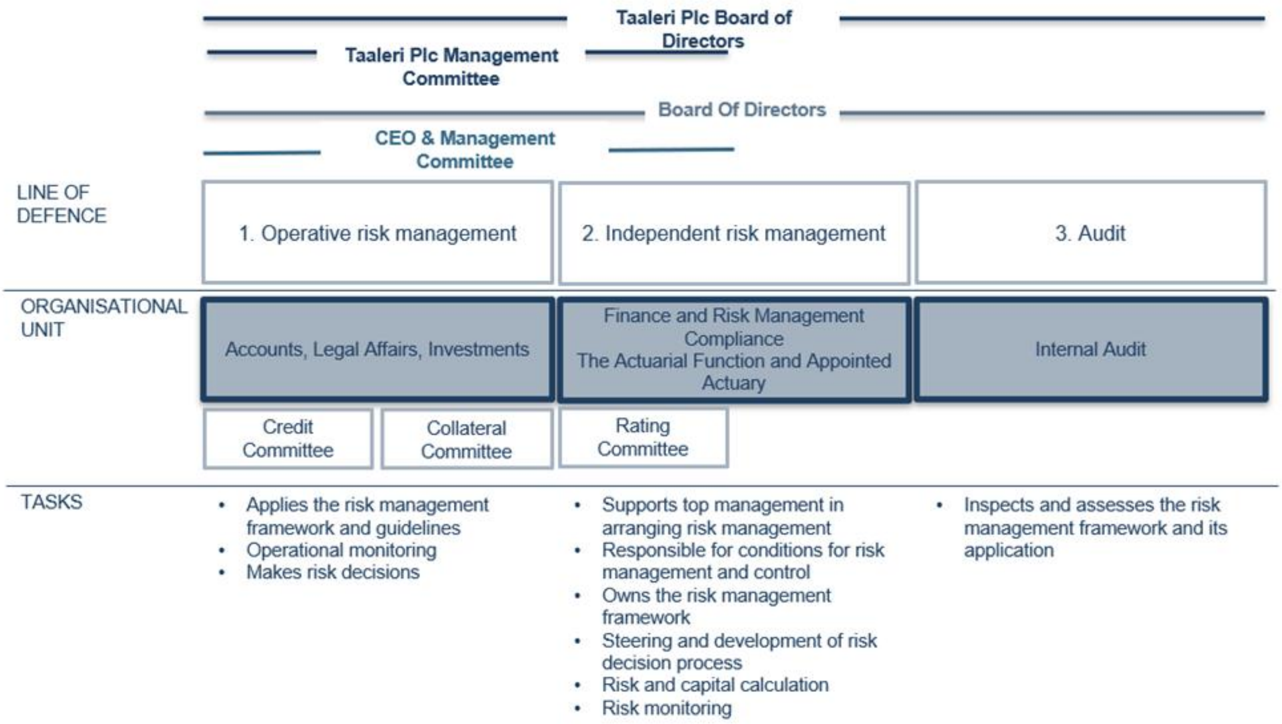

Image 3: Lines of defence of Garantia's internal control and risk management

The company's key functions are the Compliance function, the Finance and Risk Management unit's Risk Management function, Internal Audit and Actuarial Function and the Appointed Actuary. The person responsible for organising the duties of the Internal Audit is the company's Legal Counsel, and the person responsible for organising the duties of the Actuarial Function and the Appointed Actuary, who is also responsible for the Risk Management function, is the Chief Financial and Risk Officer. The company's Legal Counsel is responsible for organising the Compliance function. Each key function reports to the company's Board of Directors as outlined in the guidelines for internal control and risk management.

The target of the Compliance function is to strengthen clients' and the markets' confidence in Garantia. The Compliance function monitors legislation pertaining to the company, regulatory guidelines and other regulations and supervises compliance with these in all of the company's activities. The function is also responsible for monitoring 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, to implement and develop risk and capital requirement calculation and report on the risk and solvency position. Risk management has a comprehensive role in internal control, and it carries out internal control in its operations continuously.

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 compliance 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

The Digital Operational Resilience Act (DORA) for the financial sector entered into force in January 2025. In 2024, Garantia significantly updated its internal guidelines and processes in view of the DORA regulation. Otherwise, there were no material changes in the company's systems of management and governance.

Remuneration policy

General remuneration principles

The objective of Garantia's remuneration system is to ensure that personnel are committed to the long-term development of the company, to create an image of an attractive employer and to motivate personnel to work together to achieve the company's targets. Garantia complies with the general principles of the Taaleri Group's remuneration system, as applicable. Garantia's Board of Directors prepares and approves the company's remuneration system annually as part of annual planning. In addition, the Remuneration Committee of the Board of Taaleri Plc discusses Garantia's remuneration system as part of the Taaleri Group remuneration system. The Boards of Directors of Garantia and Taaleri Plc approve the amounts of the remuneration to be carried out annually before the payment of the remuneration.

Remuneration of the Board of Directors

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 do not come under the scope of the remuneration system. In 2024, the fees paid to Board members totalled EUR 331,592 (120,000).

Decision-making regarding remuneration

Garantia's Board of Directors decides on the remuneration of the CEO and the rest of the executive management and on other terms and conditions of their service or employment relationship. 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.

Remuneration system

In 2024, Garantia's personnel remuneration system 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.

In addition to a fixed basic salary, Garantia's remuneration system includes variable remuneration comprising short-term and long-term remuneration. In the short-term remuneration system, the bonus is paid during the year following the earnings year. In the long-term remuneration system, the bonus is paid three (3) years after the end of the earnings year, subject to certain conditions. The financial instrument in both the short-term and long-term remuneration system is cash.

In the 2024 short-term remuneration system, in accordance with the company's annual plan, the accumulation of remuneration was based on the volume of premiums written by the company, the profitability of insurance operations and personal targets. In deviation from the above, the short-term remuneration objectives of personnel employed in the company's independent control functions[2] 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 system 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 system 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-term and long-term remuneration systems 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 company's internal instructions

[2] Independent control functions in the company are the Risk Management, Compliance and Actuarial functions and the Internal Audit.

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 system, 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.

Employee share savings plan

Garantia's employees are part of the Taaleri Group's share savings plan, which is an incentive programme for the Group's employees. The share savings plan offers employees the opportunity to save part of their salary and invest it in Taaleri Plc shares. In return, the employee receives Taaleri Plc shares (additional shares) at the end of the holding period as a reward based on the number of shares acquired with the savings. The savings period under the plan is one (1) year and the length of the holding period required for the additional shares is two (2) years. The programme's savings period started on 1 July 2022 and ended on 30 June 2023.

The parent company, Taaleri Plc, will charge the company for the costs of acquiring the additional shares, which will be transferred to Garantia's personnel when the required shares are paid. In accordance with applicable accounting regulations, Garantia does not recognise a provision for the costs in its financial statements. The company estimates that the share savings accumulated by the personnel during the savings period will entitle them to a maximum of 8,288 additional shares. Calculated at the closing price of Taaleri Plc's share on the balance sheet date, the value of the additional shares would be EUR 66,553 in total. The receipt of additional shares is conditional on the fulfilment of the conditions of the remuneration scheme.

Personnel's equity-based incentive programmes

The Taaleri Group has an equity-based incentive programme in place for the Group's key persons, which includes persons employed by Garantia. The bonuses accruing under the remuneration scheme are paid after the end of predetermined earnings periods partly in Taaleri Plc shares and partly in cash. The Board of Taaleri Plc decides on the earnings criteria applied in the programme and the goals set for each criterion. In the valid earnings periods, the bonuses paid under the programme are based on the compound earnings of Taaleri Plc's share.

The parent company Taaleri Plc charges the costs of the shares under the share-based incentive schemes allocated to Garantia's employees to the company when the share bonuses are paid. In accordance with applicable accounting regulations, Garantia does not recognise a provision for the costs arising from the share-based incentive scheme in its financial statements. Instead, the costs are recognised as an expense at the time of paying the bonuses. The number of outstanding shares allocated to Garantia's personnel under the share-based incentive schemes on the balance sheet date was 66,000. The payment of the bonuses is subject to the fulfilment of the conditions of the incentive scheme.

Total amount of variable remuneration

The total amount of variable remuneration for a single financial year, including both short- and long-term remuneration by Garantia and Taaleri Group's shared incentive programmes, may not exceed the total amount of the total fixed salaries for one (1) year as decided by the Board of Taaleri Plc. The General Meeting of Taaleri Plc may decide that the total amount of variable remuneration may correspond to no more than the total amount of the total fixed salaries for two (2) years.

Pension arrangements

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 executive management and who has a voluntary pension insurance policy. The 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

Suitability and reliability requirements in general

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, system of governance, finance analyses and actuarial analyses, the regulatory framework and its requirements and the most significant risks to the company's business.

Suitability and reliability assessment process and methods

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 regularly 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 and risk and solvency assessment

General principles of 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. 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.

Risk management process

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.

Operational planning

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 company's own risk and solvency assessment, are confirmed by the company's Board of Directors, and the entire personnel is involved in its preparation.

Capital management

Garantia's goal is to be a reliable partner and the company maintains strong solvency to ensure the continuity and stability of its operations. The Board has set Garantia's target level for capitalisation above the statutory solvency capital requirement, the minimum capital requirement required by credit rating agency Standard & Poor's for an AAA credit rating, and an internally estimated capital requirement (an estimate that is based on the company's internal economic capital model, defined at a confidence level of 99.5%). Garantia's dividend policy is to distribute a growing and performance-related steady dividend. However, the company distributes dividends or returns capital to the owner only to the extent that this does not put the A- credit rating or the company's internally set solvency target 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

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), insurance policy (concentration risks and risk-taking limits and risk indicators concerning insurance operations), reinsurance policy (risk-taking limits concerning reinsurance operations) and the investment plan (risk-taking limits concerning investment operations).

Identification and assessment of risks

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 guarantee insurance operations, investment risks regarding investment assets covering technical provisions and equity, strategic risks and operational and compliance risks.

Garantia defines and assesses its capital requirement and measures the risk of its business operations with three different Value-at-Risk-based risk indicators. The primary indicator used in the steering of operations, measurement of risk and assessment of capital adequacy is economic capital ("Internal Risk Capital") at a confidence level of 99.5%. 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% including the capital add-on, and the minimum capital requirement corresponding to AAA credit rating that is in accordance with S&P's Insurance Capital Model. In addition to Value-at-Risk-based risk indicators, Garantia measures, monitors and assesses the risks of its business operations and their development with other quantitative and qualitative risk indicators.

Measurement of risks

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

Control and reporting of risks

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 the 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 Audit Committee of the Board of Directors of 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.

B.4 Own risk and solvency assessment

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. The risk and solvency assessment includes a risk survey to which the entire personnel and the company's Board of Directors contribute. The risk and solvency assessment is also updated without delay if the company's risk profile and/or risk management process has changed significantly.

In the risk and solvency assessment, 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 the above-mentioned risk survey. 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 under the company's Finance and Risk Management unit 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 also steers and is closely involved in the preparation of the assessment. The Board evaluates and approves the risk and solvency assessment, after which the report is delivered to the Financial Supervisory Authority.

B.5 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 and functions 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.

B.6 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 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 tasks of Internal Audit include the following:

- to assess the adequacy and efficiency of control and supervision methods;
- to assess the efficiency of the Risk Management and Compliance functions;
- to assess the adequacy of management 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 an external service provider 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. During 2024, Garantia changed its internal audit service provider to Advisense Oy.

Garantia's Board of Directors annually approves the Internal Audit's action plan, which describes the duties and the audited areas of the Internal Audit in greater detail. The Internal Audit must submit audit plans with long-term (3 years) and short-term (1 year) scope for approval by Garantia's Board of Directors. These audit plans must be based on the key operational risks identified by Garantia and its management, on the audit needs derived from the operations of key functions, on the processes that are central for Garantia's operations, and on the principles of internal control and risk management. It should also be ensured that the Internal Audit's action plan is founded on systematic risk assessment, and that the plan takes into account all of Garantia's functions, the entire management and administration system, and the expected direction of Garantia's business. The audit plan must cover all the significant functions that are to be audited within a reasonable time.

The Internal Audit reports on key observations, conclusions and recommendations regarding the functioning of internal control and risk management, and the management and administration 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. Detailed reports on the audits are compiled containing all the observations in the order of their importance. Recommendations will be submitted to the person responsible for the process of the audited area, and to the person responsible for Garantia's Internal Audit function at the end of the audit, and before this, these are discussed with the key persons of the audited areas.

B.7 Actuarial Function

An insurance company must have an Actuarial Function and an Appointed Actuary. The Insurance Companies Act provides a description of the duties 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 compliance 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;
- 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. The service provider has been Kaippio & Kaippio Oy since 2015, with actuary SHV Janne Kaippio as the appointed actuary.

B.8 Outsourcing

The procurement principles concerning outsourcing approved by the Board ensure that in outsourcing, there is a comprehensive assessment of the suitability and the significance to Garantia of the outsourcing. The principles also reduce the risks caused by outsourcing. Moreover, the principles ensure that the selection of service providers that will carry out critical duties from the perspective of Garantia's operations takes account of, for example, continuity considerations, how well the operations of the service provider comply with regulations, and requirements for data security and processing of personal information.

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 must not impede the Financial Supervisory Authority's supervision of Garantia's operations, lower the quality of Garantia's system of governance, result in an excessive increase in operational risk, or reduce the quality of the service offered to policy holders, insured parties and beneficiaries.

Garantia's essential criterion in outsourcing functions is making use of the expertise of another company or expert in its own business, and cost-effectiveness. Garantia assesses the operations and performance of partners that carry out outsourced central functions on an annual basis, as well as the risks associated with outsourcing and the management of these risks. Before executing an outsourcing arrangement, the person responsible for arranging the outsourcing must prepare a comprehensive risk assessment on the outsourcing. The assessment will be processed by the Executive Committee, and Garantia's Board of Directors will decide on the outsourcing. The Financial Supervisory Authority is also notified of outsourcing projects. When functions are outsourced, a written contract is always drawn up with the party that will be responsible for the outsourced task.

Garantia procures its Internal Audit, Actuarial Function, Appointed Actuary and Compliance Function services, which are among the key functions as defined in the Insurance Companies Act, from external service providers. The outsourcing partners are domiciled in Finland and Finnish law is applied to the concluded contracts. In its project to implement the DORA regulation, which was launched in 2024, Garantia assessed the processes that are critical and important for its operations, and the service providers related to these processes. In connection with its assessment, Garantia has also harmonised its guidance on outsourcing and procurement from the perspective of the DORA regulation and Solvency II regulatory framework. As a result of its assessment, Garantia interpreted that some of the service providers currently providing services to Garantia are those that perform a function or task that is critical or important from the perspective of Garantia's operations.

The person responsible for the outsourcing of a duty or 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's Executive Committee postponed its assessment of outsourcing until early 2025 to allow it to re-assess those service providers performing the critical or important functions mentioned above.

B.8 Assessment of the adequacy of the system of governance

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

The company's view is that its management and administration system 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 guarantee insurance operations, investment risks regarding the investment assets covering the technical provisions, strategic risks, operational risks 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

General information on 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 guarantee insurance, the insurance risk mostly consists of credit risk (the inability of the guaranteed counterparty to manage its financial or operational obligations under the contract in relation to the beneficiary). This may be a 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 guarantees, which results from the default of the reinsurer or the party providing other counter guarantees, and the value change risk, which is caused by changes in the fair value of the collateral.

Management of insurance risk

The aim in the management of the insurance risk, i.e. the credit risk in guarantee insurance, is to ensure that the negative profit impacts arising from client and counterparty risks remain at acceptable levels and that the returns of guarantee operations are adequate in relation to the risks taken. In guarantee 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, contractual terms and conditions, and collateral and covenant arrangements.

Central to the management of credit risks is the process of underwriting insurance policies, which is controlled by the insurance 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 company's underwriting process. In addition to the daily underwriting process, credit risks are identified and assessed at least once a year with a risk survey compiled in conjunction with annual planning.

Measurement of insurance risk

The amount of insurance risk (credit risk) is measured using the company's internal economic capital model, the solvency capital requirement (SCR) and Standard & Poor's insurance capital model. In the company's internal economic capital model, the economic capital of insurance risk is defined on a contract basis primarily using the Basel II Internal Ratings-based Approach, which considers the amount of exposure, the counterparties or contract's credit rating which describes probability of default (PD), its duration, and the loss given default (LGD), which depends on counter-collateral, recovery and reinsurance. The economic capital model also includes concentration risk. Garantia regularly assesses its economic capital model and the functionality of the parameters used in the calculation of the amount of economic capital.

In addition to economic capital, the credit risk of the entire guarantee insurance exposure is assessed based on the distribution of gross insurance exposure and expected loss by product groups and by examining the average maturity of the guarantee insurance exposure and the ratio of claims incurred against earned premiums and the guarantee insurance exposure. For the corporate exposure portfolio, credit risk is also assessed at the level of the portfolio on the basis of the credit rating distribution, the industry distribution and the largest exposures.

The credit risk of consumer credit exposures is assessed mainly at the portfolio level. The main ways of assessing the credit risk of the residential mortgage guarantee portfolio include the distribution of the residential mortgage guarantee portfolio by risk area[3], by municipality and by credit category, and the trend in payment delays in the residential mortgage guarantee portfolio. The credit rating (PD) of the residential mortgage guarantee portfolio is done automatically in the insurance information system.

[3] The risk area describing the loan-to-value ratio measures the relative position of Garantia's guarantee exposure in the financing structure of the residential mortgage project.

The rating is done at the contract level and is based on the basic information on the residential mortgage and the debtor obtained with the granting of the guarantee. The risk of claims in the rental guarantee portfolio is modelled and measured at the portfolio level, and individual contracts are not classified.

In addition to economic capital secured by the counterparty, the credit risk of individual clients and groups of connected clients in corporate exposures is assessed on the basis of credit ratings, gross and net insurance exposure, the amount and type of collateral, amount of uncovered exposure, covenants and possible risk client status classification of the client or group of connected clients.

The insurance risk position is monitored and reported to the Executive Committee and the Board of Directors every month.

Risk position of guarantee insurance operations

The volume of consumer exposures at the end of the financial year was EUR 1,404 (1,397) million and their proportion in the total guarantee insurance exposure was 84% (80). Consumer exposures consist of residential mortgage guarantees and rent guarantees granted to households. A residential mortgage guarantee is an additional collateral underwritten to cover a housing loan. A rent guarantee protects the landlord of a dwelling against the tenant defaulting on commitments specified in the lease contract.

The majority of the consumer exposures is made up of residential mortgage guarantees. The risk position of the residential mortgage guarantee portfolio did not change substantially during the year. The portfolio is well diversified by counterparty, geographical location of collateral property and underwriting year, and the creditworthiness of the mortgage borrowers in the portfolio is very good on average. In addition, the credit risks of the residential mortgage guarantee portfolio are managed through an excess-of-loss portfolio reinsurance arrangement, whereby the reinsurer is liable for mortgage guarantee portfolio claims exceeding Garantia's retention threshold up to EUR 20 million. The decline in consumer purchasing power, the weakening of the economy and increase in unemployment have weakened the ability of mortgage holders to repay their mortgages, and house prices have fallen over the past two years. However, due to mortgage holders' good creditworthiness, this has not had a significant impact on the level of claims.

The volume of corporate exposures was EUR 275 (352) million at the end of the financial year, and their proportion in the total guarantee insurance exposure was 16% (20). Corporate exposures include corporate loan guarantees, commercial bonds and other business-related guarantees. The guaranteed companies are mainly medium-sized and large Finnish companies and other organisations. In addition to risk selection, counter-collateral, reinsurance, and risk-mitigating contractual terms and conditions are also used to hedge against the credit risks of corporate exposures.

The share of investment grade exposures, or exposures rated between AAA and BBB-, made up 37.0% (31.1), while exposures with a rating of at least BB- accounted for 67.3% (71.4) of the rated corporate insurance portfolio. The share of exposures with weak credit ratings of C+ or lower decreased slightly and was 2.1% (2.8). The creditworthiness of the company's corporate counterparties has remained good on average, despite the creditworthiness of some counterparties having been affected by the deteriorating economic outlook.

The principal sectors in the corporate insurance portfolio were manufacturing at 17.3% (19.1), water and waste management at 17.2% (10.3), trade at 14.6% (20.8) construction at 13.9% (12.3), finance and insurance operations at 12.7% (11.7), and services at 10.5% (4.6). The proportions of other sectors accounted for less than 10% in the corporate insurance portfolio.

Sensitivity analysis of insurance operations 31 Dec 2024

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premiums earned	47 753	increases 10 %	3 820	improves 1,2 %-p.
Claims incurred	1 047	increases 10 %	0	improves 0,2 %-p.
Large claim, EUR 10 million	0	EUR 10 mn.	0	worsens 20,9 %-p.
Operating expenses	4 987	increases 10 %	-399	worsens 1,0 %-p.

Sensitivity analysis of insurance operations 31 Dec 2023

Risk parameter	Total, EUR thousand	Change in risk parameter	Effect on equity, EUR thousand	Effect on combined ratio, %
Premiums earned	20 294	increases 10 %	1 624	improves 2,7 %-p.
Claims incurred	845	increases 10 %	0	improves 0,4 %-p.
Large claim, EUR 10 million	0	EUR 10 mn.	0	improves 49,3 %-p,
Operating expenses	5 143	increases 10 %	-411	improves 2,5 %-p.

Trend in claims incurred

EUR thousand	Claims paid	Change in provision for outstanding claims	Claims incurred	% of insurance exposure	Claims ratio, %
2024	-1 459	412	-1 047	0,06 %	2,2 %
2023	-1 121	276	-845	0,05 %	4,2 %
2022	-1 055	477	-579	0,03 %	3,2 %
2021	-1 270	592	-677	0,04 %	3,8 %
2020	-855	263	-592	0,03 %	4,0 %
2019	-336	-1 282	-1 618	0,09 %	12,2 %
2018	427	355	783	-0,05 %	-6,4 %
2017	-343	-736	-1 079	0,07 %	10,1 %
2016	-934	-240	-1 174	0,09 %	12,4 %
2015	-1 421	-71	-1 492	0,13 %	15,1 %

Claims paid includes the share of reinsurers, income from collection of recourse receivables, the change in claims of recourse and operating expenses allocated to claims processing. Change in provision for outstanding claims includes the share of reinsurers.

Consumer exposure includes residential mortgage guarantees and rent guarantees, where insurance risk is attributable to the credit risk of private households. Residential mortgage guarantees included in consumer exposure have second tier collateral rights relating to the residential property collateral of the guaranteed mortgage loan. The risks of the residential mortgage guarantee portfolio are also limited through an excess-of-loss reinsurance arrangement, which covers the majority of the portfolio, covering claims exceeding a certain retention threshold up to a specified insured amount. The rent guarantees are unsecured.

Corporate exposure is made up of corporate loan guarantees, commercial bonds and other business-related guarantees, where insurance risk is attributable to the credit risk of companies and other organisations. The corporate exposure is partly covered by reinsurance and collaterals.

The committed undrawn portion shown in the table is the amount of the guarantee liability committed by Garantia, where the principal debt covered by the guarantee has not yet been drawn. Committed undrawn liability is not presented as part of the guarantee insurance exposure.

Consumer insurance exposure by rating class

EUR million	2024	2023
Residential mortgage guarantees		
AAA...BBB-	996	994
BB+...BB-	403	399
Total	1 399	1 393
Rental guarantees	4	4
Consumer exposure total	1 402	1 397

Corporate insurance exposure by rating class

EUR million	2024	2023
AAA...BBB-	96	103
BB+...BB-	79	133
B+...B-	80	86
C+ tai heikompi	5	9
Rated exposure total	260	332
Other exposure	14	20
Corporate exposure total	275	352

Corporate insurance exposure by collateral class

	2024	2023
Reinsured	4	12
Classes 1 & 2	28	39
Classes 3 & 4	66	91
Unsecured	162	190
Rated exposure total	260	332
Other exposure	14	20
Corporate exposure	275	352

Collateral classes: 1 = secure liquid collateral, 2 = real collateral within collateral value, 3 = real collateral within fair value, 4 = other collateral.

Corporate insurance exposure by sector

	2024	2023
Manufacturing	45	63
Machinery and equipment (incl. repair)	22	33
Metals	4	3
Chemicals	13	16
Food	6	9
Other	1	2
Construction	45	41
Wholesale and retail trade	38	69
Finance and insurance	36	39
Water supply and waste management	33	34
Transport and logistics	27	22
Energy	15	21
Services	2	15
Information and communication	0	1
Other industries	19	30
Rated exposure total	260	335
Other exposure	14	26
Corporate exposure total	275	362

Other exposure consists of exposure where insurance risk is not directly attributable to the creditworthiness or industry risk of the counterparty and therefore not subject to ratings. The industry classification is based on the classification taxonomy of Statistics Finland.

C.2 Market risk

General information on market risks

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 in years with exceptionally high claims. Garantia's investment operations 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 operations, 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 operations. In addition, the sustainability risks associated with investment operations are assessed when investment decisions are made.

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-bearing instruments and risk-free interest-bearing instruments, in other words, the risk arising from a change in the credit spread.

Management of market risks

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 operations. Funds are only invested in the type of assets where the company is able to identify, measure, monitor, manage, control and report the related risks. Investment operations should aim to ensure the security, convertibility into cash, rate of return and availability 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 rating and counterparty, and by ensuring adequate liquidity of the investments. Central to the management of investment risks is the daily execution of investment operations, which is controlled by the investment plan and decision-making powers approved by the Board. In addition to the daily investment operations and monthly reporting, investment risks are assessed at least once a year with a risk survey compiled in conjunction with annual planning.

Measurement of market risks

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 (incl. illiquid PE investments), currency risk, interest rate risk and credit risk. The market risk model according to the economic capital model was validated and updated during 2024.

In addition to economic capital, investment risks are measured on the basis of asset class, country, credit rating, counterparty, 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 monthly.

Market risk position

The risk level of investment operations was moderately increased by increasing the allocation to large equity index funds and by increasing the duration of fixed income investments. At the end of the year, fixed income investments made up 77.8% (86.6), equity and private equity investments 20.7% (12.0) and real estate investments 1.5% (1.4) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in the bonds of Nordic companies and credit institutions with strong creditworthiness. A total of 69.4% (66.0) of fixed income investments had an investment grade credit rating. The modified duration of the fixed income investments was 3.2 (2.4).

Investments by asset class at fair value

EUR million	2024	%	2023	%
Fixed income investments	123,0	77,8 %	142,1	86,6 %
Equity investments	32,7	20,7 %	19,6	12,0 %
Real estate investments	2,4	1,5 %	2,3	1,4 %
Total	158,1	100,0 %	164,0	100,0 %

Fixed income investments include cash & bank balances and accrued interest. Fixed-income investments mainly include bonds issued by Nordic corporates and credit institutions.

Fixed-income investments by maturity and credit rating 31 Dec 2024

EUR million	0-1 yrs.	1-3 yrs.	3-5 yrs.	Over 5 yrs.	Total	%
AAA...AA-	6,5	0,0	0,0	0,0	6,5	5,3 %
A+...A-	0,1	5,0	0,0	11,7	16,7	13,6 %
BBB+...BBB-	3,8	14,2	15,8	28,3	62,1	50,5 %
BB+ tai alle	3,8	16,7	17,1	0,0	37,6	30,6 %
Total	14,1	35,9	32,9	40,0	123,0	100,0 %

Fixed-income investments by maturity and credit rating 31 Dec 2023

EUR Million	0-1 yrs.	1-3 yrs.	3-5 yrs.	Over 5 yrs.	Total	%
AAA...AA-	1,3	17,0	0,0	0,0	18,3	12,9 %
A+...A-	0,3	0,0	0,0	8,5	8,7	6,1 %
BBB+...BBB-	7,8	21,4	30,0	11,3	70,5	49,6 %
BB+ tai alle	10,0	21,2	13,3	0,0	44,5	31,3 %
Total	19,3	59,7	43,4	19,7	142,1	100,0 %

Sensitivity analysis of investment activities, 31 Dec 2024

Investment category	Investments at fair value, EUR million	Risk parameter	Change (+/-)	Effect on equity, EUR million (+/-)
Fixed income	123,0	Chg in int. rates	1,0 %	3,1
Equities	27,7	Market value	10,0 %	2,2
Private equity	7,4	Market value	10,0 %	0,6

Sensitivity analysis of investment activities, 31 Dec 2023

Investment category	Investments at fair value, EUR million	Risk parameter	Change (+/-)	Effect on equity, EUR million (+/-)
Fixed income	142,1	Chg in int. rates	1,0 %	2,8
Equities	14,4	Market value	10,0 %	1,2
Private equity	7,5	Market value	10,0 %	0,6

C.3 Credit risk

Garantia's exposure to credit risk as part of guarantee and investment operations is described above in sections C.1. Insurance 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. Garantia's liquidity risk is limited as premiums written are collected before claims are paid and the largest individual payments are insurance compensation payments to beneficiaries or distribution of profit and/or 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 principal measures in liquidity risk management are sufficient amount of cash for managing daily payments and the liquidity of the investment portfolio. Since the beginning of 2024, the company has been monitoring two (2) new liquidity metrics. The metrics are used to monitor the company's liquidity position in exceptional (once in every 200 years) circumstances.

In the first metric, the adequacy of the company's liquid investment assets is compared against the amount needed to pay an insurance claim for the largest guarantee insurance exposure at a confidence level of 99.5% in an investment crisis scenario. The time horizon of the metric is one month.

In the second metric, the adequacy of the company's liquid investment assets is compared in relation to the claim expense of the entire guarantee insurance exposure at a confidence level of 99.5% in a crisis scenario. The time horizon of the metric is 12 months.

Both metrics take into account an investment valuation crisis and the haircut caused by a rapid change in the value of investments and the 100% LGD in insurance claims.

The technical provisions that are based on Garantia's solvency calculations include EUR 4.50 (4.54) million in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance class 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 2024 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. The estimate of expected operating expenses includes an assumption on the impact of inflation on future expenditure levels. In contrast, inflation does not have an impact on the expected claims in guarantee insurance.

C.5 Operational risk

Operational risk means 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 function, continuous registration of operational risks, identification of corrective measures and the monitoring and reporting of these, continuity planning, guidelines 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 (SCR) and of economic capital, which is determined on the basis of the annual risk survey. Actual risk events and near misses are also 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.

C.6 Other material risks

Strategic risk

Strategic risks are the risks that result from changes in the operating and competitive environment, slow reaction to these 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 refers to the risk that unfounded or founded unfavourable publicity related to the company's business operations or relations undermines confidence in the company. Reputational risk is usually a consequence of a materialised operational or compliance risk which results in the deterioration of the company's reputation among its customers and other stakeholders. Regulatory risk refers to 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 a 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 manner by conforming with Garantia's values, complying with 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 risk

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

Concentration risk means all risk exposures with a loss potential which is large enough, upon materialisation, to threaten the solvency or financial position of insurance and reinsurance companies.

The principal concentration risk in Garantia's business operations arises from the concentration risk of direct and indirect credit and counterparty risk in guarantee and investment operations. Garantia's total exposures contain large, individual credit risk concentrations specific to groups of connected clients, industries and product groups. In addition, Garantia's guarantee insurance and investment exposures 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 and with risk limits specific to groups of connected clients and industries that take total insurance exposure into account.

Sustainability risk

At Garantia, sustainability risk refers to an environmental, social or corporate governance event or condition that, if it occurred, could have a negative impact on the value of the company's investments or technical provisions.

Sustainability risks may arise to a material degree in the company's guarantee insurance and investment operations. In these functions, sustainability risks are linked in practice to the sustainability of the activities of individual companies and entities that are the credit risk counterparties of guarantee insurance agreements or investments.

In guarantee insurance operations, the sustainability risk associated with corporate counterparties is primarily assessed with the sustainability risk tool introduced in 2023 and as part of the credit rating decision making process. The assessment of sustainability risk focuses on the assessment of the counterparty's environmental responsibility, social responsibility and corporate governance. The goal stated in Garantia's insurance policy is to not accept insurance risk from companies, entities or projects with operations that involve significant sustainability risks. In addition, the companies that have been rated with the sustainability risk tool and have received a low score can be offered slightly lower pricing.

C.7 Other information

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

Garantia calculates its solvency as required by chapter 3 of the Insurance Companies Act (2018/521) (so-called Solvency II capital adequacy). For the solvency calculation, the company prepares a Solvency II balance sheet, which is different from the company's FAS balance sheet. 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 publicly listed equities and other financial instruments is taken to be the final available bid price during continuous trading at the closing date or, if this is not available, the last trading price. The fair value of private equity funds and other mutual funds is taken to be the expected assignment price, which is based on the net asset value (NAV) per unit calculated by the fund management company. The fair value of bonds and other IOUs is taken to be the last trading price of the reporting period or the most probable assignment price. The fair value of other investments is taken to be the expected assignment price.

The valuation of assets on the Solvency II balance sheet differs from the valuation of assets on the FAS balance sheet in that on the Solvency II balance sheet investments are valued at fair value and intangible assets are valued at zero. On the Solvency II balance sheet, the reinsurers' share of technical provisions is booked in assets as the item "Reinsurance recoverables", 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.

Solvency II Balance sheet: Assets and changes in assets, euro

	31.12.2024	31.12.2023	Change
Property, plant & equipment held for own use	48 365	53 044	-4 678
Investments	156 640 766	162 437 688	-5 796 923
Bonds	121 526 261	128 464 712	-6 938 450
Collective Investments Undertakings	35 114 504	33 972 977	1 141 528
Deposits other than cash equivalents	0	0	0
Reinsurance recoverables from Non-life and health similar to non-life	13 260	-88 708	101 968
Insurance and intermediaries receivables	0	0	0
Reinsurance receivables	47 429	222 329	-174 900
Receivables (trade, not insurance)	12 228	69	12 159
Cash and cash equivalents	1 442 781	1 532 951	-90 170
Any other assets, not elsewhere shown	0	0	0
Total assets	158 204 829	164 157 373	-5 952 544

The difference between assets on Solvency II and FAS balance sheets 31.12.2024, euro

	Solvenssi II	FAS	Difference
Intangible assets	0	52 575	-52 575
Property, plant & equipment held for own use	48 365	48 365	0
Investments	156 640 766	149 323 732	7 317 034
Bonds	121 526 261	119 452 700	2 073 561
Collective Investments Undertakings	35 114 504	29 871 031	5 243 473
Deposits other than cash equivalents	0	0	0
Reinsurance recoverables	13 260	0	13 260
Debtors, arising out of direct insurance operations (FAS)	0	4 536 469	-4 536 469
Reinsurance receivables	47 429	47 429	0
Receivables (trade, not insurance)	12 228	12 228	0
Cash and cash equivalents	1 442 781	1 442 781	0
Debtors, other (FAS)	0	4 147 813	-4 147 813
Total assets	158 204 829	159 611 391	-1 406 562

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 Investment Undertakings	Total amount of market value of fund investments.
Deposits other than cash equivalents	Amount of rent security deposits on FAS balance sheet.
Reinsurance recoverables	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 elsewhere 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

General information on technical provisions

On the FAS balance sheet, technical provisions include the actual technical provision, which is formed from the provision for unearned premiums and the 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 included in basic own funds on the Solvency II balance sheet. Own funds are considered in more detail in chapter E. Capital Management.

Provision for unearned premiums

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 guarantees 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 guarantee. For each valid guarantee, the capital value of the future expected costs of the guarantee is determined on a secure basis, using a product group-specific expense ratio assumption, and the sum of these capital values forms the provision for unearned premiums. On the Solvency II balance sheet, the same division into four groups (residential mortgage guarantees, construction defect insurance, rent guarantee and other guarantees) 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. 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), "Creditors arising out of direct insurance operations" and, as far as they relate to the achievement of insurance agreement obligations, "Regulated provisions" have been included under provision for unearned premiums in the Solvency II balance sheet.

Risk margin

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 guarantee portfolio's average maturity.

Provision for claims outstanding

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 guarantees) according to the interest rate term structure published by EIOPA. In addition, the FAS balance sheet item "Other receivables" (recognised claims of recourse) has been included as negative under outstanding claims provision on the Solvency II balance sheet.

Reinsurers' shares

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 on the FAS balance sheet. On the Solvency II balance sheet, the reinsurers' share of the provision for unearned premiums is calculated by applying the "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.

Uncertainties related to the value of technical provisions

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.

The technical provisions that are based on Garantia's solvency calculations include EUR 3.6 (4.50) million in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance class 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 2024 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. The estimate of expected operating expenses includes an assumption on the impact of inflation on future expenditure levels. In contrast, inflation does not have an impact on the expected claims in guarantee insurance.

Matching adjustment, volatility adjustment, transitional risk-free interest rate term structure and transitional deduction

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

D.3 Other liabilities

According to the Solvency II balance sheet, the valuation of other liabilities differs from that on 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 on 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 the valuation principles for other liabilities. The increase in liabilities during the reporting period was caused by the growth in guarantee 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 liabilities, euro

	31.12.2024	31.12.2023	Change
Technical provisions – non-life	12 716 620	15 529 687	-2 813 067
Best Estimate	7 140 667	9 583 590	-2 442 923
Risk margin	5 575 953	5 946 097	-370 144
Deferred tax liabilities	13 988 557	19 706 365	-5 717 808
Insurance & intermediaries payables	0	0	0
Reinsurance payables	56 767	96 386	-39 618
Payables (trade, not insurance)	3 167 711	4 386 475	-1 218 764
Any other liabilities, not elsewhere shown	369 723	230 590	139 133
Total liabilities	**30 299 378**	**39 949 502**	**-9 650 124**
Excess of assets over liabilities	**127 905 451**	**124 207 871**	**3 697 580**

The difference between liabilities on Solvency II and FAS balance sheets 31.12.2024, euro

	Solvenssi II	FAS	Difference
Technical provisions – non-life	12 716 620	12 467 872	248 748
Best estimate	7 140 667	0	7 140 667
Risk margin	5 575 953	0	5 575 953
Provisions	0	16 737	-16 737
Reinsurer's share of technical provisions (FAS)	0	-68 528	68 528

Equalisation provision (FAS)	0	67 961 225	-67 961 225
Deferred tax liabilities	13 988 557	0	13 988 557
Creditors, arising out of direct insurance operations (FAS)	0	0	0
Reinsurance payables	56 767	32 373	24 395
Payables (trade, not insurance)	3 167 711	3 167 711	0
Any other liabilities, not elsewhere shown	369 723	369 723	0
Total liabilities	30 299 378	83 947 113	-53 647 735
Excess of assets over liabilities	127 905 451	75 664 890	52 240 561

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

Garantia updates its capital plan at least once a year. The plan includes the company's capital management principles, the limitations related to solvency, solvency targets and dividend distribution policy. The capital plan also 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. In addition to the regular annual updates, the capital plan is also updated if there is a material change in the company's risk situation, risk-bearing capacity or profitability outlook from that anticipated in the plan.

Garantia's goal is to be a reliable partner. The company ensures the continuity and stability of its operations by maintaining strong solvency. The company's Board of Directors has set Garantia's target level for capitalisation above the statutory Solvency II solvency capital requirement and the minimum capital requirement required by the credit rating agency Standard & Poor's for an AAA credit rating, and above the economic capital model defined at a confidence level of 99.5%. Garantia distributes dividends or returns capital to the owner only to the extent that this does not put the A- credit rating or the company's internally set solvency target 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 consist fully of unrestricted Tier 1 basic own funds. Garantia does not apply 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.

Garantia's basic own funds amounted to EUR 112.9 (109.2) million at the end of the financial year. Basic own funds increased slightly, mainly as a result of excellent investment performance. Basic own funds include, as a deduction, foreseeable dividends, the amount of which remained at the same as the previous year.

Own funds (Tier 1), euro

	31.12.2024	31.12.2023	Change
Ordinary share capital (gross of own shares)	10 200 000	10 200 000	0
Reconciliation reserve	102 705 451	99 007 871	3 697 580
of which forseeable dividends, distributions and charges	15 000 000	15 000 000	0
Total	112 905 451	109 207 871	3 697 580

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

	31.12.2024	31.12.2023	Muutos
Own funds (Tier 1)	112 905 451	109 207 871	3 697 580
Solvency Capital requirement (SCR)	42 976 983	44 440 757	-1 463 774
Solvency Capital requirement excl. capital add-on	35 948 552	32 531 504	3 417 048
Minimum Capital requirement (MCR)	10 744 246	11 110 189	-365 943
Own funds / SCR, %	263 %	246 %	17 %-yks.
Own funds / MCR, %	1051 %	983 %	68 %-yks.

Garantia's shareholders' equity and reserves presented in the financial statements were EUR 75.0 (45.4) million and the own funds in accordance with the Insurance Companies Act the above-mentioned EUR 112.9 (109.2) 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 67.9 (69.0) million included in the technical provisions in the financial statements, which is included in shareholders' equity and reserves on the Solvency II balance sheet. The total deferred tax liabilities presented on the Solvency II balance sheet include EUR 14.0 (13.8) million which are related to the equalisation provision.

The purpose of the equalisation provision, which is booked as a technical provision on the FAS balance sheet, is to balance the impact of years with exceptional technical results. The equalisation provision acts as a buffer, especially against growth in claims incurred. In Garantia's calculation principles for the equalisation provision, an amount corresponding to the claims incurred for the period in question of the provision is recognised 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 calculation principles for the equalisation provision used in Garantia's financial statements were confirmed by the Financial Supervisory Authority on 21 October 2016.

Garantia does not have deferred tax assets on its Solvency II balance sheet.

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

	31.12.2024	31.12.2023
Shareholder's equity and reserves (+)	75 047 070	45 382 413
Foreseeable dividends, distributions and charges (-)	-15 000 000	-15 000 000
Valuation difference of Technical provisions - non-life (+)	300 755	26 127 547
Provision for unearned premiums and claims outstanding (net) in financial statements	13 004 114	41 745 943
Technical provisions - non-life in Solvency II	-12 716 620	-15 529 687
Reinsurance recoverables from Non-life in Solvency II	13 260	-88 708
Items in financial statements included in Solvency II technical provisions	-8 684 232	-1 642 849
Debtors, arising out of direct insurance operations	-4 536 469	-1 642 849
Debtors, other	-4 147 813	0
Creditors, arising out of direct insurance operations	49	0
Equalisation provision (+)	67 961 225	69 008 375
Provisions (+)	4 732	16 737
Valuation difference of Investments	7 317 034	5 111 828
Book-value of investments in financial statements	-149 323 732	-157 325 861
Fair value of investments in Solvency II	156 640 766	162 437 688
Intangible assets (-)	-52 575	-89 816
Deferred tax liabilities (-)	-13 988 557	-19 706 365
Own funds	**112 905 451**	**109 207 871**

E.2 Solvency capital requirement and minimum capital requirement

On 31 December 2024 Garantia's solvency capital requirement was EUR 42.9 (44.4) million.

The reduction in the solvency capital requirement during the financial year resulted from a reduction of the capital requirement for insurance risk and a reduction of the capital add-on associated with insurance risk set by the Financial Supervisory Authority. The reduction in the amount of insurance risk was due to a decrease in guarantee insurance exposure, especially in corporate exposures. The capital requirement for market risk, on the other hand, increased as a result of allocation changes in the investment portfolio. 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's solvency capital requirement has included a capital add-on related to insurance risk 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 5 June 2024, when the amount of the add-on was set at EUR 7.0 (11.9[4]) million. The updated capital add-on is included in the company's solvency capital requirement as of 30 June 2024. When making the add-on decision, the Financial Supervisory Authority acknowledged the capital requirement for insurance risk calculated as per Garantia's own economic capital model.

[4] The updated capital add-on that was in force as of 30 June 2023 in parentheses.

The reason behind the capital add-on is primarily that the Solvency II standard formula treats credit and guarantee 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 guarantee insurance is also based on insurance premiums in the standard formula and no consideration is given to the amount or quality of the guarantee exposures. Thus, in the view of the Financial Supervisory Authority, the standard formula does not give a correct picture of Garantia's risk position.

In its decision regarding the capital add-on, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life insurance risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation by more than 15%, and therefore the preconditions for raising the company's capital requirement continue to exist. According to the Financial Supervisory Authority's estimate, there have been no substantial changes in the company's risk profile since the previous decision made on 9 June 2023.

Solvency capital requirement by component, euro

	31.12.2024	31.12.2023	Change
Basic solvency capital requirement	44 390 029	40 041 409	4 348 620
Market Risk	28 110 413	20 898 843	7 211 570
Interest rate risk	4 365 082	4 625 099	-260 017
Equity risk	13 775 683	8 082 963	5 692 720
Property risk	601 123	567 239	33 884
Spread risk	11 493 368	9 986 342	1 507 026
Currency risk	6 434 902	3 822 682	2 612 220
Concentration risk	7 307 595	7 569 161	-261 566
Diversification benefit	-15 867 340	-8 925 001	-6 942 339
Counterparty default risk	723 005	313 809	409 196
Non-life underwriting risk	27 599 371	29 145 722	-1 546 351
Premium and reserve risk	13 210 395	15 337 769	-2 127 374
Lapse risk	1 052 585	1 536 026	-483 441
Catastrophe risk	21 131 189	21 196 928	-65 739
Diversification effect	-7 794 798	-8 925 001	1 130 203
Intangible asset risk	0	0	0
Diversification effect	-12 042 760	-10 316 965	-1 725 795
Operational risk	545 661	622 972	-77 311
Adjustment for loss-absorbing capacity	-8 987 138	-8 132 876	-854 262
Total excl. capital add-on	35 948 552	32 531 504	3 417 048
Capital add-on	7 028 431	11 909 253	-4 880 822
	42 976 983	44 440 757	-1 463 774

On 31 December 2024, Garantia's minimum capital requirement was EUR 10.7 (1) million. In the minimum capital requirement calculation (insurance type, credit and guarantees), the net (with reinsurance contracts/special purpose vehicles share deducted) best estimate used and technical provisions totalled EUR 7.1 (9.7) million and net (with reinsurance contract share deducted) premiums written calculated over the previous 12 months were EUR 16.4 (18.6) million. In 2024 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 9.0 (8.1) million on 31 December 2024, 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

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Annex I: Tables to be published in accordance with the Commission Implementing Regulation (EU) 2023/895

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**	48 365
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	156 640 766
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**	121 526 261
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	121 526 261
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	35 114 504
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**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	13 260
Non-life and health similar to non-life	**R0280**	13 260
Non-life excluding health	**R0290**	13 260
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	47428,62
Receivables (trade, not insurance)	**R0380**	12 228
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**	1 442 781
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	158 204 829

Liabilities		C0010
Technical provisions – non-life	R0510	12 716 620
Technical provisions – non-life (excluding health)	R0520	12 716 620
TP calculated as a whole	R0530	
Best Estimate	R0540	7 140 667
Risk margin	R0550	5 575 953
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	13 988 557
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	56 767
Payables (trade, not insurance)	R0840	3 167 711
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	369 723
Total liabilities	R0900	30 299 378
Excess of assets over liabilities	R1000	127 905 451

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

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Credit and suretyship insurance	
		C0090	C0200
Premiums written			
Gross – Direct Business	R0110	19 833 681	19 833 681
Gross – Proportional reinsurance accepted	R0120		
Gross – Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	410 601	410 601
Net	R0200	19 423 080	19 423 080
Premiums earned			
Gross – Direct Business	R0210	48 164 876	48 164 876
Gross – Proportional reinsurance accepted	R0220		
Gross – Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	411 484	411 484
Net	R0300	47 753 392	47 753 392
Claims incurred			
Gross – Direct Business	R0310	745 798	745 798
Gross – Proportional reinsurance accepted	R0320		
Gross – Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	45 910	45 910
Net	R0400	699 888	699 888
Expenses incurred	R0550	5 588 405	5 588 405
Other expenses	R1200		
Total expenses	R1300		5 588 405

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

S.17.01.02 Non-life technical provisions

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Credit and suretyship insurance	
		C0100	C0180
Technical provisions calculated as a whole	R0010		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	10 444 965	10 444 965
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-36 879	-36 879
Net Best Estimate of Premium Provisions	R0150	10 481 844	10 481 844
Claims provisions			
Gross	R0160	-3 304 298	-3 304 298
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	50 139	50 139
Net Best Estimate of Claims Provisions	R0250	-3 354 437	-3 354 437
Total Best estimate – gross	R0260	7 140 667	7 140 667
Total Best estimate – net	R0270	7 127 407	7 127 407
Risk margin	R0280	5 575 953	5 575 953
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	R0290		
Best estimate	R0300		
Risk margin	R0310		
Technical provisions – total			
Technical provisions – total	R0320	12 716 620	12 716 620
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	13 260	13 260
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	12 703 360	12 703 360

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

S.19.01.21 Non-life insurance claims as development triangles

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

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +		In Current Year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											-293 631	R0100	-293 631	-293 631
N-9	R0160		69 577	-63 958	-84 654	-6 757	-108 264	-43 592	-49 312	-50 587	-46 756		R0160	-142 717	-384 304
N-8	R0170	908 638	-52 768	-63 701	-42 313	40 136	-49 696	-45 704	-35 102	-78 900			R0170	-46 909	580 590
N-7	R0180	571 064	-20 955	31 112	-44 185	-29 941	165 239	-17 618	-23 324				R0180	-49 312	631 392
N-6	R0190	363 238	-20 021	-13 411	-16 462	-30 837	-13 094	-14 571					R0190	-45 704	254 842
N-5	R0200	816 259	957 338	1 393 156	623 241	-23 563	-6 144						R0200	165 239	3 760 288
N-4	R0210	544 678	-18 617	-17 552	-8 047	-8 753							R0210	-30 837	491 709
N-3	R0220	789 866	-12 758	-30 554	-24 494								R0220	623 241	722 060
N-2	R0230	948 318	-4 817	-18 667									R0230	-17 552	924 834
N-1	R0240	1 194 963	-60 668										R0240	-12 758	1 134 296
N	R0250	5 763 681											R0250	948 318	5 763 681
												Total	R0260	1 175 405	13 585 756

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											-71 902	R0100	0
N-9	R0160		193 302	163 163	163 163	0	0	0	0	0	0		R0160	0
N-8	R0170	857 194	113 849	142 300	81 343	0	0	0	0	0			R0170	0
N-7	R0180	2 191 101	705 880	517 740	517 740	370 305	0	0	0				R0180	0
N-6	R0190	880 372	0	0	0	0	0	0					R0190	0
N-5	R0200	4 365 385	2 345 857	754 662	0	0	0						R0200	0
N-4	R0210	1 509 279	0	0	0	0							R0210	0
N-3	R0220	1 282 905	4 882	4 882	4 882								R0220	4 775
N-2	R0230	1 242 873	2 287	0									R0230	0
N-1	R0240	963 209	0										R0240	0
N	R0250	-3 547 924											R0250	-3 309 073
												Yhteensä	R0260	-3 304 298

S.23.01.01 Own funds

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	10 200 000	10 200 000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	102 705 451	102 705 451			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	112 905 451	112 905 451			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	112 905 451	112 905 451			
Total available own funds to meet the MCR	R0510	112 905 451	112 905 451			
Total eligible own funds to meet the SCR	R0540	112 905 451	112 905 451			
Total eligible own funds to meet the MCR	R0550	112 905 451	112 905 451			
SCR	R0580	42 976 983				
MCR	R0600	10 744 246				
Ratio of Eligible own funds to SCR	R0620	262,71 %				
Ratio of Eligible own funds to MCR	R0640	1050,85 %				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	127 905 451	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720	15 000 000	
Other basic own fund items	R0730	10 200 000	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	102 705 451	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770		
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	3 627 095	
Total Expected profits included in future premiums (EPIFP)	R0790	3 627 095	

S.25.01.21 Solvency capital requirement (standard formula)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	28 110 413		
Counterparty default risk	R0020	723 005		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	27 599 371		
Diversification	R0060	-12 042 760		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	44 390 029		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	545 661
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-8 987 138
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	35 948 552
Capital add-on already set	R0210	7 028 431
of which, capital add-ons already set - Article 37 (1) Type a	R0211	
of which, capital add-ons already set - Article 37 (1) Type b	R0212	
of which, capital add-ons already set - Article 37 (1) Type c	R0213	
of which, capital add-ons already set - Article 37 (1) Type d	R0214	
Solvency capital requirement	R0220	42 976 983
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	

Approach to tax rate

		Yes/No
		C109
Approach based on average tax rate	R0590	No

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	-8 987 138
LAC DT justified by revision of deferred tax liabilities	R0650	-8 987 138
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-8 987 138

S.28.01.01 Minimum capital requirement

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	3 079 130

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100	7 127 407	16 084 774
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Overall MCR calculation

		C0070
Linear MCR	R0300	3 079 130
SCR	R0310	42 976 983
MCR cap	R0320	19 339 642
MCR floor	R0330	10 744 246
Combined MCR	R0340	10 744 246
Absolute floor of the MCR	R0350	4 000 000
		C0070
Minimum Capital Requirement	R0400	10 744 246