

23 March 2023

Solvency and Financial Condition Report 2022

Garantia Insurance Company Ltd

Garantia Insurance Company Ltd

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Garantia is part of the Taaleri Group.

23 March 2023

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Garantia Insurance Company Ltd

Garantia's mission is to promote capital efficiency. Our goal is to modernise inefficient collateral practices for the benefit of our customers and to provide our customers with easy and cost-effective guaranty solutions and new business opportunities through digital channels.

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

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

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri is a Nordic investment and asset manager with an emphasis on renewable energy and other alternative investments. Taaleri's business comprises two reporting segments: Private Asset Management and Strategic Investments. The Private Asset Management segment contains the renewable energy, real estate and bioindustry businesses. The Strategic Investments segment includes Garantia Insurance Company Ltd. Taaleri Plc's share is listed on Nasdaq OMX Helsinki.

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

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SUMMARY

A. Business and performance

Established in 1993, Garantia Insurance Company Ltd is a private non-life insurance company specialising in guaranty insurance.

In 2022 the company's gross premiums written decreased by 1.9% and totalled EUR 24.7 (25.1) million. On the other hand, earned premiums grew by 2.1% to EUR 18.2 (17.9) million due to growth in the total guaranty insurance exposure. The total guaranty insurance exposure grew by 9.8% during the year and was EUR 1,862 (1,695) million at the end of the year.

Of the total guaranty insurance exposure at the end of the year, 72% (67) consisted of consumer exposures and 28% (33) consisted of corporate exposures. Consumer exposures consist of residential mortgage guaranties and rent guaranties granted to households. Corporate exposures include corporate loan guaranties, commercial bonds and other business-related guaranties.

Claims incurred remained at a low level and totalled EUR 0.6 (0.7) million. The claims ratio was 3.2% (3.8) and the ratio of claims incurred against the total guaranty insurance exposure was 0.03% (0.04). No substantial individual guaranty insurance claims occurred during the financial year.

Operating expenses declined by 17.3% to EUR 4.7 (5.7) million during the financial year. The decrease in operating expenses was mainly due to a reduction in variable personnel expenses and other operating expense savings. The expense ratio decreased to 25.6 (31.7) per cent. The improvement in the expense ratio was a result of growth in earned premiums and a decline in operating expenses.

The balance on the technical account before changes in the equalisation provision, which describes the profitability of Garantia's insurance operations, grew during the financial year to EUR 13.0 (11.5) million and the combined ratio fell to 28.8 (35.5) per cent. Technical profitability was record high in the financial year. The improvement in profitability was a result of growth in earned premiums and persistently low claims incurred.

Garantia's investment portfolio at fair value was EUR 154.7 (170.5) 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 were exceptionally challenging for investment operations during the financial year. Garantia's net investment income recognised in profit and loss amounted to EUR -15.2 (7.7) million and was depressed especially by the impairments booked during the financial year. Investment income at fair value was -11.2% (6.1).

Garantia's earnings before tax amounted to EUR -1.6 (19.9) million. The result was negatively impacted by the exceptionally weak profitability of investment operations.

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.

During the financial year, the company's Board of Directors was composed of Karri Haaparinne (Chairperson), Timo Hukka (member and Vice Chairperson to 18 February), Kenneth Kaarnimo, Laura Paasio (as of 19 February) and Antti Suhonen (Vice Chairperson as of 19 February). 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 18 February 2022.

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.

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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 2022.

C. Risk profile

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

The volume of consumer exposures at the end of the financial year was EUR 1,343 (1,130) million and their proportion in the total guaranty insurance exposure was 72% (67). Consumer exposures consist of residential mortgage guaranties and rent guarantees granted to households. A residential mortgage guaranty 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 guaranties. The risk position of the residential mortgage guaranty 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 guaranty portfolio are managed through an excess of loss portfolio reinsurance arrangement.

The volume of corporate exposures was EUR 519 (565) million at the end of the financial year, and their proportion in the total guaranty insurance exposure was 28% (33). Corporate exposures include corporate loan guaranties, commercial bonds and other business-related guaranties. The guaranteed companies are mainly medium-sized and large Finnish companies and other organisations. In addition to risk selection, reinsurance, counter-collateral 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 23.0% (20.6), while exposures with a rating of at least BB- accounted for 67.0% (78.4) of the rated corporate insurance portfolio. The share of exposures with weak credit ratings of C+ or lower decreased slightly and was 2.2% (3.9). 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 23.8% (28.3), construction at 17.2% (25.6), trade at 15.6% (10.4) and finance and insurance operations at 13.1% (5.5). The proportions of other industries were less than 10%.

In investment operations, the risk level was reduced from the previous year, in particular by reducing equity and interest rate risks of the investment portfolio. At the end of the year, fixed income investments made up 88.2% (83.2), equity and private equity investments 10.4% (15.9) and real estate investments 1.4% (0.9) 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 68.8% (73.4) of fixed income investments had an investment grade credit rating. The modified duration of the fixed income investments was 2.3 (3.9).

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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 FAS¹ 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 2022, the value of the assets on the company's Solvency II balance sheet was EUR 155.0 (171.4) million, so the value of the assets was EUR 1.9 million higher 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 2022 the company's Solvency II balance sheet liabilities were EUR 39.6 (39.3) million and the valuation difference compared with the FAS balance sheet amounted to EUR 77.1 million.

At the end of 2022, the difference between the assets and the liabilities on the company's Solvency II balance sheet was EUR 115.3 (132.0) million. Net assets were EUR 79.0 million higher than on the FAS balance sheet.

E. Capital management

Garantia's solvency strengthened from the previous year due to a reduction in the solvency capital requirement. The company's basic own funds amounted to EUR 105.3 (117.0) million at the end of the financial year and the solvency capital requirement was EUR 45.5 (53.4) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 231.3% (219.2).

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 59.8 (63.6) million.

Basic own funds decreased as a result of the negative profit for the financial year and a decline in the value of investment assets. Basic own funds include, as a deduction, foreseeable dividends, the amount of which also increased on the previous year.

The reduction in the solvency capital requirement during the financial year resulted mainly from a decrease in the capital requirement for market risk. The capital requirement for market risk decreased as a result of lower equity risk and credit spread risk. The reduction in the amount of market risk was caused by the decline in the value of the investment portfolio and the investment allocation changes that were carried out during the year. The underwriting risk related capital add-on also decreased compared with the previous year.

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 underwriting 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 17 June 2022, when the amount of the add-on was set at EUR 11.7 (15.6²) million. The updated capital add-on is included in the company's solvency capital requirement as of 30 June 2022. When making the add-on

¹ Finnish Accounting Standards.

² The capital add-on that was in force as of 30 June 2021 in parentheses.

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decision, the Financial Supervisory Authority acknowledged the capital requirement for underwriting risk calculated as per Garantia's own economic capital model.

In its decision regarding the capital add-on, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation 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 10 June 2021.

On 7 November 2022, 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), Financial Strength Rating (FSR) and the company's Financial Enhancement Rating (FER) depicting its capacity and willingness to meet its commitments on financial guaranties.

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A. BUSINESS AND PERFORMANCE

A.1 Business

Established in 1993, Garantia Insurance Company Ltd is a private non-life insurance company specialising in guaranty insurance. Its legal form is a limited liability company, and it is supervised by the Finnish Financial Supervisory Authority. In accordance with the authorisation granted by the Financial Supervisory Authority, 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 is domiciled in Helsinki and its registered visiting address is Kasarmikatu 21 B, 00130 Helsinki, and its registered postal address is PO Box 600, 00101 Helsinki.

Garantia's guaranty solutions for consumers include residential mortgage guaranties that are offered to consumers via partners and rent guaranties offered under the Takaamo and Securent brand names, for example. Garantia's solutions for companies comprise corporate loan guaranties, commercial bonds and other business-related guaranties.

Garantia's primary geographical area of operations is Finland.

During the 2022 financial year, Garantia employed an average of 23 (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 with an emphasis on renewable energy and other alternative investments. Taaleri's business comprises two reporting segments: Private Asset Management and Strategic Investments. The Private Asset Management segment contains the renewable energy, real estate and bioindustry businesses. The Strategic Investments segment includes Garantia Insurance Company Ltd. Taaleri Plc's share is listed on Nasdaq OMX 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 solvency capital requirement for the insurance group.

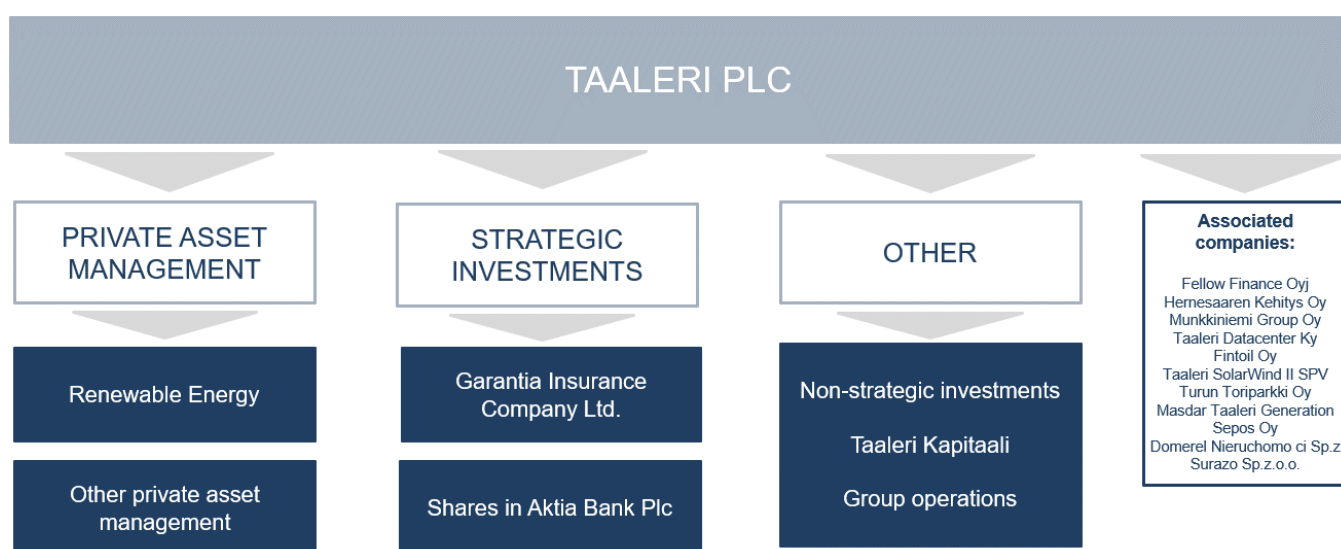


Image 1: Structure of the Taaleri Group on 31 December 2022

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

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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 18 February 2022 appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Johanna Winqvist-Ilkka as the principally responsible auditor. Ernst & Young's address is Alvar Aaltonkatu 5 C, 00100 Helsinki, its telephone number is +358 (0)207 280 190 and its e-mail addresses are in the form firstname.lastname@fi.ey.com.

Garantia's 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 above-mentioned 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 2022 are available at <https://www.garantia.fi/en/about-us/financial-information/>.

A.2 Underwriting performance

Garantia's gross premiums written decreased by 1.9% to EUR 24.7 (25.1) million from the previous year. While premiums from the consumer exposures, namely the mortgage guaranties and rent guarantees, increased, premiums from corporate exposures lagged behind the previous year.

A significant proportion of the gross premiums written during the period was booked into provisions for unearned premiums, which are recognised as earned in future reporting periods. The net provision for unearned premiums grew by EUR 5.9 (6.7) million during the year. The growth in the provision for unearned premiums is mainly associated with growth in the residential mortgage guaranty portfolio. Earned premiums grew by 2.1% during the financial year and amounted to EUR 18.2 (17.9) million. The increase in earned premiums was mainly due to growth in the total guaranty insurance exposure.

The total guaranty insurance exposure grew by 9.8% during the year and was EUR 1,862 (1,695) million at the end of the year. Of the total guaranty insurance exposure, EUR 1,343 (1,130) million, or 72% (67), consisted of consumer exposures and EUR 519 (565) million, or 28% (33), consisted of corporate exposures.

Claims incurred remained at a low level and totalled EUR 0.6 (0.7) million. The claims ratio was 3.2% (3.8) and the ratio of claims incurred against the total guaranty insurance exposure was 0.03% (0.04). No substantial individual guaranty insurance claims occurred during the financial year.

Operating expenses declined by 17.3% to EUR 4.7 (5.7) million during the financial year. The decrease in operating expenses was mainly due to a reduction in variable personnel expenses and other operating expense savings. The expense ratio decreased to 25.6 (31.7) per cent. The improvement in the expense ratio was a result of growth in earned premiums and a decline in operating expenses.

The balance on the technical account before changes in the equalisation provision rose to EUR 13.0 (11.5) million, and the combined ratio fell to 28.8% (35.5). The excellent profitability of insurance operations was a result of growth in earned premiums, claims incurred remaining low, and lower operating expenses than in the previous year. The equalisation provision was reversed by EUR 0.6 (0.7) million and thus the balance on the technical account came to EUR 13.6 (12.2) 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.

The market conditions were exceptionally challenging for investment during the financial year. Equity prices fell, market interest rates shot up, inflation accelerated and credit risk spreads on fixed income investments increased. In particular, rising interest rates and the increase in credit risk spreads weighed on the company's investment performance, as the majority of the company's investment assets are invested in fixed income investments.

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Garantia's net investment income recognised in profit and loss amounted to EUR -15.2 (7.7) million and was depressed especially by the impairments booked during the financial year. The valuation difference between the fair value and the book value of investment assets was EUR 3.2 (6.8) million at the end of December.

At the end of the financial year, 88.2% (83.2) of the investment portfolio was allocated to fixed income investments, 10.4% (15.9) to equity and private equity investments, and 1.4% (0.9) to real estate investments. Investment income at fair value was -11.2% (6.1). Net investment income on invested capital at fair value was EUR -18.8 (9.2) million, or -11.3% (5.9).

Garantia's investment portfolio (incl. cash and bank balances and accrued interest) at fair value was EUR 154.7 (170.5) million at the end of the year.

Investments by asset class at fair value

| EUR million | 2022 | % | 2021 | % |
|--------------------------|--------------|----------------|--------------|----------------|
| Fixed income investments | 136.3 | 88.2 % | 141.8 | 83.2 % |
| Equity investments | 16.1 | 10.4 % | 27.2 | 15.9 % |
| Real estate investments | 2.2 | 1.4 % | 1.5 | 0.9 % |
| Total | 154.7 | 100.0 % | 170.5 | 100.0 % |

Return on investments at fair value

| | Net return on investments at fair value | Capital employed ⁹⁾ | Net return on investments, % | Net return on investments, % | | | |
|---|---|--------------------------------|------------------------------|------------------------------|-------------|-------------|--------------|
| | | | | 2022 | 2021 | 2020 | 2019 |
| | in euros | in euros | % | % | % | % | % |
| Fixed income investments | -17,425,382 | 143,316,613 | -12.2 | 2.5 | 2.5 | 6.3 | 0.4 |
| Loan receivables ¹⁾ | | | | | | | |
| Bonds | -17,419,350 | 140,353,231 | -12.4 | 2.5 | 2.6 | 6.3 | 0.4 |
| Other financial instruments and deposits ^{1) 2)} | -6,032 | 2,963,382 | -0.2 | -0.4 | -0.2 | -0.2 | -0.6 |
| Equity investments | -1,248,112 | 20,963,348 | -6.0 | 29.0 | -2.8 | 22.7 | -11.8 |
| Listed equities ³⁾ | -1,884,820 | 15,697,854 | -12.1 | 27.9 | -3.2 | 27.9 | -13.6 |
| Private equity investments ⁴⁾ | 636,707 | 5,265,495 | 12.1 | 33.1 | -1.0 | -1.2 | 6.0 |
| Unlisted equities ⁵⁾ | | | | | | | |
| Real estate investments | 84,945 | 1,489,153 | 5.7 | 4.9 | 4.3 | 3.5 | 4.2 |
| Direct real estate investments | | | | | | | |
| Real estate investment funds and collective investments | 84,945 | 1,489,153 | 5.7 | 4.9 | 4.3 | 3.5 | 4.2 |
| Other investments | | | | | | | |
| Hedge funds ⁶⁾ | | | | | | | |
| Commodities | | | | | | | |
| Other investments ⁷⁾ | | | | | | | |
| Total | -18,588,549 | 165,769,115 | -11.2 | 6.1 | 1.8 | 8.1 | -1.7 |
| Unallocated income, expenses and operating expenses | -209,693 | | | | | | |
| Net return on investments at fair value | -18,798,242 | 165,769,115 | -11.3 | 5.9 | 1.7 | 8.0 | -1.9 |

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.

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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.

Investment income at fair value is made up of dividend and interest income, sales gains, and unrealised positive changes in the fair value of investments, while investment expenses consist of losses on the sale of investments, unrealised negative changes in the fair value of investments and other investment expenses. In the table above, the unallocated item is made up of investment management expenses. Garantia's shareholders' equity and reserves in the financial statements does not include gains or losses booked directly into shareholders' equity and reserves.

A.4 Performance of other activities

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

At the end of 2022, Garantia had rental and leasing liabilities resulting from rents and leases payable in upcoming financial periods that amounted to EUR 0.1 (0.3) 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

A.5.1 Significant civil cases and disputes

In its ruling on 31 October 2022, the Helsinki District Court dismissed an action brought up against Garantia in connection with an insurance claim filed in 2017. The insurance claim amounted to EUR 5 million plus penalty interest and legal expenses. The claim concerned a pension fund which was a guaranty insurance customer of Garantia and which was placed in liquidation in December 2011 and subsequently declared bankrupt in 2018. The ruling is final. The district court also ordered the plaintiff to reimburse Garantia for legal expenses.

A.5.2 Russia's invasion of Ukraine in 2022

On 24 February 2022, the Russian Federation launched a war of aggression against Ukraine. During the year, the war had far-reaching and fundamental consequences on the European economy and the financial markets, and on Finland's foreign and security policy standing.

Garantia's principal area of operations is Finland and the company's clientele consists almost entirely of Finnish households, companies and other organisations. The company's guaranty insurance and investment exposure do not contain exposures from Russian or Ukrainian companies or companies that have significant ownership ties to these countries. The company's guaranty insurance counterparties include some companies whose creditworthiness has been affected by the crisis. However, the impact on Garantia's risk position has been limited.

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B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

B.1.1 Garantia's administration and decision-making bodies, and key functions

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



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

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

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 guaranty 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 Karri Haaparinne (Chairperson), Timo Hukka (member and Vice Chairperson to 18 February), Kenneth Kaarnimo, Laura Paasio (as of 19 February) and Antti Suhonen (Vice Chairperson as of 19 February). 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 18 February 2022.

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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.

Titta Elomaa was the company's CEO during the financial year. The company's Executive Committee was composed of Titta Elomaa, Henrik Allonen, Assi Ikonen, Timo Lehtikainen 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 guaranties, 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.

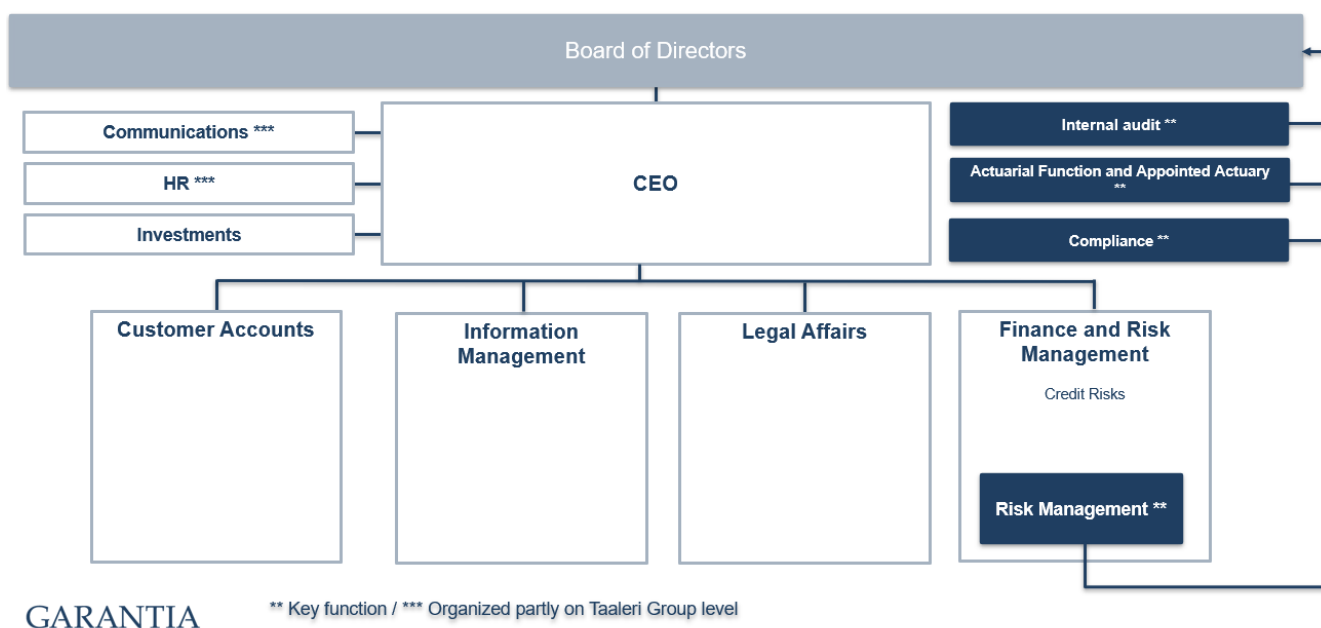


Image 3: Garantia's organisational structure and key functions

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.

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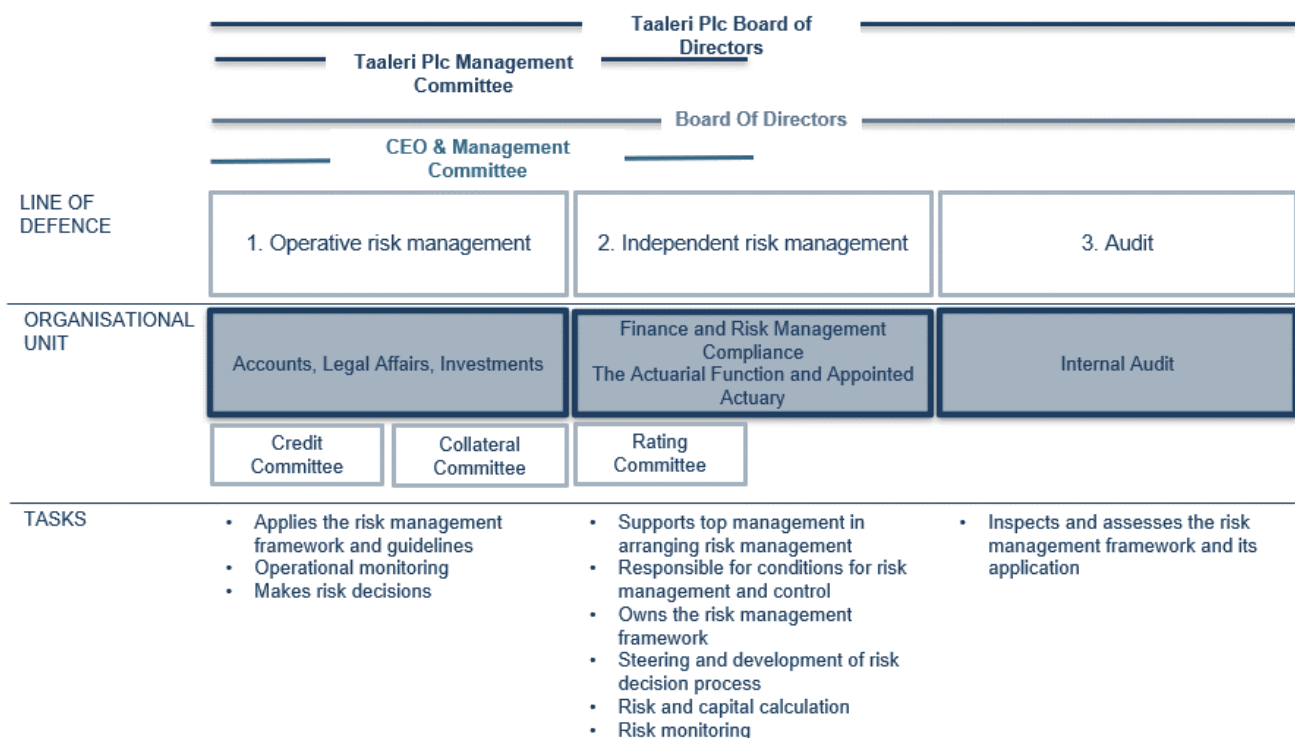


Image 4: Lines of defence of Garantia's internal control and risk management

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 Director of Legal Affairs, 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

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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.

B.1.2 Changes to the system of governance

There were no material changes in the company's system of governance in 2022.

B.1.3 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's remuneration system is part of the Taaleri Group's remuneration system, and the company complies with the general principles of this system. 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, and the Board approves 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 are not in an employment or service relationship with the company and do not come under the scope of the remuneration system. In 2022, the fees paid to Board members totalled EUR 120,000 (140,000).

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 2022, 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 and long-term remuneration system is cash.

In the 2022 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

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employed in the company's independent control functions³ 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 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 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 first savings period of the programme started on 1 July 2022 and will end 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 acquired. 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 9,104 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 101,783 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' 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 46,000. The payment of the bonuses is subject to the fulfilment of the conditions of the incentive scheme.

³ Independent control functions in the company are the Risk Management, Compliance and Actuarial functions and the Internal Audit.

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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.

B.1.4 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

B.2.1 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.

B.2.2 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.

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B.3 Risk management system and risk and solvency assessment

B.3.1 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. 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.

B.3.2 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.

B.3.3 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 their preparation.

B.3.4 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 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, restricting dividend distribution or by acquiring new capital.

B.3.5 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), credit risk policy (concentration risks and risk-taking limits concerning insurance operations), reinsurance

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policy (risk-taking limits concerning reinsurance operations) and the investment plan (risk-taking limits concerning investment operations).

B.3.6 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 guaranty insurance operations, investment risks regarding 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%, 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.

B.3.7 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.

B.3.8 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 Board of Directors of the Taaleri Group. The target of internal monitoring and reporting is to ensure that the company's risk and solvency position are within the limits of risk appetite.

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;

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- 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 each function 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. Garantia's Internal Audit has been outsourced to PricewaterhouseCoopers Oy since 2019.

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

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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 and responsibilities of the Actuarial Function and the Appointed Actuary. The most important of these are:

- reliability and appropriateness of the technical provisions calculation, and the manner in which the insurance premiums and technical provisions are determined and the amount's 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 has been provided by Kaippio & Kaippio Oy since 2015, with actuary SHV Janne Kaippio as the appointed actuary.

B.8 Outsourcing

The outsourcing and service procurement principles approved by the Board ensure that in outsourcing, there is a comprehensive assessment of the suitability and the significance to Garantia of the outsourcing or service procurement. 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 of a function or service 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 service provider 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 notified in advance 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.

The contract provides a detailed description of the rights and obligations of the parties. Garantia procures its Internal Audit, Actuarial Function, Appointed Actuary and Compliance duties, 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.

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.

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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 guaranty 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

C.1.1 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 guaranty insurance, the insurance risk mostly consists of credit risk (the inability of the guaranteed counterparty to manage its financial and/or operational obligations under the contract in relation to the beneficiary of the guaranty). 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 guarantor, and the value change risk, which is caused by changes in the fair value of the collateral.

C.1.2 Management of insurance risk

The aim in the management of the insurance risk, i.e. the credit risk in guaranty insurance, is to ensure that the negative profit impacts arising from client and counterparty risks remain at acceptable levels and that the returns obtained in guaranty in operations are adequate in relation to the risks taken. In guaranty insurance, credit risks are reduced by means of client selection, active management of client relationships, monitoring of changes in the clients' operations, pricing, diversification and also, typically with reinsurance, contractual terms and conditions, and collateral and covenant arrangements. Central to the management of credit risks is the underwriting process, which is controlled by the credit risk policy, reinsurance policy and decision-making system confirmed by the Board of Directors and the complementary processes and guidelines on credit risk assessment, distribution channel auditing, pricing, collateral and covenants approved by the Executive Committee. The Risk Management function monitors the functioning and quality of the 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.

C.1.3 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 the Standard & Poor's insurance capital model. The insurance risk's economic capital is defined on contract basis primarily using the Basel II Internal Ratings-based Approach, which considers the amount of exposure, the counterparty's or instrument'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. During 2022, Garantia assessed the accuracy of individual parameters in the economic capital model that is used in the steering of operations. The main assessments were the validations of the PD and LGD models used to measure insurance risks and the calibration of the parameters of the concentration risk model of insurance risk.

In addition to economic capital, the credit risk of individual clients and groups of connected clients is also 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 credit risk of the insurance exposure is assessed on the basis of gross exposure, amount and distribution of uncovered exposure, expected loss and economic capital by product groups, credit rating and industry. Other criteria for assessing the credit risk of the insurance exposure include the average maturity of exposure and the ratio of claims incurred against earned premiums and insurance exposure. The insurance risk position is monitored and reported to the Executive Committee and the Board of Directors every month.

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C.1.4 Risk position of guaranty insurance operations

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

The volume of consumer exposures at the end of the financial year was EUR 1,343 (1,130) million and their proportion in the total guaranty insurance exposure was 72% (67). Consumer exposures consist of residential mortgage guaranties and rent guarantees granted to households. A residential mortgage guaranty 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 guaranties. The risk position of the residential mortgage guaranty 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 guaranty portfolio are managed through an excess-of-loss portfolio reinsurance arrangement.

The volume of corporate exposures was EUR 519 (565) million at the end of the financial year, and their proportion in the total guaranty insurance exposure was 28% (33). Corporate exposures include corporate loan guaranties, commercial bonds and other business-related guaranties. The guaranteed companies are mainly medium-sized and large Finnish companies and other organisations. In addition to risk selection, reinsurance, counter-collateral 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 23.0% (20.6), while exposures with a rating of at least BB- accounted for 67.0% (78.4) of the rated corporate insurance portfolio. The share of exposures with weak credit ratings of C+ or lower decreased slightly and was 2.2% (3.9). 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 23.8% (28.3), construction at 17.2% (25.6), wholesale and retail trade at 15.6% (10.4) and finance and insurance operations at 13.1% (5.5). The proportions of other industries were less than 10%.

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

Sensitivity analysis of insurance operations, 31 Dec 2022

| Risk parameter | Total, EUR thousand | Change in risk parameter | Effect on equity, EUR thousand | Effect on combined ratio, % |
|-----------------------------|---------------------|--------------------------|--------------------------------|-----------------------------|
| Premiums earned | 18,244 | increases 10 % | 1,785 | improves 2.6%-p. |
| Claims incurred | 579 | increases 10 % | 0 | worsens 0.3%-p. |
| Large claim, EUR 10 million | 0 | EUR 10 mn. | 0 | worsens 54.8%-p. |
| Operating expenses | 4,676 | increases 10 % | -468 | worsens 2.6%-p. |

Sensitivity analysis of insurance operations, 31 Dec 2021

| Risk parameter | Total, EUR thousand | Change in risk parameter | Effect on equity, EUR thousand | Effect on combined ratio, % |
|-----------------------------|---------------------|--------------------------|--------------------------------|-----------------------------|
| Premiums earned | 17,865 | increases 10 % | 1,429 | improves 3.2%-p. |
| Claims incurred | 677 | increases 10 % | 0 | worsens 0.4%-p. |
| Large claim, EUR 10 million | 0 | EUR 10 mn. | 0 | worsens 56.0%-p. |
| Operating expenses | -5,657 | increases 10 % | -453 | worsens 3.2%-p. |

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Trend in claims incurred

| EUR thousand | Claims paid | Change in provision for outstanding claims | Claims incurred | % of insurance exposure | Claims ratio, % |
|--------------|-------------|--|-----------------|-------------------------|-----------------|
| 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 % |
| 2014 | -569 | 157 | -412 | 0.03 % | 3.7 % |
| 2013 | -2,526 | 121 | -2,405 | 0.18 % | 22.2 % |

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

Total insurance exposure by business line

| EUR million | 2022 | 2021 |
|--------------------|--------------|--------------|
| Consumer exposure | 1,343 | 1,130 |
| Corporate exposure | 519 | 565 |
| Total | 1,862 | 1,695 |

Consumer exposure includes residential mortgage guaranties and rent guarantees, where insurance risk is attributable to the credit risk of private households. Residential mortgage guaranties 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 guaranty 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 guaranties are unsecured.

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

Corporate insurance exposure by credit rating

| | 2022 | 2021 |
|---------------------------------|------------|------------|
| AAA...BBB- | 113 | 109 |
| BB+...BB- | 217 | 306 |
| B+...B- | 152 | 94 |
| C+ or weaker | 11 | 21 |
| Rated exposure total | 492 | 530 |
| Other exposure | 26 | 34 |
| Corporate exposure total | 519 | 565 |

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Corporate insurance exposure by collateral class

| EUR million | 2022 | 2021 |
|----------------------------|------------|------------|
| Reinsured | 28 | 71 |
| Classes 1 & 2 | 64 | 63 |
| Classes 3 & 4 | 117 | 125 |
| Unsecured | 283 | 272 |
| Rate exposure total | 492 | 530 |
| Other exposure | 26 | 34 |
| Corporate exposure | 519 | 565 |

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

Corporate insurance exposure by industry

| | 2022 | 2021 |
|--|------------|------------|
| Manufacturing | 117 | 150 |
| Machinery and equipment (incl. repair) | 53 | 61 |
| Metals | 25 | 42 |
| Chemicals | 22 | 22 |
| Food | 13 | 19 |
| Other | 4 | 7 |
| Construction | 85 | 136 |
| Wholesale and retail trade | 77 | 55 |
| Water supply and waste management | 64 | 37 |
| Transport and logistics | 46 | 35 |
| Finance and insurance | 29 | 29 |
| Energy | 20 | 26 |
| Services | 13 | 15 |
| Information and communication | 11 | 13 |
| Other industries | 30 | 32 |
| Rated exposure total | 492 | 530 |
| Other exposure | 26 | 34 |
| Corporate exposure total | 519 | 565 |

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.

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C.2 Market risk

C.2.1 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 activities are long-term, and the objective is primarily to secure capital and achieve stable and steadily increasing asset growth. Market risks, credit and counterparty risk and liquidity risk are the risks affecting the investment activities.

Market risk means the possibility of losses or an unfavourable change in the economic situation due directly or indirectly to the fluctuation in the market prices and volatility of assets, liabilities and financial instruments. Changes in prices affect the value of investment assets and annual returns. The principal market risks are equity risk, interest rate risk, currency risk, property risk and concentration risk. The credit and counterparty risk of investments is made up of credit spread risk and counterparty risk. 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. Counterparty risk means the risk of default pertaining to the contractual counterparty.

C.2.2 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 activities. 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 activities 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.

C.2.3 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. 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. 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.

C.2.4 Market risk position

The risk level of investment operations was reduced from the previous year, in particular by reducing the portfolio's exposure to interest rate and equity risks. At the end of the year, fixed income investments made up 88.2% (83.2), equity and private equity investments 10.4% (15.9) and real estate investments 1.4% (0.9) 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 68.8% (73.4) of fixed income investments had an investment grade credit rating. The modified duration of the fixed income investments was 2.3 (3.9).

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Investments by asset class at fair value

| EUR million | 2022 | % | 2021 | % |
|--------------------------|--------------|----------------|--------------|----------------|
| Fixed income investments | 136.3 | 88.2 % | 141.8 | 83.2 % |
| Equity investments | 16.1 | 10.4 % | 27.2 | 15.9 % |
| Real estate investments | 2.2 | 1.4 % | 1.5 | 0.9 % |
| Total | 154.7 | 100.0 % | 170.5 | 100.0 % |

Fixed income investments include cash & bank balances and accrued interest. Fixed income investments mainly include bonds issued by Nordic companies and credit institutions, and government bonds.

Fixed-income investments by maturity and credit rating, 31 Dec 2022

| EUR million | 0-1 yrs. | 1-3 yrs. | 3-5 yrs. | Over 5 yrs. | Total | % |
|---------------|-------------|-------------|-------------|-------------|--------------|----------------|
| AAA...AA- | 0.3 | 21.8 | 0.0 | 0.0 | 22.1 | 16.2 % |
| A+...A- | 8.8 | 6.1 | 2.2 | 2.0 | 19.2 | 14.1 % |
| BBB+...BBB- | 3.5 | 21.7 | 22.1 | 5.3 | 52.6 | 38.5 % |
| BB+ or weaker | 0.0 | 26.6 | 14.3 | 1.6 | 42.5 | 31.2 % |
| Total | 12.7 | 76.2 | 38.6 | 8.9 | 136.3 | 100.0 % |

Fixed-income investments by maturity and credit rating, 31 Dec 2021

| EUR million | 0-1 yrs. | 1-3 yrs. | 3-5 yrs. | Over 5 yrs. | Total | % |
|---------------|------------|-------------|-------------|-------------|--------------|----------------|
| AAA...AA- | 2.9 | 0.0 | 5.3 | 6.5 | 14.7 | 10.4 % |
| A+...A- | 0.5 | 14.8 | 2.5 | 2.7 | 20.5 | 14.5 % |
| BBB+...BBB- | 0.0 | 9.9 | 27.0 | 32.0 | 68.9 | 48.6 % |
| BB+ or weaker | 3.2 | 8.1 | 20.1 | 6.3 | 37.7 | 26.6 % |
| Total | 6.6 | 32.9 | 54.9 | 47.5 | 141.8 | 100.0 % |

Maturity date is the end of the term to maturity. If the instrument includes a call option, maturity is the first possible call date. The rating of an instrument is an issuer rating or senior debt rating published by an external rating agency. If an external rating is not available, Garantia's internal credit rating is used.

Sensitivity analysis of investment activities, 31 Dec 2022

| Investment category | Investments at fair value, EUR million | Risk parameter | Change (+/-) | Effect on equity, EUR million (+/-) |
|---------------------|--|-------------------|--------------|-------------------------------------|
| Fixed income | 136.3 | Chg in int. rates | 1.0 % | 2.5 |
| Equities | 10.8 | Market value | 10.0 % | 0.9 |
| Private equity | 7.6 | Market value | 10.0 % | 0.6 |

Sensitivity analysis of investment activities, 31 Dec 2021

| Investment category | Investments at fair value, EUR million | Risk parameter | Change (+/-) | Effect on equity, EUR million (+/-) |
|---------------------|--|-------------------|--------------|-------------------------------------|
| Fixed income | 141.8 | Chg in int. rates | 1.0 % | 4.3 |
| Equities | 21.1 | Market value | 10.0 % | 1.7 |

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| | | | | |
|----------------|-----|--------------|--------|-----|
| Private equity | 7.6 | Market value | 10.0 % | 0.6 |
|----------------|-----|--------------|--------|-----|

C.3 Credit risk

Garantia's exposure to credit risk as part of guaranty 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.

The technical provisions that are based on Garantia's solvency calculations include EUR 4.5 (6.0) million in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance class credit and guaranty insurance. The expected profits included in future insurance premiums are described in further detail in section D.2.6 Uncertainties related to the value of technical provisions.

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

C.6.1 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.

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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.

C.6.2 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 legislative 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.

C.6.3 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 the insurance company. The principal concentration risk in Garantia's business operations arises from the concentration risk of direct and indirect credit and counterparty risk in guaranty and investment operations.

Garantia's total exposures contain large, individual credit risk concentrations specific to groups of connected clients and industries. In addition, Garantia's guaranties and investments are concentrated in Finland. The selection of guaranty insurance and investment targets and the continuous monitoring of changes in the situation of counterparties is emphasised above all in the management of the credit concentration risk. Concentration risk is measured and assessed in the economic capital model with a separate concentration risk model and with counterparty-specific risk limits.

C.6.4 Sustainability risk

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.

At Garantia, sustainability risks may arise to a material degree in the company's investment and guaranty insurance 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 investments or guaranty insurance agreements. These risks are assessed as part of the decision-making process for underwriting and investment. Sustainability risks are also monitored and assessed with a risk survey prepared in conjunction with the annual planning. The sustainability risk associated with Garantia's operations is assessed as being low for the time being. The company does not have substantial investment or guaranty insurance liabilities from industries or companies whose business is associated with larger than usual sustainability issues.

C.7 Other information

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

Garantia calculates solvency as required by chapter 3 of the Insurance Companies Act (2018/521) (known as 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

| | 31.12.2022 | 31.12.2021 | Change |
|---|--------------------|--------------------|--------------------|
| Property, plant & equipment held for own use | 54,603 | 56,682 | -2,079 |
| Investments | 153,891,014 | 167,042,268 | -13,151,254 |
| Bonds | 118,583,992 | 138,357,025 | -19,773,033 |
| Collective Investments Undertakings | 35,307,022 | 28,685,244 | 6,621,778 |
| Deposits other than cash equivalents | 0 | 0 | 0 |
| Reinsurance recoverables from non-life and health similar to non-life | -149,587 | 372,351 | -521,938 |
| Insurance and intermediaries receivables | 0 | 0 | 0 |
| Reinsurance receivables | 377,552 | 426,982 | -49,430 |
| Receivables (trade, not insurance) | 926 | 20,540 | -19,614 |
| Cash and cash equivalents | 781,010 | 3,446,785 | -2,665,775 |
| Any other assets, not elsewhere shown | 0 | 0 | 0 |
| Total assets | 154,955,518 | 171,365,609 | -16,410,091 |

The difference between assets on Solvency II and FAS balance sheets 31.12.2022, euro

| | Solvency II | FAS | Difference |
|---|-------------|-------------|------------|
| Intangible assets | 0 | 210,600 | -210,600 |
| Property, plant & equipment held for own use | 54,603 | 54,603 | 0 |
| Investments | 153,891,014 | 150,692,639 | 3,198,375 |
| Bonds | 118,583,992 | 118,581,738 | 2,254 |
| Collective investment undertakings | 35,307,022 | 32,110,902 | 3,196,121 |
| Deposits other than cash equivalents | 0 | 0 | 0 |
| Reinsurance recoverables | -149,587 | 0 | -149,587 |
| Debtors, arising out of direct insurance operations (FAS) | 0 | 955,834 | -955,834 |
| Reinsurance receivables | 377,552 | 377,552 | 0 |
| Receivables (trade, not insurance) | 926 | 926 | 0 |

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| | | | |
|---------------------------|--------------------|--------------------|------------------|
| Cash and cash equivalents | 781,010 | 781,010 | 0 |
| Debtors, other (FAS) | 0 | 0 | 0 |
| Total assets | 154,955,518 | 153,073,165 | 1,882,353 |

| 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. |

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D.2 Technical provisions

D.2.1 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.

D.2.2 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 guaranties product group and construction defect insurance product group, the assumed PVFP is zero, as those product groups are based on a one-off payment.

The calculation principles for the provision for unearned premiums according to Solvency II differ from those used to calculate the provision for unearned premiums in FAS. In the valuation of the provision for unearned premiums on the FAS balance sheet, the provisions are defined by guaranty. For each valid guaranty the share of the insurances' premium income that falls in coming financial years and the sum of these shares forms the provision for unearned premiums. On the Solvency II balance sheet, the same division into four groups (residential mortgage guaranties, construction defect insurance, rent guarantee and other guaranties) that is used in the FAS balance sheet is used to value the provision for unearned premiums, and the calculation is carried out separately for each of these groups. Unlike the provision for unearned premiums on the FAS balance sheet, the valuation of the provision for unearned premiums according to Solvency II takes into consideration the claims ratio, expense ratio, acquisition expense ratio, present value of future premiums (PVFP) and the volume measure (VM). In addition, the FAS balance sheet items "Debtors arising out of direct insurance operations" (as negative), "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.

D.2.3 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 guaranty portfolio's average maturity.

D.2.4 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" has been included (as negative) under outstanding claims provision on the Solvency II balance sheet.

D.2.5 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.

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D.2.6 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 duration of the cash flow distribution of technical provisions technical provisions still do not contain significant interest rate risk.

The technical provisions that are based on Garantia's solvency calculations include EUR 4.5 (6.0) million in expected profits included in future premiums (EPIFP). The expected profits are allocated in full to the insurance type's credit and guaranty 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 2022 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 guaranty insurance.

In the calculation of technical provisions, assumptions were changed during the year to include the impact of inflation in the estimate of future operating expenses.

D.2.8 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 guaranty insurance operations and by the increase in the best-estimate provision for claims outstanding, which resulted from the growth in known claims.

Solvency II Balance sheet: Liabilities and changes in liabilities, euro

| | 31.12.2022 | 31.12.2021 | Change |
|--|--------------------|--------------------|--------------------|
| Technical provisions – non-life | 16,826,967 | 15,126,593 | 1,700,374 |
| Best Estimate | 10,503,369 | 9,262,112 | 1,241,257 |
| Risk margin | 6,323,598 | 5,864,480 | 459,117 |
| Deferred tax liabilities | 19,741,711 | 19,758,678 | -16,967 |
| Insurance & intermediaries payables | 0 | 0 | 0 |
| Reinsurance payables | 101,781 | 52,642 | 49,139 |
| Payables (trade, not insurance) | 2,555,258 | 3,956,092 | -1,400,834 |
| Any other liabilities, not elsewhere shown | 405,731 | 452,674 | -46,942 |
| Total liabilities | 39,631,448 | 39,346,678 | 284,769 |
| Excess of assets over liabilities | 115,324,071 | 132,018,931 | -16,694,860 |

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The difference between liabilities on Solvency II and FAS balance sheets 31.12.2022, euro

| | Solvency II | FAS | Difference |
|---|--------------------|--------------------|--------------------|
| Technical provisions – non-life | 16,826,967 | 43,789,150 | -26,962,183 |
| Best estimate | 10,503,369 | 0 | 10,503,369 |
| Risk margin | 6,323,598 | 0 | 6,323,598 |
| Other provisions | 0 | 17,781 | -17,781 |
| Reinsurer's share of technical provisions (FAS) | 0 | -47,769 | 47,769 |
| Equalisation provision (FAS) | 0 | 69,853,074 | -69,853,074 |
| Deferred tax liabilities | 19,741,711 | 0 | 19,741,711 |
| Creditors, arising out of direct insurance operations (FAS) | 0 | 40,935 | -40,935 |
| Reinsurance payables | 101,781 | 101,781 | 0 |
| Payables (trade, not insurance) | 2,555,258 | 2,555,258 | 0 |
| Any other liabilities, not elsewhere shown | 405,731 | 405,731 | 0 |
| Total liabilities | 39,631,448 | 116,715,940 | -77,084,492 |
| Excess of assets over liabilities | 115,324,071 | 36,357,225 | 78,966,846 |

| 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 105.3 (117.0) million at the end of the financial year. Basic own funds decreased as a result of the negative profit for the financial year and a decline in the value of investment assets. Basic own funds include, as a deduction, foreseeable dividends, the amount of which also decreased on the previous year.

Own funds

Own funds (Tier 1), euro

| | 31.12.2022 | 31.12.2021 | Change |
|---|--------------------|--------------------|--------------------|
| Ordinary share capital (gross of own shares) | 10,200,000 | 10,200,000 | 0 |
| Reconciliation reserve | 95,124,071 | 106,818,931 | -11,694,860 |
| of which foreseeable dividends, distributions and charges | 10,000,000 | 15,000,000 | -5,000,000 |
| Total | 105,324,071 | 117,018,931 | -11,694,860 |

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

| | 31.12.2022 | 31.12.2021 | Change |
|---|-------------|-------------|-------------|
| Own funds (Tier 1) | 105,324,071 | 117,018,931 | -11,694,860 |
| Solvency Capital requirement (SCR) | 45,543,885 | 53,395,998 | -7,852,113 |
| Solvency Capital requirement excl. capital add-on | 33,837,345 | 37,817,885 | -3,980,540 |
| Minimum Capital requirement (MCR) | 11,385,971 | 13,349,000 | -1,963,029 |
| Own funds / SCR, % | 231 % | 219 % | 12 %-p. |
| Own funds / MCR, % | 925 % | 877 % | 48 %-p. |

Garantia's shareholders' equity and reserves presented in the financial statements were EUR 36.4 (53.0) million and the own funds in accordance with the Insurance Companies Act the above-mentioned EUR 105.3 (117.0) 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 69.9 (70.4) million included in the

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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 (14.1) 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

| | 31.12.2022 | 31.12.2021 |
|--|--------------------|--------------------|
| Shareholder's equity and reserves (+) | 36,357,225 | 52,984,217 |
| Foreseeable dividends, distributions and charges (-) | -10,000,000 | -15,000,000 |
| Valuation difference of technical provisions - non-life (+) | 26,764,827 | 23,522,603 |
| Provision for unearned premiums and claims outstanding (net) in financial statements | 43,741,380 | 38,276,845 |
| Technical provisions - non-life in Solvency II | -16,826,967 | -15,126,593 |
| Reinsurance recoverables from Non-life in Solvency II | -149,587 | 372,351 |
| Items in financial statements included in Solvency II technical provisions | -914,900 | -1,639,816 |
| Debtors, arising out of direct insurance operations | -955,834 | -1,893,711 |
| Debtors, other | 0 | 0 |
| Creditors, arising out of direct insurance operations | 40,935 | 253,894 |
| Equalisation provision (+) | 69,853,074 | 70,431,592 |
| Provisions (+) | 17,781 | 39,704 |
| Valuation difference of Investments | 3,198,375 | 6,770,694 |
| Book-value of investments in financial statements | -150,692,639 | -160,271,574 |
| Fair value of investments in Solvency II | 153,891,014 | 167,042,268 |
| Intangible assets (-) | -210,600 | -331,384 |
| Deferred tax liabilities (-) | -19,741,711 | -19,758,678 |
| Own funds | 105,324,071 | 117,018,931 |

E.2 Solvency capital requirement and minimum capital requirement

On 31 December 2022 Garantia's solvency capital requirement was EUR 45.5 (53.4) million. The reduction in the solvency capital requirement during the financial year resulted mainly from a decrease in the capital requirement for market risk. The capital requirement for market risk decreased as a result of lower equity risk and credit spread risk. The reduction in the amount of market risk was caused by the decline in the value of the investment portfolio and the investment allocation changes that were carried. The underwriting risk related capital add-on also decreased compared with the previous year.

The solvency capital requirement describes the amount of unexpected loss once every 200 years.

Garantia applies the standard formula for the solvency capital requirement calculation. Garantia does not use simplified calculation in the standard formula's risk modules or sub-modules, or company-specific parameters instead of the parameters of the standard formula.

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

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add-on on 17 June 2022, when the amount of the add-on was set at EUR 11.7 (15.6⁴) million. The updated capital add-on is included in the company's solvency capital requirement as of 30 June 2022. 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.

The reason behind the capital add-on is primarily that the Solvency II standard formula treats credit and guaranty insurance as a single entity in which the capital requirement is mainly determined on the basis of one year's insurance premiums. The capital requirement for recession risk (catastrophe risk) in connection with guaranty insurance is also based on insurance premiums in the standard formula and no consideration is given to the amount or quality of the guaranty exposures. Thus, in the view of the Financial Supervisory Authority, the standard formula does not give a correct picture of Garantia's risk position.

In its decision regarding the capital add-on, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation 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 10 June 2021.

Solvency capital requirement by component, euro

| | 31.12.2022 | 31.12.2021 | Change |
|---|-------------------|-------------------|-------------------|
| Basic solvency capital requirement | 41,732,999 | 46,713,689 | -4,980,690 |
| Market risk | 21,403,333 | 31,072,069 | -9,668,736 |
| Interest rate risk | 5,296,303 | 4,875,084 | 421,219 |
| Equity risk | 6,068,183 | 12,496,722 | -6,428,539 |
| Property risk | 549,446 | 377,560 | 171,886 |
| Spread risk | 9,708,351 | 15,911,409 | -6,203,058 |
| Currency risk | 6,181,599 | 5,771,023 | 410,576 |
| Concentration risk | 9,743,163 | 9,510,237 | 232,926 |
| Diversification benefit | -16,143,712 | -17,869,966 | 1,726,254 |
| Counterparty default risk | 225,852 | 431,046 | -205,194 |
| Non-life underwriting risk | 30,742,941 | 27,703,288 | 3,039,653 |
| Premium and reserve risk | 15,962,958 | 13,805,803 | 2,157,155 |
| Lapse risk | 1,379,249 | 1,847,507 | -468,258 |
| Catastrophe risk | 22,548,591 | 20,742,994 | 1,805,597 |
| Diversification effect | -9,147,857 | -8,693,016 | -454,841 |
| Intangible asset risk | 0 | 0 | 0 |
| Diversification effect | -10,639,127 | -12,492,714 | 1,853,587 |
| Operational risk | 563,682 | 558,668 | 5,014 |
| Adjustment for loss-absorbing capacity | -8,459,336 | -9,454,471 | 995,135 |
| Total excl. capital add-on | 33,837,345 | 37,817,886 | -3,980,541 |
| Capital add-on | 11,706,540 | 15,578,113 | -3,871,573 |
| Total | 45,543,885 | 53,395,999 | -7,852,114 |

On 31 December 2022, Garantia's minimum capital requirement was EUR 11.4 (13.3) million. In the minimum capital requirement calculation (insurance type, credit and guaranties), the net (with reinsurance contracts/special purpose

⁴ The capital add-on that was in force as of 30 June 2021 in parentheses.

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vehicles share deducted) best estimate used and technical provisions totalled EUR 10.7 (8.9) million and net (with reinsurance contract share deducted) premiums written calculated over the previous 12 months were EUR 24.1 (24.6) million. In 2022 the minimum capital requirement was at its lower limit, which is 25% of the solvency capital requirement. As a result, the decrease in minimum capital requirement was entirely the result of the decrease in the solvency capital requirement.

The loss-absorbing capacity of deferred taxes, which amounted to EUR 8.5 (9.5) million on 31 December 2022, 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) 2015/2452

S.02.01.02 Balance sheet

| | Solvency II value |
|--|------------------------------|
| | C0010 |
| Assets | |
| Intangible assets | R0030 |
| Deferred tax assets | R0040 |
| Pension benefit surplus | R0050 |
| Property, plant & equipment held for own use | R0060 54,603 |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 153,891,014 |
| 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 118,583,992 |
| Government Bonds | R0140 |
| Corporate Bonds | R0150 118,583,992 |
| Structured notes | R0160 |
| Collateralised securities | R0170 |
| Collective Investments Undertakings | R0180 35,307,022 |
| 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 -149,587 |
| Non-life and health similar to non-life | R0280 -149,587 |
| Non-life excluding health | R0290 -149,587 |
| 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 377,552 |
| Receivables (trade, not insurance) | R0380 926 |
| 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 781,010 |
| Any other assets, not elsewhere shown | R0420 |
| Total assets | R0500 154,955,518 |

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Liabilities

| | C0010 |
|---|--------------------------|
| Technical provisions – non-life | R0510 16,826,967 |
| Technical provisions – non-life (excluding health) | R0520 16,826,967 |
| TP calculated as a whole | R0530 |
| Best Estimate | R0540 10,503,369 |
| Risk margin | R0550 6,323,598 |
| Technical provisions – health (similar to non-life) | R0560 |
| TP calculated as a whole | R0570 |
| Best Estimate | R0580 |
| Risk margin | R0590 |
| Technical provisions – life (excluding index-linked and unit-linked) | R0600 |
| Technical provisions – health (similar to life) | R0610 |
| TP calculated as a whole | R0620 |
| Best Estimate | R0630 |
| Risk margin | R0640 |
| Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 |
| TP calculated as a whole | R0660 |
| Best Estimate | R0670 |
| Risk margin | R0680 |
| Technical provisions – index-linked and unit-linked | R0690 |
| TP calculated as a whole | R0700 |
| Best Estimate | R0710 |
| Risk margin | R0720 |
| Contingent liabilities | R0740 |
| Provisions other than technical provisions | R0750 |
| Pension benefit obligations | R0760 |
| Deposits from reinsurers | R0770 |
| Deferred tax liabilities | R0780 19,741,711 |
| 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 101,781 |
| Payables (trade, not insurance) | R0840 2,555,258 |
| Subordinated liabilities | R0850 |
| Subordinated liabilities not in BOF | R0860 |
| Subordinated liabilities in BOF | R0870 |
| Any other liabilities, not elsewhere shown | R0880 405,731 |
| Total liabilities | R0900 39,631,448 |
| Excess of assets over liabilities | R1000 115,324,071 |

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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 | 24,663,706 | 24,663,706 |
| Gross – Proportional reinsurance accepted | R0120 | | |
| Gross – Non-proportional reinsurance accepted | R0130 | | |
| Reinsurers' share | R0140 | 478,578 | 478,578 |
| Net | R0200 | 24,185,127 | 24,185,127 |
| Premiums earned | | | |
| Gross – Direct Business | R0210 | 18,789,391 | 18,789,391 |
| Gross – Proportional reinsurance accepted | R0220 | | |
| Gross – Non-proportional reinsurance accepted | R0230 | | |
| Reinsurers' share | R0240 | 545,418 | 545,418 |
| Net | R0300 | 18,243,974 | 18,243,974 |
| Claims incurred | | | |
| Gross – Direct Business | R0310 | 96,680 | 96,680 |
| Gross – Proportional reinsurance accepted | R0320 | | |
| Gross – Non-proportional reinsurance accepted | R0330 | | |
| Reinsurers' share | R0340 | -178,732 | -178,732 |
| Net | R0400 | 275,412 | 275,412 |
| Changes in other technical provisions | | | |
| Gross – Direct Business | R0410 | 578,518 | 578,518 |
| Gross – Proportional reinsurance accepted | R0420 | | |
| Gross – Non-proportional reinsurance accepted | R0430 | | |
| Reinsurers' share | R0440 | | |
| Net | R0500 | 578,518 | 578,518 |
| Expenses incurred | R0550 | 5,167,593 | 5,167,593 |
| Other expenses | R1200 | | |
| Total expenses | R1300 | | 5,167,593 |

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

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S.05.02.01 Premiums, claims and expenses by country

| | | Home country | Top 5 countries (by amount of gross premiums written) — non-life obligations | | | | | Total Top 5 and home country |
|---|-------|--------------|--|-------|-------|-------|-------|------------------------------|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | | R0010 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 |
| Premiums written | | | | | | | | |
| Gross – Direct Business | R0110 | 24,663,706 | | | | | | 24,663,706 |
| Gross – Proportional reinsurance accepted | R0120 | | | | | | | |
| Gross – Non-proportional reinsurance accepted | R0130 | | | | | | | |
| Reinsurers' share | R0140 | 478,578 | | | | | | 478,578 |
| Net | R0200 | 24,185,127 | | | | | | 24,185,127 |
| Premiums earned | | | | | | | | |
| Gross – Direct Business | R0210 | 18,789,391 | | | | | | 18,789,391 |
| Gross – Proportional reinsurance accepted | R0220 | | | | | | | |
| Gross – Non-proportional reinsurance accepted | R0230 | | | | | | | |
| Reinsurers' share | R0240 | 545,418 | | | | | | 545,418 |
| Net | R0300 | 18,243,974 | | | | | | 18,243,974 |
| Claims incurred | | | | | | | | |
| Gross – Direct Business | R0310 | 96,680 | | | | | | 96,680 |
| Gross – Proportional reinsurance accepted | R0320 | | | | | | | |
| Gross – Non-proportional reinsurance accepted | R0330 | | | | | | | |
| Reinsurers' share | R0340 | -178,732 | | | | | | -178,732 |
| Net | R0400 | 275,412 | | | | | | 275,412 |
| Changes in other technical provisions | | | | | | | | |
| Gross – Direct Business | R0410 | 578,518 | | | | | | 578,518 |
| Gross – Proportional reinsurance accepted | R0420 | | | | | | | |
| Gross – Non-proportional reinsurance accepted | R0430 | | | | | | | |
| Reinsurers' share | R0440 | | | | | | | |
| Net | R0500 | 578,518 | | | | | | 578,518 |
| Expenses incurred | R0550 | 5,167,593 | | | | | | 5,167,593 |
| Other expenses | R1200 | | | | | | | |
| Total expenses | R1300 | | | | | | | 5,167,593 |

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S.17.01.02 Non-life technical provisions

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions
Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

Total Best estimate – gross

Total Best estimate – net

Risk margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions – total

Technical provisions – total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total

| | Direct business and accepted proportional reinsurance | Total Non-Life obligation |
|--------------|---|---------------------------|
| | Credit and suretyship insurance | |
| | C0100 | C0180 |
| R0010 | | |
| R0050 | | |
| | | |
| | | |
| | | |
| R0060 | 9,294,023 | 9,294,023 |
| R0140 | | |
| | -156,233 | -156,233 |
| R0150 | 9,450,256 | 9,450,256 |
| | | |
| R0160 | 1,209,346 | 1,209,346 |
| R0240 | | |
| | 6,646 | 6,646 |
| R0250 | 1,202,700 | 1,202,700 |
| R0260 | 10,503,369 | 10,503,369 |
| R0270 | 10,652,956 | 10,652,956 |
| R0280 | 6,323,598 | 6,323,598 |
| | | |
| R0290 | | |
| R0300 | | |
| R0310 | | |
| | | |
| R0320 | 16,826,967 | 16,826,967 |
| R0330 | | |
| | -149,587 | -149,587 |
| R0340 | 16,976,554 | 16,976,554 |

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

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S.23.01.01 Own funds

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)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

- Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
 - Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand
 - Unpaid and uncalled preference shares callable on demand
 - A legally binding commitment to subscribe and pay for subordinated liabilities on demand
 - Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
 - Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
 - Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 - Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 - Other ancillary own funds
- Total ancillary own funds**
- Available and eligible own funds**
- Total available own funds to meet the SCR
 - Total available own funds to meet the MCR
 - Total eligible own funds to meet the SCR
 - Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges
- Other basic own fund items
- Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

- Expected profits included in future premiums (EPIFP) – Life business
- Expected profits included in future premiums (EPIFP) – Non-life business

Total Expected profits included in future premiums (EPIFP)

| | Total | Tier 1 – unrestricted | Tier 1 – restricted | Tier 2 | Tier 3 |
|-------|-------------|-----------------------|---------------------|--------|--------|
| | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | 10,200,000 | 10,200,000 | | | |
| R0030 | | | | | |
| R0040 | | | | | |
| R0050 | | | | | |
| R0070 | | | | | |
| R0090 | | | | | |
| R0110 | | | | | |
| R0130 | 95,124,071 | 95,124,071 | | | |
| R0140 | | | | | |
| R0160 | | | | | |
| R0180 | | | | | |
| R0220 | | | | | |
| R0230 | | | | | |
| R0290 | 105,324,071 | 105,324,071 | | | |
| R0300 | | | | | |
| R0310 | | | | | |
| R0320 | | | | | |
| R0330 | | | | | |
| R0340 | | | | | |
| R0350 | | | | | |
| R0360 | | | | | |
| R0370 | | | | | |
| R0390 | | | | | |
| R0400 | | | | | |
| R0500 | 105,324,071 | 105,324,071 | | | |
| R0510 | 105,324,071 | 105,324,071 | | | |
| R0540 | 105,324,071 | 105,324,071 | | | |
| R0550 | 105,324,071 | 105,324,071 | | | |
| R0580 | 45,543,885 | | | | |
| R0600 | 11,385,971 | | | | |
| R0620 | 231.26 % | | | | |
| R0640 | 925.03 % | | | | |
| C0060 | | | | | |
| R0700 | 115,324,071 | | | | |
| R0710 | | | | | |
| R0720 | 10,000,000 | | | | |
| R0730 | 10,200,000 | | | | |
| R0740 | | | | | |
| R0760 | 95,124,071 | | | | |
| R0770 | | | | | |
| R0780 | 4,539,450 | | | | |
| R0790 | 4,539,450 | | | | |

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S.25.01.21 Solvency capital requirement (standard formula)

Market risk
 Counterparty default risk
 Life underwriting risk
 Health underwriting risk
 Non-life underwriting risk
 Diversification
 Intangible asset risk
Basic Solvency Capital Requirement

| | Gross solvency capital requirement | USP | Simplifications |
|-------|------------------------------------|-------|-----------------|
| | C0110 | C0090 | C0100 |
| R0010 | 21,403,333 | | |
| R0020 | 225,852 | | |
| R0030 | | | |
| R0040 | | | |
| R0050 | 30,742,941 | | |
| R0060 | -10,639,128 | | |
| R0070 | 0 | | |
| R0100 | 41,732,999 | | |

Calculation of Solvency Capital Requirement
 Operational risk
 Loss-absorbing capacity of technical provisions
 Loss-absorbing capacity of deferred taxes
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
Solvency Capital Requirement excluding capital add-on
 Capital add-on already set
Solvency capital requirement
Other information on SCR
Capital requirement for duration-based equity risk sub-module
 Total amount of Notional Solvency Capital Requirements for remaining part
 Total amount of Notional Solvency Capital Requirements for ring fenced funds
 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

 Diversification effects due to RFF nSCR aggregation for article 304

| | C0100 |
|-------|------------|
| R0130 | 563,682 |
| R0140 | 0 |
| R0150 | -8,459,336 |
| R0160 | |
| R0200 | 33,837,345 |
| R0210 | 11,706,540 |
| R0220 | 45,543,885 |
| R0400 | |
| R0410 | |
| R0420 | |
| R0430 | |
| R0440 | |

Approach to tax rate

Approach based on average tax rate



| | Yes/No |
|-------|--------|
| | C109 |
| R0590 | No |

Calculation of loss absorbing capacity of deferred taxes

LAC DT
 LAC DT justified by revision of deferred tax liabilities
 LAC DT justified by reference to probable future taxable economic profit
 LAC DT justified by carry back, current year
 LAC DT justified by carry back, future years
 Maximum LAC DT

| | LAC DT |
|-------|------------|
| | C0130 |
| R0640 | -8,459,336 |
| R0650 | -8,459,336 |
| R0660 | |
| R0670 | |
| R0680 | |
| R0690 | -8,459,336 |

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S.28.01.01 Minimum capital requirement

Linear formula component for non-life insurance and reinsurance obligations

| MCR _{NL} Result | C0010 | |
|--|---|---|
| | R0010 | 3,019,124 |
| | 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 | 24,185,127 |
| 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 | 4,618,493 |
| SCR | R0310 | 45,543,885 |
| MCR cap | R0320 | 20,494,748 |
| MCR floor | R0330 | 11,385,971 |
| Combined MCR | R0340 | 11,385,971 |
| Absolute floor of the MCR | R0350 | 3,700,000 |
| | C0070 | |
| Minimum Capital Requirement | R0400 | 11,385,971 |