Nordic Guarantee Solvency and Financial Condition Report 2018

Approved by the Board of Directors on April 17, 2019

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Summary

This document is the third Solvency and Financial Condition Report ("SFCR") that is required to be published by Nordic Guarantee Försäkringsaktiebolag ("Nordic Guarantee" or "the company") as a result of the new, harmonised EU-wide regulatory regime for insurance companies, known as "Solvency II", which came into force from 1 January 2016.

This report covers the business and performance of the company, its system of governance, risk profile, valuation for solvency purposes and capital management. The company's Board of Directors ("BoD" or "Board"), with the help of various governance and control functions that it has put in place to monitor and manage the business, has the ultimate responsibility for all of these matters.

As of October 2016, Nordic Guarantee is a wholly owned subsidiary of Manzillo Holdings Limited ("Manzillo"). Manzillo is the parent company of an insurance group with businesses in several European countries. Nordic Guarantee also has a cooperation with Lombard Insurance Company Limited ("Lombard"), the leading provider of surety insurance in Southern Africa.

In March 2018, Donnell Gouveia was appointed Chief Executive Officer (CEO). Prior to being assigned CEO, Donnell was, and will continue to be, engaged in the operations and also as a member of the company's Board.

Nordic Guarantee's head office is located in Kista, outside Stockholm, Sweden. At the end of 2018 the company employed a total of 43 people. The company has been in operation since December 2003 and is licensed to write non-life insurance risk, classes 15 (surety) and 9 (other material damage). Since 2006, only surety insurance has been written. Until end of March 2019, its operations have been carried out in Sweden and through branches in Norway, Finland and Denmark. As of April 2019, the company is registered to conduct cross-border business in an additional 14 European countries. The company's financial year runs to December 31st each year and it reports its results in SEK (Swedish Krona).

The surety insurance business is mainly focused on the construction industry but includes other types of contractual bonds or bonds required by governmental authorities, such as travel bonds and customs bonds.

Guarantees into the construction industry continues to be the company's primary focus. During the year under review there has been a slowdown in construction activities when compared with the previous year and the Nordic markets experienced a decline in the production of new housing. Despite the dampened development in the market, the company's premium income increased.

Nordic Guarantee experienced a marked increase in the frequency of claims in the second half of the year. This increase in frequency claims was exacerbated by two large claims that incurred in December 2018. We increased our IBNER ("Incurred But Not Enough Reported") claims reserves during the year and continued with our approach of addressing the negative run-off of claims that was experienced in the past. This approach paid off during the year with us showing a small positive result from run-off of old claims.

In line with the company's strategic plan, the company continued to invest in its systems, human resources and industry knowledge. We had some once-off costs in the year due to a restructuring process that was undertaken and also incurred once off consulting services fees due to the implementation of the new General Data Protection Regulation (GDPR) and Insurance Distribution Directive (IDD). We have also invested in new product development that will be launched in the new year.

The work in recent years to change the risk profile of the company's exposures continues to yield results and this work will continue. The long duration of insurance contracts does take time, before changes in the insurance portfolio will be seen. Profitability in the company's operations is expected to improve over the next few years.

In summary, the prospects for the company to achieve increased premium volume and lower claims costs are considered positive.

A. Business and Performance

A.1 Business Information

Name and legal form

Nordic Guarantee Försäkringsaktiebolag
Address: Kista Science Tower, 164 51 Kista, Sweden
Tel: +46 8 34 06 60
E-mail: info@nordg.com

The legal form of Nordic Guarantee is limited liability company (Swedish: Aktiebolag).

Supervisory authority

Finansinspektionen ("FSA")
Address: Box 7821, 103 97 Stockholm, Sweden
Tel: +46 408 980 00
E-mail address: finansinspektionen@fi.se

Group supervisor

Gibraltar Financial Services Commission ("FSC")
Address: PO Box 940, Suite 3, Ground Floor, Atlantic Suites, Europort Avenue, Gibraltar
Tel: +350 200 40283
E-Mail: information@fsc.gi

External auditor

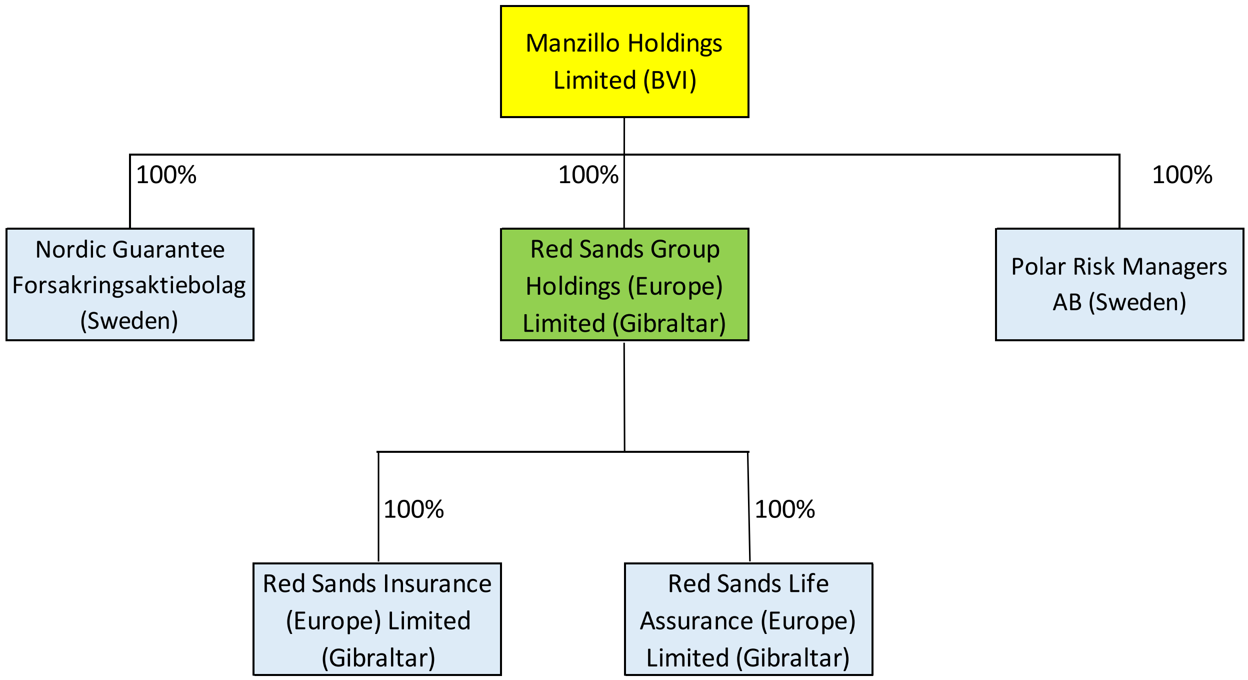
Daniel Eriksson (Ernst & Young AB)
Address: Box 7850, 103 99 Stockholm, Sweden
Tel: +46 8 520 590 00
E-mail: daniel.eriksson@se.ey.com

Qualifying holder(s):

Manzillo Holdings Limited
Address: Woodbourne Hall, Road Town Tortola, British Virgin Islands.
C/O Shaun Cowdery, Level 3 Ocean Village Business Centre, 23 Ocean Village Promenade, Gibraltar
Tel: +350 200 03777
E-Mail: shaun@redsands.gi

Group structure information and position

The Group comprises several insurance operations within the European Union.



Lines of business and geographical areas of business

The company conducts surety bond insurance business in the Nordic region, based on a licence from the Swedish Financial Supervisory Authorities ("FSA") in Sweden, and on cross-border basis from branch offices in Denmark, Norway and Finland. The head office is located in Stockholm, and branch offices are established in Copenhagen, Oslo, and in Helsinki.

The surety bond insurance business is primarily directed towards the construction industry, but also includes other types of contractual bonds or bonds required by governmental authorities, *inter alia*, travel bonds and customs bonds. In addition to surety bond insurances, there is a Construction Defect Insurance portfolio (Swedish: Byggfelsförsäkring). This portfolio is in run-off and is expected to phase out completely by 2019. The claims activity is very limited in this portfolio and no more premiums are written.

Significant business and events over the reporting period

As mentioned in the summary above, the new CEO was appointed in March 2018.

The organisational structure is depicted and described in more detail in the sub-section "Main roles and responsibilities" under section "B.1 General information on the system of governance".

A.2 Underwriting Performance

2018

	Direct insurance, Swedish risks	Of which surety	Of which other material damage	Direct insurance foreign risks	Total
Earned premium, ooa	25,395	24,489	905	68,800	94,195
Return on capital transferred from financial business	555	555	-	1,696	2,250
Other technical revenue	-1	-1	-	480	479
Insurance compensation, ooa	-4,569	-4,569	-	-57,525	-62,094
Operating costs	-12,567	-12,567	-	-50,197	-62,763
Technical profit from non-life insurance business	**8,812**	**7,906**	**905**	**-36,746**	**-27,933**

2017

	Direct insurance, Swedish risks	Of which surety	Of which other material damage	Direct insurance foreign risks	Total
Earned premium, ooa	30,146	29,439	708	67,675	97,821
Return on capital transferred from					
financial business	956	956	0	1,784	2,740
Other technical revenue	-2	-2	0	-85	-86
Insurance compensation, ooa	-26,645	-26,645	0	-18,297	-44,942
Operating costs	-14,552	-14,552	0	-45,752	-60,304
Technical profit from non-life insurance business	**-10 096**	**-10 805**	**708**	**5 325**	**-4 772**

SUMMARY FINANCIAL INFORMATION

MSEK	**2018**	**2017**
Premium income	215,415	180,099
	=======	=======
Technical result from non-life insurance business	(27,933)	(4,772)
	========	========
Equity	167,566	120,551
Solvency capital required	108,759	98,236
Own funds	187,085	154,773
Solvency ratio (Solvency II basis)	172%	158%

Premium income

Nordic Guarantee has grown gross premium written at a Compound Annual Growth Rate, CAGR, of 24% over the past five years. This has created scale within the business and we have gone about this growth strategy by offering excellent and efficient service while being competitive on premium rates. It must also be noted that the growth achieved was enabled by increasing reinsurance capacities negotiated with the reinsurance markets.

The aggregate growth rate in 2018 of 19% was achieved by growing market share in all geographies that we operate in. We had particularly strong growth in Finland and Denmark, although Denmark was off a low base as this was our first full year as an active market participant.

Performance per portfolio

Premium income increased to KSEK 215,415(KSEK 180,009) as a result of continued focus on operational efficiencies, attention to customer needs and realising strategic initiatives.

Construction Sweden

Gross written premiums ("GWP") increased 4% y-o-y ("year-on-year"). Whilst the portfolio showed marginal growth, our ambitions were affected by the uncertainty in the residential market and the subsequent impact on the broader construction segment. Guarantees provided to tenant owned associations (Swedish: Bostadsrättsföreningar), and input guarantees in particular, gained further traction which provided the counter-balance for the GWP.

Construction Norway (including Norway Civils)

A GWP increase of 2,8% y-o-y is underpinned by strong market factors. The residential market continues to perform well, supported by increasing investments in infrastructure. With this said, our growth is more with the large developers and developments. Our muted growth in the civils sector, despite having a dedicated resource, has been largely due to the demand for rated paper on the largest projects and the presence of international contractors which we could not serve as they are domiciled outside the Nordics.

Construction Finland

The 24% increase in the GWP y-o-y is a reflection of the high penetration that the company has achieved with the largest construction companies. The growth was supported by additional resources deployed in the underwriting teams.

Construction Denmark

The 128% increase in the GWP y-o-y is attributed the establishment of a dedicated team. We continue to leverage off the experience and network of the current team. It must be noted that this increase was achieved off a low base.

Travel and Miscellaneous

GWP was flat y-o-y. The adoption and implementation of the new Package Travel Regulation and the new Travel Guarantee Act in Sweden had neutral effect on our current book as we saw an increase in requirement from some and companies falling outside of the ambit of the regulation. The competitive landscape has become less dramatic with competition becoming less aggressive towards pricing.

Small Segment

GWP increased 33% y-o-y. To compliment the growth in our current channels we have been successful in establishing new collaborations in Sweden and Norway.

A.3 Investment Performance

The company is required to maintain assets to match its liabilities to policyholders/beneficiaries at all times.

The following investments, cash and assets are held to cover technical provisions (all numbers in KSEK as per 2018-12-31):

Corporate Bonds	4 623
Investment funds	168 908
Loan	580
Cash	116 155
Reinsurers share of technical provisions and paid claims	149 241
Total assets to cover technical provisions	439 507

The return on investments are recognized in the income statement in the period in which they arise. The unrealised result includes the impact of revaluation from foreign currency to reporting currency.

The following income is recognised in the income statement (all numbers in KSEK) as per 2018-12-31:

Unrealised result on long-term securities	449
Realised result on long-term securities	1 333
Interest from long-term securities	319
Total return on investment	2 101

The following investments, cash and assets were held to cover technical provisions (all numbers in KSEK) as per 2017-12-31:

Government Bonds	24 269
Corporate Bonds	4 592
Investment funds	142 884
Cash	26 316
Reinsurers share of technical provisions and paid claims	89 692
Total assets to cover technical provisions	287 753

The return on investments are recognized in the income statement in the period in which they arise. The unrealized result includes the impact of revaluation from foreign currency to reporting currency.

The following income was recognized in the income statement (all numbers in KSEK) as per 2017-12-31:

Unrealized result on long-term securities	293
Realized result on long-term securities	2 540
Interest from long-term securities	858
Total return on investment	-1 389

A.4 Performance of other activities

The company’s only activity is direct business in the class credit and suretyship insurance.

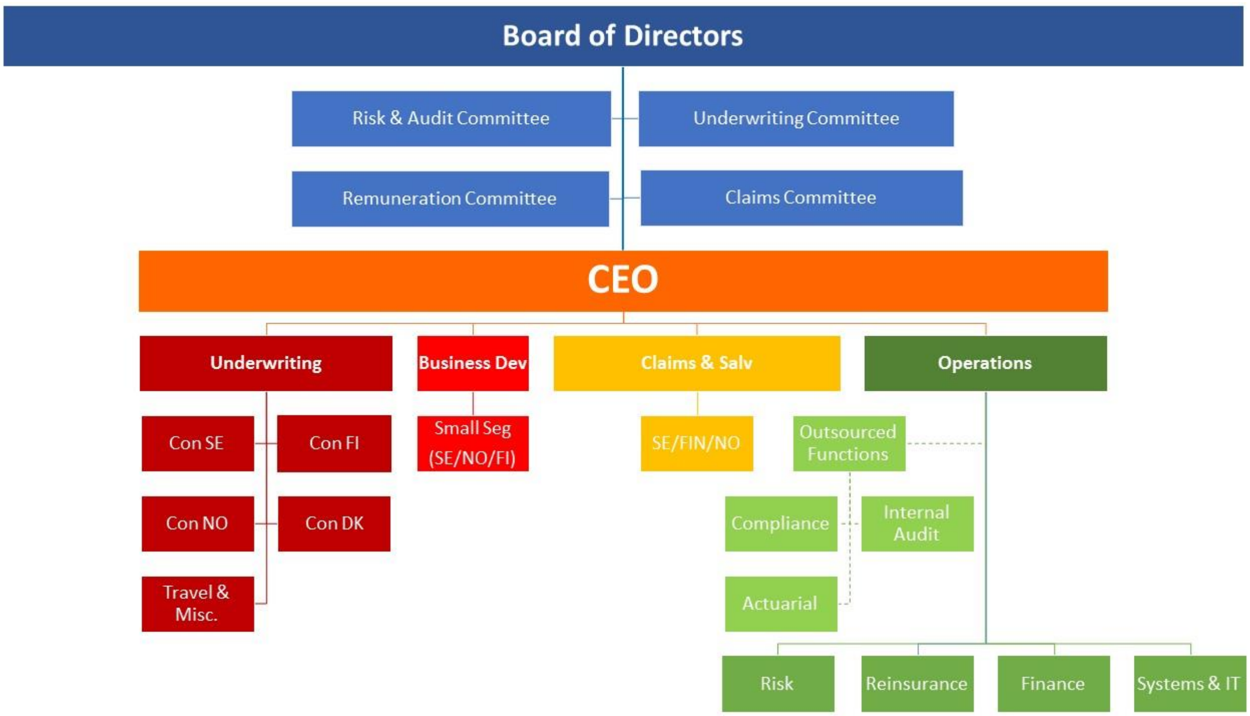
A.5 Any other information

There is no other material information to report regarding the business and performance of Nordic Guarantee.

B. System of Governance

B.1 General information on the system of governance

The organisation chart below depicts the current segregation of responsibilities between the different functionalities of the company as of November 2018. No material changes in the system of governance have taken place during the reporting year.



Reinsurance, Risk, Compliance, Finance and Systems & IT are organised under Operations. The outsourced key functions, i.e. Actuarial, Compliance, and Internal Audit have their main contact within Operations. The Chief Operating Officer, COO, has the overall responsibility for Operations, i.e. all activities not related to Underwriting and Claims.

Marketing and the Small Segment are organised under Business Development.

The Underwriting function comprises all the portfolios, which are split between the different jurisdictions and in the respective specialisations. In 2018, the Civils Portfolio was incorporated into Construction Norway. The respective Construction Portfolios encompass the construction clients above certain level of exposure in the different jurisdictions while Small Segment encompasses, primarily construction clients, with facility needs below a certain level of exposure.

Travel & Miscellaneous encompasses the whole travel portfolio regardless of jurisdiction or facility size.

Board of Directors

The Board is responsible for the company's overall organisation and administration of the company's affairs and shall ensure that the company's organisation is structured so that accounting, the management of funds and the company's other financial circumstances are controlled satisfactorily. The Board is further responsible for continuously evaluating the company's financial situation and for appointing the CEO.

The composition of the Board is a minimum of five members. During the larger part of 2018, the Board comprised six members. As of March 2019, the Board comprises five members (including the Chairman of the Board, and the new CEO). All are highly skilled individuals from both the insurance industry and the construction industry. Two of the Board members are internally responsible for the outsourcing of the Internal Audit and Actuarial functions, respectively, as they are independent from operations.

In February 2018, a collective competence assessment of the composition of the Board was conducted by the Chairman of the Board due to the previous CEO leaving the Company and the Board. Another collective competence assessment, now including the new competence requirements following the implementation of the IDD, was performed in September 2018. It was concluded that the Board members collectively had an appropriate diversity of qualifications, knowledge and relevant experience to ensure that the company is managed and overseen in a professional manner and that it was not necessary to add any new members to the Board.

At the time of writing, following the change of the composition of the Board in March 2019, a new collective competence assessment is being conducted.

Committees

In addition to the description above, the Board operates with a committee structure. There is an Underwriting Committee, a Remuneration Committee, a Claims Committee and a Risk & Audit Committee.

Underwriting Committee

Two Board members, including the CEO, participate in the Underwriting Committee, which is responsible for making underwriting decisions on a high level, in accordance with internal policies and guidelines and with the company's underwriting delegated authority structure. The Underwriting Committee will only decide on business presented before it by the company's underwriting operations.

Remuneration Committee

The Remuneration Committee comprises two members of the Board, including the Chairman. It decides the remuneration for the COO and the executives and on the structures for any variable remuneration schemes.

Claims Committee

The Claims Committee comprises two members from the Board (including the CEO) and the Head of Claims and Salvaging. The Committee is authorised by the CEO to decide on any claims case presented before it.

Risk & Audit Committee

The Risk & Audit Committee comprises the Chairman of the Board and one more member of the Board. The committee handles risk management, compliance and audit issues, on behalf of the Board, i.e. acts as a preparatory forum to propose risk, compliance, and audit related decisions in the Board, and to provide challenge to the control functions.

CEO

The CEO shall support ongoing administration in accordance with the BoD' guidelines and instructions, and in accordance with the budget approved by the BoD. Accordingly, the CEO is responsible for managing operations and supervision of staff. In addition, the CEO is responsible for the company's accounting being conducted in accordance with relevant laws and regulations, and that management of its funds is satisfactory. The CEO should also endeavour to ensure that the organisation and management of the company's operations are characterised by sound internal control.

The CEO shall ensure that the BoD receives the impartial, complete and relevant supporting information required, before and between Board meetings, for the Board to be able to make well-informed decisions. The BoD shall be kept informed on the progress of the company's operations between Board meetings.

The CEO is responsible for ongoing operations and development of the company's business, and is entitled and obliged, to take the required actions. In accordance with the company's Fit and Proper Policy for the BoD and CEO, the new CEO has gone through a fit and proper assessment.

Management team

The management team comprises the:

- Chief Executive Officer
- Chief Operating Officer
- Chief Underwriting Officer

The Underwriting function is responsible for all underwriting in the company. The underwriting for the medium and the large segments are done in underwriting teams, with portfolio managers being accountable for the performance of the book, both in terms of top line and bottom line performance. The authority structure in place, requires co-signing and escalation of underwriting decisions depending on facility levels and risk details.

Claims & Salvaging is the claims handling organisation. They act proactively to ensure effective claims handling and salvaging capabilities.

The Risk Management function and is responsible for the enterprise risk management and all the processes in connection with that, and all responsibilities according to the FSA's and the European Insurance and Pensions Authority's ("EIOPA") regulations.

The Finance department is responsible for finance and treasury, and general company administration.

The IT & Systems department is responsible for data management, data processing, development work and keeping our IT environment stable and fit for our business.

The Finance Manager, IT Manager and Risk Manager all report back to the COO, who in addition to his previously mentioned responsibilities, works with risk mitigation in the form of re-insurance structures. It is the CEO and the Board, however, that takes all decisions on reinsurance matters.

Key functions

As mentioned above, all key functions, except the Risk Management function, are outsourced to external service providers. Responsible for the Risk Management function is the company's Risk Manager. A non-executive Board member is internally responsible for the outsourcing of the Actuarial function. The Chairman of the Board is responsible for outsourcing of the Internal Audit function.

A more detailed description regarding the respective key function's role and responsibilities is presented under sections B3-B6.

Material changes in the system of governance over the reporting period

There have been no material changes in the system of governance over the reporting period other than the abovementioned appointment of the new CEO.

Remuneration policy

The company's Remuneration Policy includes remuneration to all employees in the Company.

The objectives of Nordic Guarantee's (the company's) Remuneration Policy, and remuneration practices are to maximise the effective use of cash and shares in incentive programs and to attract, retain and motivate high performing employees in order to enable the business reaching its strategic, and business objectives. The policy and the practices should be in line with the company's risk management strategy, its risk profile, risk management practices and long-term interests and the performance as a whole and incorporate measures aimed at avoiding conflicts of interest.

The remuneration structure for the company is built on a view that considers total remuneration, and is designed to not jeopardise the company's ability to show profit over a complete business cycle. The remuneration structure is compiled to be cost effective, and to be based on the components; fixed salary, performance related variable salary, pension, and other benefits.

Furthermore, the remuneration policy and practices should not impair the Company's ability to act honestly, fairly, professionally, and in accordance with the best interests of customers or prevent employees from making a suitable recommendation or presenting information in a form that is fair, clear and not misleading. Remuneration based on sales targets should not provide an incentive to recommend a particular product to the customer. The company aims to stimulate healthy risk management and reduce the risk of employees imposing exaggerated risk, in excess of risk tolerance limits, for the company, in order to boost personal gaining.

The fixed salary should reflect the requirements for, and expectations of each position, with regards to competency, responsibility, complexity, the way it contributes to reaching business targets. The fixed salary should also reflect the achievements made by each employee, and in that way be individually set and differentiated.

If an employee's remuneration structure includes both fixed salary and variable components, such components should be balanced in a way that the employee is not overly dependent on the variable component and also in a way that does not promote the interests of Nordic Guarantee over the interests of Nordic Guarantee's clients.

Decisions regarding remuneration to members of the Board is decided upon annually at the General Assembly in accordance with the Swedish Company Act (Swedish: Aktiebolagslag (2005:551)) and the Swedish Corporate Governance Code (Swedish: Svensk kod för bolagsstyrning) issued by the Swedish Corporate Governance Board.

Decisions on remuneration for the CEO, the COO, and executives are prepared by a Remuneration Committee. The Remuneration Committee operates under Terms of Reference decided by the Board, and decides on remuneration for the COO and executives while the Board decides on remuneration for the CEO. The Remuneration Committee also decides on the structure of schemes for variable salaries.

Decisions on remuneration for other employees than the COO, and executives are taken by the CEO.

Variable salary schemes

Variable salary schemes can be either discretionary, performance based, or a combination of discretionary and performance based. A performance based variable salary scheme should contain predefined goals, which are measurable, and for each goal it should be determined the starting point from where variable salary can be paid out (minimum performance requirement), and what the performance requirement is for payment of maximum variable salary. The variable salary should not be overly dependent on quantitative goals such as total premiums written, premium size and bond duration time.

The following a) and b) applies for the CEO, the COO, executives, senior and junior managers and operational support.

a) The goals that form the base for the performance related variable salary shall be a combination of overall company performance and business unit performance at profit before tax level, and individual performance.

b) The performance on individual level shall take into account both financial and non-financial performance.

The following applies for the key function employees:

a) The goals that form the base for the performance related variable salary shall be a based on individual performance and shall be discretionary and not based on any financial goals.

The following applies for the CEO, the COO, executives, senior and junior managers and key function employees:

a) The payment of a substantial portion of any type of variable salary shall be deferred for at least three years, which reflects the duration of the company's risks.
b) The payment of the deferred portion can be adjusted if it is evident that they have been based on the wrong grounds, or if Nordic Guarantee's financial standing has substantially deteriorated to an extent that the payment would jeopardize the continuance of Nordic Guarantee's business.

Variable salary schemes are intended to reward achievements made during a maximum period of twelve months, and should not be in conflict with, but assure a long term sustainable development for the business. The maximum variable salary differs between different categories of employees.

Details of the remuneration scheme for each year are decided by the Remuneration Committee and are documented separately.

Pension benefits must, as a minimum, be in accordance with legislation and/or collective agreements within the respective countries in the Nordic region. This applies to all employees, regardless of position.

Material transactions

As mentioned above, an unconditional shareholder contribution was received at the end of 2018. A settlement regarding severance pay for the previous CEO was also paid out during the reporting year. Other than that, no material transactions have been made with any Board member, member of the management team, or anyone with significant influence on the company, during the reporting year.

B.2 Fit and proper requirements

The company has adopted policy documents for handling of the fit and proper requirements for the Board, the CEO and for key function managers and employees. Although not material, there have been slight amendments to the policies and processes established for ensuring that the persons responsible for the key functions are fit and proper. The amendments are a result of the new competence requirements following the IDD implementation and these competence requirements have been incorporated in the process for the fit and proper assessment of the Board members and the CEO. The IDD's competence requirements are very similar to the fit and proper requirements and rather than constitute changes to the process, they clarify what makes a Board member or the CEO fit and proper for their assignment.

The main requirements for fitness and propriety are outlined below.

Skill, knowledge and expertise

Nordic Guarantee specifically considers the following in regard to reputation, skills, knowledge and expertise when conducting a fit and proper assessment of potential candidates for positions as Board member, CEO or employees in a key function (meaning both those responsible for a key function and employees carrying out assignments within, but who are not responsible for, key functions):

The candidates:

- have not been declared bankrupt or imposed with a trading prohibition ("näringsförbud")
- are not subject to the Swedish Enforcement Authority's (Kronofogdemyndigheten) enforcement of debts
- in the preceding 5 years, have not had a license or registration for insurance distribution withdrawn or have been part of the management or supervisory body of an undertaking which has had its license or registration withdrawn.
- do not figure in any criminal record in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities

Depending on the intended position for the candidate, different experiences can be of importance. In the assessment the candidate's level of education and specialisation should be considered, as well as whether this is relevant for the assignment at the company.

Expertise is considered as theoretical experience as a result of education, practical experience such as previous similar and/or otherwise relevant assignments as well as the knowledge and skills that the candidate has acquired from elsewhere.

The potential candidate's former and current positions at the company and other companies should be considered in the internal fit and proper assessment. Personal, professional and other economic relations with employees and directors of the company should be taken into consideration and induce a more thorough evaluation of the candidate's ability to maintain the independence that is required for the position. The same applies to contracts that a candidate may have with a controlling shareholder of the company and/or its affiliates.

Board Members must have the level of knowledge or practical experience of business management necessary to be able to lead the company in a sound and responsible manner. The Board members' level of insight and experience should be appropriate and sufficient in relation to the Company's operations and products, including the distribution of said products. The Board must include at least one member who has relevant knowledge regarding regulations on insurance distribution and other regulations applicable to insurance companies, the insurance market and the insurance products that the company distributes.

As part of the fit and proper assessment of a proposed Board Member, other relevant criteria that are relevant for the company's business should be taken into account. For example, potential conflicts of interest, other assignments, the collective competence of the existing BoD, the knowledge and expertise required, and the potential Board Member's ability to act independently without influence from other people.

Fit & Proper assessment process

The process for assessing fitness and propriety is described in the company's Fit and Proper Policy for Board Members and CEO and the Fit and Proper Policy for Key Functions. The process contains the following separate elements for fit and proper assessments:

- A process for an internal fit and proper assessment of a Board member, CEO and employees in key functions which shall be conducted in the following situations:

  - Before a new Board member, CEO or an employee in a key function shall be appointed. When approved internally, a Board member, CEO or an employee responsible for a key function should also go through an external fit and proper assessment by the FSA, before appointment or as soon as possible after appointment.

  - For an already appointed Board Member, CEO or existing employees in key functions, at least biennially or whenever necessary.

- A process for the assessment of the BoD's collective competence
  - To be performed whenever the composition of the BoD changes, and at least annually

The BoD is responsible for ensuring that suggested new Board members have undergone and passed the internal fit and proper assessment, and if possible, the FSA's external fit and proper assessment, before suggesting them to the General Meeting.

The BoD is also responsible for the fit and proper assessment, appointment and dismissal of the existing and suggested CEO. All existing Board Members should be aware of such incidents which may require an ad hoc fit and proper assessment. If appropriate, the Board may delegate the execution of a fit and proper assessment to an internal or external person, an evaluator, who should have regular contact with the Chairman of the Board. The COO is responsible for the fit and proper assessment for employees in key functions.

When Nordic Guarantee appoints a new Board member, CEO or employees in a key function, they should first pass Nordic Guarantee's internal process for fit and proper assessment with a positive result. When conducting this internal assessment, Nordic Guarantee should consider the assessment that the FSA will perform on potential candidates for the mentioned positions. A candidate who is likely to not be approved by the FSA may not be considered as a relevant candidate.

The fit and proper assessment should be conducted before the candidate undertakes his/her assignment. If this is not possible, the assessment should be carried out as soon as the candidate starts his/her assignment and in particular the internal assessment. The company shall then make clear in relation to the candidate that an approved internal and external fit and proper assessment must be conducted for continuing the assignment. The Company should clarify in the employment agreement that the internal fit and proper assessment has to be conducted with a positive result before he/she can take on the assignment.

A written statement regarding the candidates' qualities and whether he or she is fit and proper for the position shall be written. For new potential Board members there should also be a written statement on how the potential Board member will contribute to the collective competence of the Board.

In regard to key functions, the assessment by the FSA is only required for Nordic Guarantee employees. If a key function is outsourced to a third party, an FSA assessment should regard the person at the Nordic Guarantee who is responsible for the outsourcing partner/function.

All the fit and proper assessments (including those with negative results) will be documented. The assessments shall consist of a written document with relevant annexes attached (as required in mentioned policies). If Nordic Guarantee in its assessment concludes that a Board Member, CEO or employee in a key function is not fit and proper for its assignment, it should, if possible, take measures ensuring the person once again becomes fit and proper for the task. Such measures shall be carried out without delay. If this is not possible, the company should take appropriate measures to remove and replace the person.

Collective competence

The company shall ensure that the Board members collectively have an appropriate diversity of qualifications, knowledge and relevant experience to ensure that the company is managed and overseen in a professional manner. When a Board Member with experience in one area leaves, the BoD shall ensure that a new Board Member or a current Board Member possesses the knowledge of the leaving Board Member.

An assessment of the collective competence shall be conducted whenever the composition of the Board changes and the result reported to the FSA.

The assessment shall comprise:

- a statement regarding each individual board member's knowledge and experience in regard to the competence areas required for BoD's of insurance companies by applicable regulations and guidelines, and,
- a statement regarding the collective competence of the Board.

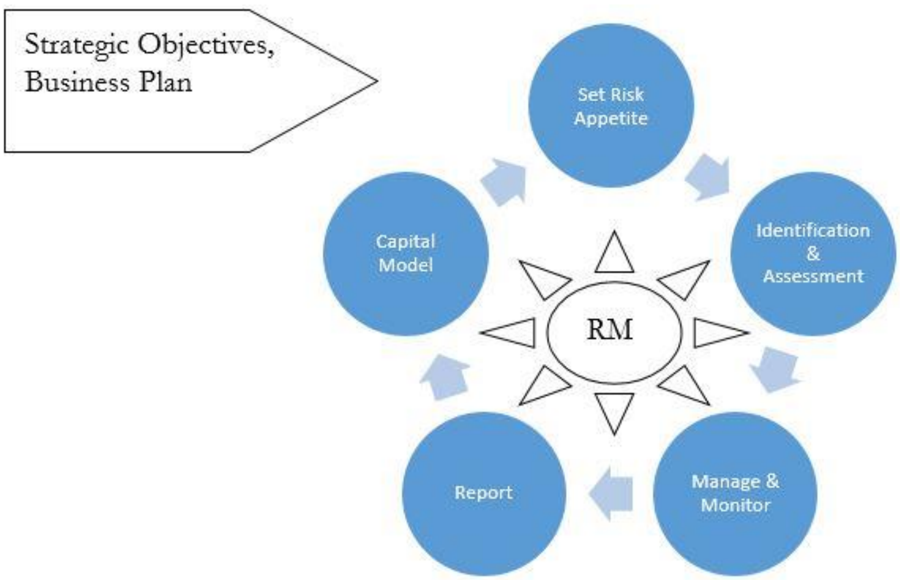
A collective competence assessment is also to be conducted at least annually, regardless of whether the composition has changed or not, or whenever necessary. The result should be used to detect any areas where the BoD on a common or individual level has got a need for competence development.

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

Strategies, processes and reporting procedures

Nordic Guarantee's risk management consists of a cyclical process that derives from Nordic Guarantee's, business plan, strategic objectives, and Risk Appetite, Risk Tolerance and Risk Tolerance Limits. Risk Appetite, Risk Tolerance, and Risk Tolerance Limits are set by the Board and express the level of risk the company is prepared to accept in order to achieve the strategic objectives of the business plan.

All significant risks are then managed, monitored, reported on and reflected in the capital modelling. Several tools and techniques are used to operate the framework, but the basic structure is illustrated in the figure below.



Nordic Guarantee's risk management system constitutes a tool for continuously evaluating and assessing the risks, which stem from the business of the company, or from external events or circumstances and is tailored to fulfil internal needs and external regulations. It defines the roles, processes, internal controls, limits, and reporting routines needed to enable and ensure that the risks, which the company is, or can be expected to be, exposed to, continuously are being managed, monitored, reported, and reflected on in the capital modelling.

The main elements of the company's risk management system are outlined in the company's Risk Management System Policy, describing, *inter alia*, the company's risk culture, risk strategy, risk appetite and risk tolerance as well as the organisation, responsibilities and reporting routines.

The Board establishes the company's high level Risk Appetite, and Risk Tolerance in compliance with the EIOPA guidelines on corporate governance (EIOPA-BoS-14/253). The Board delegates authority to the CEO, which specifies the level of risk that the business is allowed to operate within. Risk Appetite, and Risk Tolerance contains lines and limits, within Underwriting Risk, and Risk Tolerance Limits within all risk categories. Board approved statements for all risk categories give guidance and outline the boundaries for what level of risk the CEO can operate within. These are reviewed at least annually and adherence is monitored and reported to the Board on a regular basis.

Organisation

The risk management within the company is based upon the principle of the three lines of defence defined below:

- **First line of defence** constitutes business operations, including management
- **Second line of defence** constitutes the risk, actuarial and compliance functions
- **Third line of defence** constitutes internal audit.

The company's Board has the utmost responsibility for the company and is therefore also utmost responsible ensuring that the business handles the risks effectively and follows current regulations. The Board establishes internal requirements for how the risk management is to be conducted in the company and has established the Risk and Audit Committee which is authorized by the Board to monitor all aspects of risks faced by Nordic Guarantee within Board-approved risk appetite and the delegated authority as set out in policies, control limits and other mechanisms in relation to such risks. This includes:

- monitoring and support of the ORSA process, and review and recommend the ORSA report for the Board's approval
- review and recommend the SFCR/RSR reports for the Board's approval
- reviewing the proposed risk management strategies and recommend their approval to the Board
- reviewing the effectiveness of Nordic Guarantee's risk management framework
- recommending the framework of risk limits and risk appetite to the Board
- review and challenge risk information received from Nordic Guarantee Risk Management to ensure that Nordic Guarantee is not exceeding the risk appetite set by the Board
- monitoring and ensuring the effective co-ordination of risk management activities and internal control across all risk categories.
- following up on overall targets and action-plans

The CEO is responsible for implementing established guidelines regarding risk management and to ensure that guidelines are implemented and followed by the business. The CEO is also responsible for establishing instructions within the areas where the, established by the Board, guidelines provides information on how the business shall identify, assess, analyse, handle, control and report risks. The CEO is responsible for enabling the Risk Management and Compliance functions to fulfil their tasks in an effective and correct manner, and also ensure that the functions are organized in a way where they can perform their tasks objectively.

First Line- Business Operations

All the risks are owned and handled within the first line of defence, which means all employees are responsible for contributing to identifying and handling risks in their business unit. Responsible manager for respective business unit/function are consequently responsible for all of the risks stemming from their respective business unit. Responsible manager is therefore owner of the risks within their business unit/function.

The business is responsible for following all relevant guidelines related to the business work. The business is responsible for handling and identifying risks in such a manner that the limits, established by the Board, are not breached. Furthermore the business is responsible for continuously reporting occurred incidents in accordance with current instructions for said purpose.

Second Line - Risk Management, Actuarial and Compliance functions

The Risk Management function should support the Board, CEO and business in their work of maintaining an effective risk management system. The Risk Management function is responsible for follow up and control that the business identifies and handles all significant risks that the company is exposed to, or risks the company may be exposed to.

The Risk Management function shall provide an aggregated and independent reporting of the risks that the company is exposed to, or may be exposed to. To ensure independent reporting the Risk Management function is independent from the rest of the business and reports directly to the Board. The function reports the results of its controls to the Board.

The Compliance function shall be responsible for coordinating, follow up and reporting of the work within compliance to the Board, CEO and management. The function shall advise, support and control the compliance within the business. The function is furthermore responsible for executing necessary controls of the compliance of the business, both planned and ad hoc controls. The function shall, like the Risk Management function, be independent from the business.

The function reports results of controls and the business ability to comply with regulations to the board.

The Actuarial function shall ensure that the Company in a correct and suitable manner calculates and assesses the technical provisions, and shall also be responsible for verifying the Solvency Capital Requirement calculations. Furthermore the actuarial function is responsible for ensuring compliance with current regulations for the insurance technical calculations.

Third Line – Internal Audit

The company's Internal Audit function shall report directly to the Board and give support in the work with evaluating the internal regulations for governance and control which also includes the functions of Risk Management and Compliance. The Internal Audit function controls the internal controls performed by the functions and ensures the business complies with internal and external regulations. The function shall be independent in relation to the business and the second line of defence, providing independent assurance that the risk management framework is operating as intended.

Risk management process

Identification and Assessment

Risk identification and assessments can be conducted in many different ways, but are usually done in a group exercise, where participants brainstorm around risk categories and a facilitator captures all risks. The risks are then evaluated in terms of severity and frequency and are applied a risk rating. All major risks get an owner appointed and a mitigating action plan, with action owners and due dates.

The main risk identification and assessment exercise is the Portfolio Risk Rating, which is conducted on portfolio, and/or country level bi-annually, or at least annually. During the Portfolio Risk Rating, a number of relevant risk factors and sub factors are discussed in a meeting with portfolio owners and key people involved in the business. Red/amber/green ratings are applied to each risk factor. When deficiencies or areas of potential improvement are identified an action plan is developed with action owners and due dates. All actions are followed up on in subsequent Portfolio Risk Rating meetings. All portfolios get an overall rating which is reported to the Nordic Guarantee management team, and to the Board. The results from these assessments should feed into the ORSA, where the Board also is involved.

Key Risk Indicators ("KRIs") are identified and monitored on a regular basis. KRIs are identified within different Risk Categories, but mainly within Operational Risk (see section "C5. Operational risk" below). The KRIs give us a possibility to constantly monitor risk areas and identify adverse trends before these breach any set risk limits. The market risks are monitored via the financial risk reporting, which is done by the Finance Manager to, *inter alia*, the COO. The event and loss reporting, through the incident reporting process is also an important tool to monitor risk development.

Mitigation

Risks are managed through the control framework, i.e. policy statements, delegated authority structure, licenses, system controls and guidelines. The delegated authority structure contains general authority limits e.g. payment authority, and the underwriting and claims authority structure limits the underwriting and claims handling. In addition the underwriting and claims authority structure contains a license structure. Any breach of the license is unacceptable and could lead to disciplinary actions. As of 2018, passing an annual knowledge test and participating in a minimum amount of training activities is mandatory for all underwriters and other employees conducting insurance distribution, in order to obtain and renew their underwriting licenses. The knowledge test and the training is based on the requirement for such in local insurance distribution legislation.

Mitigating action plans to move risks to within appetite are developed and documented as a result of risk assessments and other risk identification tools. The plans will always contain action owners and will be followed up on a regular basis to ensure risks are managed as appropriate.

Reporting

Risks are regularly reported on to management, the Risk & Audit Committee and to the Board.

The risk reporting to the Risk & Audit Committee contains, as a minimum, the High Level Risk Profile with the attaching Mitigation Report, guarantee exposure information and information on claims development. High level risks should also be reported to the Board orally every four month period, following the discussions at the Risk & Audit Committee meetings, and shall include which actions have been made during the period within the area for risk management.

The report shall also contain:

- How earlier reported observations have been managed
- How the business risk exposure relate to risk appetite and risk tolerance
- Occurred incidents of significance
- The results of performed controls
- New identified risks
- Status on established action plans

The Risk Management function also compiles a written annual report summarizing the Risk Management functions activities during the reporting year.

Own risk and solvency assessment (ORSA)

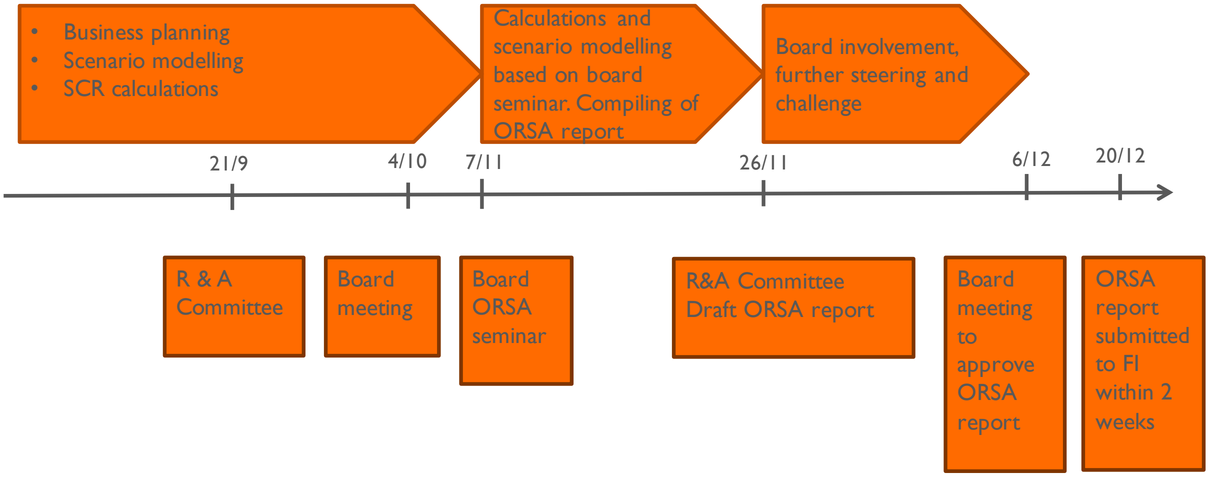
Process

The Risk function is responsible for the production of the ORSA process with support from the rest of the business. In the responsibility lies:

- Development of existing ORSA model
- Producing the whole ORSA report
- Valuation of operational risks and other risks

The ORSA is a bespoke strategic analysis process which links together the outputs of risk, capital and strategic planning, to determine the current and future capital requirements of the company, based on the business strategy and the business environment. The ORSA is also part of the risk management system, and includes risk profile, risk appetite and tolerance as well as business strategy in the process.

The ORSA is a multistep process in Nordic Guarantee. The illustration below shows the ORSA process for 2018. While dates may vary, ORSA processes in the coming years are planned to follow a similar multi-step structure.



Preparations for the ORSA process in 2018 have been done under the leadership of the company's COO, and the Risk Management function, and under the control of the company's Risk and Audit Committee.

The ORSA process starts off with stategic planning sessions which engages a number of functions to give input on the risks in the different parts of the business. The outcome of the statetegic planning sessions should result in a business plan, describing Nordic Guarantee's financial position, expected market development and strategy for the the upcoming three years after the current year, and also elements of capital planning and consideration.

The business plan forms the basis for the ORSA-specific seminar with the BoD. The seminar includes participants from the key functions and the management team. The COO and the Risk manager facilitates the seminar to make sure all risks and relevant aspects of the ORSA are covered. Together with the company's risk profile, the risk universe, a list of risks that are inherent from running an insurance business is added as input to the discussions and assessments in the seminar.

The Actuarial function is involved in some of the calculations and in verifying conclusions. A Board member participates in modelling the income statements and balance sheets for the coming years.

In preparation for the seminar, calculations of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"), based on the Solvency II standard model, are made based on the business plan and income statements and balance sheets are simulated for the three coming years. The income statements and balance sheets are based on a number of assumptions, which are all discussed and agreed upon by the Board.

During the seminar, the preliminary calculated MCRs and the SCRs are discussed and challenged in detail, regarding the assumptions behind the calculations and the results. To test the robustness and potential volatility of the business plan, different scenarios are agreed upon to apply a combination of stresses to the expected numbers in the plan. The Board takes an active part determining scenarios for stress testing. The intention when defining stressed scenarios is to simulate severe, but still plausible developments, from both a macro and a micro perspective. Both individually stressed factors, and combinations of stressed factors (scenarios) are agreed. The result of these stress tests give the Board insight in how different factors can put a strain on the capital requirements for the company. To give further information on the effect of the stressed scenarios, calculations includes simulating the development of available capital and own funds. The results and the findings are then presented and discussed in the Risk and Audit Commmittee before a draft ORSA report is compiled and submitted to the FSA.

Review and approval

Nordic Guarantee has assessed that the producing of ORSA once a year will be sufficient considering the background, the size and the complexity of the business. An ORSA shall, however, also be performed in the following cases:

- To assess a planned major change of the business
- When a major change of the company's risk profile has taken place or if the Board suspects the former to have happened
- In the cases where the company's solvency ratio falls below the risk appetite limit

The Internal Audit function shall continuously review the process for the ORSA and its results. The Board decides if an extra ORSA shall be performed.

Solvency needs

The ORSA process and the results of the forward looking Solvency Capital Requirement (SCR) calculations, based on the business plan for 2019 and the three years to follow, have demonstrated the company's ability to live up to both the internally agreed tolerance limit of own funds/available capital in relation to SCR, as well as the regulatory requirement. In 2018 the solvency ratio (according to the calculations in the ORSA) was predicted to be 145 percent. On actual year-end numbers, the solvency ratio for 2018 was calculated to 172 percent. In the business plan scenario, we can see a growth in solvency ratios during the forward looking three year period. If the business plan is executed there will be room for changes to the investment strategy to make it possible to achieve a higher yield on the investments.

The SCR calculations results for the stressed scenarios, in the ORSA showed a strain on the solvency ratios, but never to an extent that regulatory requirements would not be met. A capital injection, that was planned to happen in the new year, was conducted before year-end, which contributed to the increased solvency ratio. The capital injection was earmarked for an investment, which will be made during the year. The investment will trigger a higher capital requirement, but the additional capital will strengthened the own funds to the extent that healthy solvency ratios will be achieved.

SCR and MCR levels are monitored on a regular basis. They are reported on at each Risk & Audit Committee meeting as well as on every Board meeting. The SCR and the MCR are also reviewed for reporting purposes to the FSA every quarter, to be part of the QRT reporting. The target for own funds in relation to SCR is discussed and agreed at least annually in connection with the review of the Risk Appetite Policy in the Risk & Audit Committee and in the Board. In the ORSA seminar 2018, with the Board, the risk appetite for solvency ratio was discussed again. It was agreed to leave the risk appetite to require a solvency ratio above 120 percent, and with a tolerance down to 1,15 times the SCR (own funds / SCR = 1,15). If the solvency ratio approaches the lower threshold, discussions on how to restore the solvency ratio to a level closer to the target ratio should be initiated without delay. If the solvency ratio is found to be at a very high level, there should be considerations regarding possible changes in asset allocation, to enable greater risk and earning potential, or possibly dividends.

During the ORSA process, we have done whatever is reasonable to consider and discuss all risks. All quantifiable risks that are part of the Solvency II standard model have been thoroughly analysed. Furthermore, risks that are not included in the standard model have been considered and discussed in the process. Non quantifiable risks have been discussed, but have not given rise to any capital consequences. Risk management measures will help mitigate risks in an effective way to reduce the capital charge, at the same time as own funds will be strengthened by profits generated by execution of a robust business plan, and a more active asset management strategy.

B.4 Internal Control System

Lines of Defence

The internal control system at Nordic Guarantee is a continuous process carried out by the Board, management, the control functions and the employees.

Managers in the first line of defence at all levels of the organisation are responsible for risks, risk management and internal control within their own areas of responsibility.

Through the second line of defence, the control functions support management with tools for identifying, measuring, controlling and reporting risks, processes for compliance with laws, regulations and guidelines for insurance businesses as well as verification of insurance technical calculations. The second line's functions monitor, control, monitor and evaluate first-line controls, but can also perform their own, independent controls. The third line of defence, the Internal Audit function, reviews and evaluates the corporate governance system, including the first and second lines of defence.

Governing documents

To ensure that the company has an effective governance system, the Board has established a framework for governance, risk management and internal control. This framework consists of internal governing documents which specify how the Board governs the company's operations. The governing documents constitutes a system for effective management and clarifies duties, responsibilities and reporting obligations for the areas of governance, risk management and internal control. All governing documents are assigned an owner and are reviewed and adopted either by the Board or by the CEO/COO (with support from the Risk & Audit Committee on at least an annual basis).

Reporting arrangements

A large part of the company´s system of governance consists of clear and well-considered reporting lines. Clearly defined reporting lines to the CEO, COO, the different committees and the Board ensures that key information that has been identified in the operations reaches the respective party. Reporting is an important part of achieving an effective system of governance and to quickly take actions when risks are identified and reported. A majority of NG's reporting procedures are described in other sections of this report.

Compliance function

In the internal control system, the Compliance function is established within the second line of defence to support the management and the Board's responsibility for compliance with internal and external insurance regulations. The Compliance function has the right to monitor all of the organisation affected by the undertaking's license, and given access to any material or documents the function may need to carry out its tasks. The Compliance function does not participate in any of the services it controls, nor participates in any business decision, to enable its independence and avoid potential conflicts of interest.

The Compliance functions has three main processes where it is engaged:

1. Advice on regulatory and compliance topics
2. Monitoring and control of compliance with insurance regulations
3. Information and education on regulations and compliance issues

The Compliance function reports on an ongoing basis any incidents that may affect Nordic Guarantee's ability to be compliant. The Compliance function shall report immediately to the BoD if the function finds that the company deviates from what is considered as good internal control. The function shall also report immediately to the BoD if it finds material compliance breaches.

The Compliance function reports quarterly to the CEO. Whenever the Compliance function reports to the BoD, the CEO shall be informed of the content of the report, if the BoD hasn't given any other instructions. Written reports/updates on the Compliance Plan shall be given to the Risk & Audit Committee at their scheduled meetings (quarterly). In addition, the Compliance function shall compile a annual report to the BoD on controls and actions taken during the year. The reports shall also include evaluations made by the function and recommendations to the BoD. The Compliance function shall inform the CEO of the content in the report to the BoD, if the BoD hasn't given any other instructions.

B.5 Internal Audit function

The Internal Audit function is appointed by the Board of the Directors. The role of the Internal Audit function can, similar as for the risk management system, be explained by the principle of lines of defence, which has been described under sections B3 and B4, and is responsible for assessing the appropriateness and functionality of Nordic Guarantee's internal controls and processes and if they are implemented and carried out properly and effectively.

The Internal Audit function shall also assess the effectiveness of the Risk Management, Compliance and Actuarial functions and verify that they fulfil their tasks and responsibilities. Furthermore, they shall review outsourced functions carried out by a third party. This includes audit of written agreements, internal rules for outsourcing and instructions for contractors and monitoring of their implementation.

The Internal Audit function shall propose an annual internal audit plan, based on the recommendations from the Risk and Audit Committee, which should be adopted by the Board. The plan must cover the essential audit areas and should include a plan for future years, within which all areas must be audited.

Independence and objectivity

The internal audit is appointed by and reports directly to the Board. The Internal Audit function is independent of the operations to be audited and the persons carrying out activities within the Internal Audit function shall not assume any responsibility for any other function.

The Internal Audit function is outsourced to KPMG. The Chairman of the Board is internally responsible for this outsourcing. KPMG has no interests or business with NG that compromises function conducting audits in an independent and objective manner.

The absolute authority for management, internal information and internal controls lies with the Board. The audit and assessment carried out by the Internal Audit function does not relieve any of Nordic Guarantee's functions of their responsibility for internal controls.

B.6 Actuarial function

The Actuarial function, is currently outsourced. An non-executive Board member is responsible for the outsourcing of this key function. The actuary reports to the COO and to the Risk & Audit Committee. The Actuarial function shall assist the Board and CEO and report on its own initiative to them in matters relating to:

- methods, calculations and assessments of technical provisions for solvency purposes and financial accounting,
- evaluating insurance risks as well as
- reinsurance and risk mitigation techniques

The Actuarial function shall coordinate and ensure the appropriateness of the calculations and assessments of the technical provisions. Regarding the calculation of the technical provisions, the Actuarial function shall:

- Assess whether the information technology systems used to provide data for the calculation of technical provisions sufficiently support the actuarial and statistical procedures;
- Ensure that the data used in the calculations are complete, relevant and correct;

- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and that they are performed on homogeneous risk groups which reflect the nature of the underlying risks of the company;
- Assess the uncertainty associated with the central estimates of the technical provisions;
- Perform a run-off analysis where the development of the technical provision calculated for previous origin years is compared with the outcome;

The Actuarial function shall also:

- Express an opinion about the underwriting policy regarding the sufficiency of the premiums to be earned to cover future claims along with expenses and regarding anti-selection;
- Express an opinion about the adequacy of reinsurance arrangements regarding the company's risk profile and underwriting policy, the reinsurance providers taking into account their credit standing, the expected cover under stress scenarios and the calculation of the amount recoverable from reinsurance contracts;
- Contribute to the effective implementation of the risk management system and to the ORSA process, and
- Update the company's Technical Guidelines and Basis for Calculations when needed.

The Actuarial function shall, once a year, produce a written report to be submitted to the CEO and to the Risk & Audit Committee. The report shall document the calculations of the technical provisions, the tasks performed during the year by the Actuarial function and its findings and shall also provide recommendations as to how any deficiencies could be resolved.

During 2018, there have been no changes to the tasks to be performed by the function.

B.7 Outsourcing

The policy contains information about the requirements for the outsourcing of critical or important operational functions or activities such as, *inter alia*, key functions, IT and systems and claims handling and if the outsourcing complies with acts, FSA's regulations or other statutes.

The BoD shall decide on outsourcing of operations and functions of major importance. The CEO is responsible for ensuring that the BoD has relevant and complete documentation for making an informed decision regarding outsourcing of operations or functions. The documentation should contain an analysis of the operation or the function which are subject for outsourcing.

The CEO can decide on outsourcing of other operations and functions that are not of major importance.The BoD and CEO retain full responsibility for operations even after they have been outsourced.

Operations and functions of major importance are operations and functions that are necessary for conducting the Company's licensed operations, such as:

- Key functions

- IT and Systems
- Claims handling

Before the BoD and the CEO can decide on outsourcing of any operations, an impact analysis of the possible outsourcing shall be conducted and documented. Before outsourcing operations and functions of major importance the Company must ensure that:

- The quality of the system of governance does not get affected negatively
- The operational risk does not increased substantially
- The supervision by the FSA does not get affected negatively
- The policy holder's right to regularly get support from the Company does not get affected
- There are no potential conflicts of interests

Before the Company outsources any operations, both operations of major importance and other operations, the Company should ensure that:

1. the contractor will co-operate with the FSA regarding questions that are subject for the outsourcing agreement
2. the contractor gives the Company's internal audit and the FSA access to information regarding the outsourced operation
3. the contractor gives the FSA access to the contractor's facilities

The Finance Manager is responsible for keeping a register for outsourced operations and functions including information about the responsible person at Nordic Guarantee for the outsourced operation or function and the contact person at the provider. The CEO appoints the responsible person. If Nordic Guarantee outsources a key function, the responsible person shall always undergo an internal fit and proper assessment according to Nordic Guarantee's Fit and Proper Policy for Key Functions and also undergo an external fit and proper assessment by the FSA, while the employees carrying out assignments within the outsourced function must undergo an internal fit and proper assessment.

The person responsible for the outsourced activity shall regularly, at least once a year, control the outsourced activity, the compliance with the written agreement of the outsourced operations and other relevant elements such as co-operation with Nordic Guarantee. Observed deviations should be reported to the CEO and serious breaches to the CEO and Compliance function. The CEO should take necessary action to manage the breach.

All of Nordic Guarantee's outsourced functions operate within Sweden's jurisdiction.

B.8 Any other information

Adequacy of the system of governance

The company considers the system of governance to be adequate in relation to the nature and scale and complexity of the risks inherent in the business.

Any other material information

Other than what has been reported under this Section B, there is no other material information to report regarding the system of governance of the company .

C. Risk Profile

Risk Sensitivity

The SCR and the Minimum Capital Requirement ("MCR") have been calculated on the year-end figures for 2018 in accordance with the Solvency II standard model. The company uses software from "Solvency Tool" to do the calculations. See the table below for detailed results.

Market Risk	6 380 875
Interest Risk	119 715
Equity Risk	-
Property Risk	-
Spread Risk	4 731 087
Currency Risk	3 222 666
Concentration Risk	340 912
Diversification	- 2 033 505
Counterparty Default Risk	11 938 503
Type 1 exposures	6 924 902
Type 2 exposures	5 831 198
Diversification	- 817 597
Non-Life Underwriting Risk	93 270 700
Premium and Reserve Risk	70 417 521
Cat Risk	46 040 811
Diversification	- 23 187 632
Intangible Asset Risk	-
Diversification between modules	- 9 944 405
BSCR	**101 645 673**
Operational Risk	7 112 890
Adjustments	-
SCR	**108 758 563**
MCR	38 485 550
Own Funds	**187 085 196**
Surplus/Deficit	78 326 633
Solvency Ratio	**172%**

Following input from the Board, different stressed scenarios that are severe, but plausible has been defined and analysed during the ORSA process 2018. Three adverse scenarios were defined:

Stressed Scenario #1. A scenario, where we see increased default rates and consequently substantially increased claims ratios. This development spills over on reinsurers that will suffer from downgrading in terms of credit quality and they will raise the premiums for excess of loss reinsurance treaties. One could assume that a scenario like this would have effect on the top line as well, but we have chosen to leave the top line unchanged to get a better picture of how increased claims ratios, downgrading of reinsurers credit quality, and cost of reinsurance will affect capital charge in isolation. If such a development is seen, it is likely that top line will decrease, if not automatically, at least intentionally, to adjust to a more unstable and volatile environment. Most likely the underwriting guidelines and the risk appetite would be adjusted to the new conditions.

In this scenario we have increased the gross claims ration by 100 percent for each of the three years 2019-2021. We have increased the reinsurer's share of the gross claims by ten percentage points. All reinsurers have been downgraded by one credit quality step, and the cost of excess of loss reinsurance has increased by 20 percent from 2020. All other assumptions have been left unchanged.

Stressed Scenario #2. A recession scenario where we see increased default rates and consequently substantially increased claims ratios. As opposed to scenario #1 we have here anticipated that there will be no growth, as the markets develop adversely. This effect is only to be seen in 2020 and 2021 though, as it could take some time to react, and change the market approach.

In this scenario we have increased the claims ratio in 2019 by 200%, in 2020 by 100%, and in 2021 by 50%, compared to the expectations in the business plan. All reinsurers have been downgraded by one credit quality step from 2020 and onwards, and the cost of excess of loss reinsurance has increased by 20% from 2020 and onwards. All other assumptions have been left unchanged.

Stressed Scenario #3. This is a scenario where we see a faster growth than expected. The growth in top line is unfortunately followed by increased claims ratios towards the latter part of the period. This is a combination of increased volatility in the markets and a market approach that is too heavily focused on top line growth.

In this scenario we have increased the claims ratio by 200% in 2020 and by 100% in 2021. The premium for excess of loss reinsurance has been increased by 20% from 2020 and onwards. The top line growth has been boosted by an additional 10-15% from 2019 and onwards. All other assumptions have been left unchanged.

Reverse stress tests

In addition to the scenarios described above, discussions have been held regarding reverse stress tests. No detailed calculations have been made regarding reversed stress tests. In the extreme event of large claims being made in combination with failure to collect on reinsurance recoveries could potentially reduce the own funds to a level where even MCR would be difficult to achieve. This could be the case if we were to write large policies for risks that are excluded from reinsurance, and claims are made on those. Such an event is, however, highly unlikely to happen. The company is aware of this risk, and thorough processes and controls are in place to prevent an event like that from happening.

Analysis of scenario effects on capital requirements, and capital base / own funds

In the stressed scenario #1, the most significant adverse change, compared to the business plan scenario, is the development of own funds. The SCR is moving upwards, but not in any dramatic way. The scenario generates losses for 2019, taking the solvency ratio down to a level slightly above the risk tolerance limit. The solvency ratio remains on a low level during the whole three year period, but never goes below tolerated levels.

In the stressed scenario #2 where the business is slowing down, in combination with extreme increases in claims ratios, the effect on the solvency ratio will be severe in the first year, but slowly recovering over the three year period. The MCR is never threatened.

The stressed scenario #3, with the more aggressive growth rate, will generate higher SCRs than the normal scenario. The increased top line will drive the underwriting and reserve risk to substantially higher levels. At the same time own funds will be severely hit by increased claims ratios in 2020 and 2021. Market risk will remain fairly stable, whereas counterparty default risk will increase substantially, due to higher claims volume being covered by reinsurance. Own funds decrease over the whole period. The underwriting and reserving risk increases sharply due to the higher volumes already in 2019. In 2020 and 20121 the increased claims triggers even sharper increases in the reserve risk. The negative effects reach the bottom in 2020 when solvency ratio reaches an unacceptable level and triggers management actions. The solvency ratio will, however pick up again in 2021 when it surpasses the risk appetite level.

C.1 Underwriting risk

The Company's main risk driver is the non-life underwriting risk, which is natural, as that is a desired risk. The non-life underwriting risk contains premium and reserve risk. Premium risk relates to future claims arising during and after the period for the solvency assessment. The risk is that the expenses plus the volume of losses for these claims are higher than the premiums received. As premium risk is volume driven, and as growth is expected, we can assume this risk will increase when executing our business plan. During the previous year, however, it was decided to increase the ceding to reinsurers, to enable growth at the same time as reducing the retained risk and hence the capital charge.

The non-life underwriting risk accounts for approximately 80 percent of the total basic solvency capital requirement (before diversification effect between modules) in 2018.

The reserve risk stems mainly from uncertainty in the level of the claims provisions. During the year, we have seen significant improvements in claims handling efficiency and hence a reduction in the number of open claims cases. Also the increase in cessions to reinsurers is believed to reduce the company's net claims reserves.

The sub module man-made catastrophe risk is somewhat volume driven (the recession scenario in the standard model), and also dependent on reinsurance protection regarding large exposures. Since the second half of 2015, there has been changes to the reinsurance protection that reduces the catastrophe risk. It is important, however, to realise that mitigation by reinsurance contributes to the counterparty default risk. The company is exposed to large exposures, both on an aggregated level and on single risk level. To protect the balance sheet and the interests of policy holders, reinsurance is purchased.

C.2 Market risk

Market risk is defined as the risk arising from the level or volatility of market prices of financial instruments, which have an impact upon the value of assets and liabilities of the undertaking. Market risk consists of the following sub risk categories:

- **Interest rate risk**
  The sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

- **Spread risk**
  The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.

- **Currency risk**
  The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

- **Market risk concentrations**
  Additional risks stemming, either from lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers.

The market risk in the company, up until the end of 2018, has mainly been driven by spread risk, which is a consequence of investing in corporate bonds. Assuming a planned investment follows through, will trigger equity risk and market concentration risk. The investment will be categorized as strategic participation type II equity risk and trigger an equity risk charge of 22 percent. Market concentration risk will be the biggest contributor to capital charge, since a high risk factor will apply to the large concentration of unrated investment. The currency risk is quite limited, given the assumption that we will have a mismatch of maximum TSEK 500 per currency, and that the currency risk for the investment will be hedged. Holding substantial amounts in cash will enable mitigating the currency risk by moving cash between accounts in different currencies. The high charges for equity risk and market concentration risk yields a substantial diversification effect within the market risk module.

Prudent Asset Management

The primary aim for the asset management is to always have enough eligible capital to cover for technical provisions, including a buffer in accordance with the Company's Risk Appetite Policy

Statement. The asset management should always consider the level of risk in order to optimize the use of capital.

The strategy for the asset management must be compliant with laws and regulations, in particular with the Swedish Insurance Business Act and should be done in a prudent manner. Investments should primarily be done to secure the interests of policyholders and beneficiaries.

Investments can only be done in financial instruments and assets in which the risks can be identified, monitored, managed, controlled and reported by the company, and that can be considered in the ORSA.

C.3 Counterparty default risk (Credit risk)

Nordic Guarantee equates credit risk with counterparty default risk and defines the risk as of possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors over the forthcoming twelve months. This risk category is separated into two categories:

1. **Counterparty risk in reinsurance contracts**
   The risk of losses due to the reinsurer not meeting its commitments and that collateral does not cover claims, and

2. **Other counterparty risk**
   The risk of losses due to other counterparties not fulfilling their obligations and that any collateral does not cover the claim.

Counterparty default risk is the risk category that is the second largest driver of capital requirement. The risk is mainly driven by large dependencies on reinsurers' ability to honour their commitments. Nordic Guarantee has large exposures, and are dependent on support by reinsurers, especially, potential man made catastrophe events pushes the level of counterparty default risk upwards. The sub module man-made catastrophe risk is somewhat volume driven (the recession scenario in the standard model), and also dependent on reinsurance protection regarding large exposures. Since the second half of 2015, there has been changes to the reinsurance protection that reduces the catastrophe risk. It is important, however, to realize that mitigation by reinsurance contributes to the counterparty default risk.

The panel of reinsurers are, however, rated financially strong, and hence give more mitigation effect than default counterparty default risk capital charge. The substantial level of counterparty default risk on reinsurers derives from that Nordic Guarantee protects very large exposures by ceding the major portion of the risk to reinsurers. This is especially observed in the case of man-made catastrophe risk where the catastrophe scenarios are strongly mitigated by reinsurance arrangements.

In 2017 a large portion of the company's bank deposits were re-allocated to investments, which contributed to reducing the counterparty default risk to others than reinsurers.

The counterparty default risk is one of the desired risks of our risk strategy, and is therefore accepted as a large contributor to the capital requirement. Counterparty default risk is one of the desired risks, but yet the company has limited appetite.

C.4 Liquidity risk

Liquidity risk is defined by Nordic Guarantee as the risk that the company is unable to realize investments and other assets in order to settle its financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all cash outflow commitments (both on and off-balance sheet) as they fall due. These commitments are generally met through cash inflows, supplemented by assets readily convertible to cash.

The company's assets are heavily weighted towards readily available cash assets, and investments are placed in a way that they can be converted into cash quickly, and without any significant losses. The business is generally cash positive, as premiums are paid in advance.

Expected profits included in future premiums amounts to 7,7 MSEK as per December 31, 2018.

C.5 Operational risk

Nordic Guarantee defines operation risk as the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events. The operational risk is separated into the following subcategories:

- **Product and process risk**
  The risk of losses due to established processes not working, not being known or, not being fit for purpose.

- **Personnel risk**
  The risk of losses due to the lack of clarity in responsibilities, inadequate skills in relation to the functions or that there is not enough staff in relation to the tasks. Other risks may include conflict of interest for staff as well as deviations from statutory duty of confidentiality.

- **Security risk**
  The risk of losses due to exposure to external or internal crime irregularities.

- **IT risk**
  The risk of losses due to IT systems not being available to a predefined extent or not being safe enough.

- **Legal risk and compliance risk**
  The risk of loss due to failure to comply with laws, rules and regulations.

Operational risk is an unwanted risk. The company's ambition is to minimize its exposure to this risk as far as reasonable. To totally eliminate operational risk is not possible, but prudent corporate governance and risk management processes will keep it on an acceptable level.

The company captures and measures the operational risk in risk assessment exercises, and through its incident reporting and management process. The most obvious operational risks in the company are the people related risks, such as key person dependencies, and the IT related risks. The company is reliant on functional IT systems, and back-up procedures. No material changes to these risks have been identified during the reporting period.

The operational risks are quantified as the higher of a premium based risk component, and a provision based risk component. It is NG's ambition to minimize operational risks as far as possible, since, in the company's risk strategy, these risks are considered unwanted.

C.6 Other material risks

Business risk

Business risk is defined as the risk of losses due to the effects of strategic decisions, poor earnings and rumours.

- **Strategic risk**
  The risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

- **Revenue risk**
  The risk of losses due to an unexpected decline in revenues, including volume declines or an unexpected increase in the cost of, for example, weak labour productivity.

- **Reputational risk**
  The risk of potential loss to the company through deterioration of its reputation or standing due to a negative perception of the company's image among customers, counterparties, shareholders and/or supervisory authorities.

The business risk is not quantified separately in the SCR and MCR calculations. The company does, however, control the business risks by applying a thorough strategic and business planning process, involving owners, Board, and management. The budget and forecast processes give possibilities to react to changes in business environment, and swiftly change strategic initiatives. A reduction in top line performance could impact earnings and impair cost ratios. This is a risk, which is known to all stakeholders, and is frequently reviewed, in order to take necessary actions when the situation demands it.

Concentration risk within the insurance business

Concentration risk for an insurer may arise with respect to investments in one geographical area, economic sector, or individual investments, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered. The investments in the company's portfolio are spread over all the Nordic countries as well as over Europe. It mainly consists of governmental bonds and bonds issued by international investment banks.

Since a majority of the policies are covering construction related performance and maintenance bonds, a downturn in that specific industry could have a negative effect on the company's business, both in terms of a decline in gross premiums written, and increased claims frequency and costs. There is a strategy, however, to diversify the portfolio, and spread the risks over a broader spectrum of industry fields. Furthermore, the risk is mitigated as the company operates in four countries.

C.7 Any other information

There is no other material information to report regarding company's risk profile.

D. Valuation for Solvency Purposes

D.1 Assets

Valuation

The valuation of assets based on IFRS compared to Solvency II is shown in the following table (as of 2018-12-31):

Assets	IFRS	Reclassification	Revaluation	Solvency 2
Intangible assets	4 376 101	4 376 101	4 376 101	0
Deferred tax	8 566 107	8 566 107		8 566 107
Tangible assets	3 618 607	3 618 607		3 618 607
Financial investments	174 198 835	174 198 835		174 198 835
- where of corporate bonds	4 711 388	4 711 388		4 711 388
- where of portfolio of fund investments	168 907 851	168 907 851		168 907 851
- loans	579 595	579 595		579 595
Reinsurers share of technical provisions	136 236 878		137 625 196	137 625 196
Insurance receivables	28 945 075	28 945 075		28 945 075
Reinsurance receivables	13 004 096	13 004 096		13 004 096
Cash and cash equivalents	123 299 716	123 299 716		123 299 716
Any other assets	13 702 013	13 702 013		13 702 013
Total assets	**505 947 428**			**505 947 428**

Intangible Assets

Intangible assets are valued at cost less accumulated amortisation and there is no difference between IFRS and Solvency II valuation.

Deferred tax

Deferred tax is calculated using the balance sheet method based on temporary differences between carrying amounts and tax bases of assets and liabilities. The valuation of deferred tax is based on how underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated applying the tax rates and tax rules adopted or adopted in practice as at the balance sheet date. Deferred tax assets for tax-deductible temporary differences and the carry-forward of losses are recognised only to the extent it is likely that it will be possible to utilise these items. The value of deferred tax assets is derecognised when it is no longer deemed likely that they can be utilised. Any future income tax arising in connection with dividends is recognised at the same time that the dividend is recognised as a liability. There is no difference between IFRS and Solvency II valuation.

Tangible fixed assets

Tangible fixed assets are recognised at cost after deduction of accumulated depreciation and any impairment, plus any appreciation. There is no difference between IFRS and Solvency II valuation.

Financial instruments

Financial instruments are recognised as assets in the balance sheet include fund units and interest-bearing securities. There is no difference between IFRS and Solvency II valuation.

Reinsurers' share of technical provisions.

The reinsurers' share of technical provisions is valued according to the same principles as the gross value of technical provisions. The valuation methods for the technical provisions are described in D2.

Receivables, cash and bank balances

Receivables, cash, bank balances and other prepaid expenses and accrued income are classified at fair value. There is no difference between IFRS and Solvency II valuation.

D.2 Technical provisions

Valuation of technical provisions

The technical provisions are calculated as the sum of a best estimate and a risk margin. The value of the technical provisions as at 2018-12-31 is shown in the following table:

Technical Provisions as at 2018-12-31 (KSEK)	
Best estimate	237 096
Riskmargin	14 238
Total	251 334

Principles and methods

The technical provisions shall cover the expected value of the cost to finalize incurred claims ("claims provision") and the expected claims cost for future claims in respect of contracts in force ("premium provision"). In addition to these two quantities, a risk margin corresponding to the additional amount that a company would require to take over and fulfil the obligations in the existing contracts, is added.

Best estimate

The claims provision and premium provision are valued on a best estimate basis, meaning the probability weighted average of future cash flows, discounted with the risk-free interest rate of the respective currency published by EIOPA. The payment patterns used in the calculations are derived with the chain ladder method applied on the company's own historical payment triangle data. The payment patterns are assessed separately for payments gross and for payments net of the reinsurers' share.

Premium provision is the discounted probability weighted average of future cash inflows and cash outflows for contracts under risk where consideration is also taken to the administration costs for these contracts. The assessment of these expected future cashflows is based on the company's budgeted claims ratio and administrative cost ratio.

Claims provision consists of claim reserves for incurred and not yet settled claims and provision for claims handling costs. The claim reserves are calculated using the chain ladder method which depends on historical claims development data. Based on development factors and reported claims cost, the expected final claims cost is assessed, from which the claim reserve is calculated.

The provision for loss adjustment expenses is calculated by using an activity-based cost model taking into consideration the different activities needed to administer incurred but not paid claims and their respective costs. Also, this provision is discounted by using the risk-free rate term structure for the currency of the insurance contract.

The reinsurance recoverables are adjusted for counterparty default. The probability of default is considered constant during the whole run off period and is equal to the current rating of each counterparty.

Best estimate amounts to KSEK 237 096 and reinsurers' share to KSEK 137 625.

Risk margin

The risk margin is calculated as the discounted solvency capital requirement for all future run-off years, multiplied by the cost of capital rate given by the regulator, currently 6%. The calculation of the solvency capital requirement for future run-off years is made in accordance with Method 2 of EIOPAs Guidelines on Valuation of Technical Provisions. Accordingly, the solvency capital requirement is assumed to decrease at the same rate as the sum of best estimates of premium reserves and claims reserves, net of reinsurance decrease.

When calculating the solvency capital requirement for each future run-off year the market risk is assumed to be nil. Counterparties are assumed to maintain the same rating during the whole run-off period. Only type 1 exposures relating to reinsurance is included in the counterparty risk calculation and the reinsurance recoverables are assumed to decrease at the same rate as the provisions gross of reinsurance.

The discounting is performed by using the term structure for SEK.

The risk margin amounts to KSEK 14 238.

Reconciliation of the technical provisions between the financial accounting and Solvency II

The table below shows the amounts of provision held in the financial statements and the provisions calculated for solvency purposes and the differences between these.

SEK	**IFRS**	**Solvency accounting**	**Difference**
Gross			
Premium provision	140 927 542	104 473 031	-36 454 510
Claims provision	132 914 423	132 623 290	-291 132
Risk margin		14 238 320	14 238 320
Total	**273 841 965**	**251 334 642**	**-22 507 323**
Reinsurance recoverables			
Premium provision	81 713 849	81 490 501	-223 348
Claims provision	54 523 029	56 238 043	1 715 015
Adjustment counterparty default		-103 348	-103 348
Total	**136 236 878**	**137 625 196**	**1 388 318**
Net	**137 605 086**	**113 709 446**	**-23 895 641**

The total difference between the provisions net of reinsurance calculated for these purposes amounts to KSEK – 23 896.

There are primarily five reasons behind the differences between the two regimes and these are:

1. Different valuation principles for calculating the premium provision: The definition of unearned premiums items doesn't exist within Solvency II. Instead the premium provision described above is used. The effect of the different valuation principles used amounts to KSEK -35 232.

2. Redundancy in the held provisions for loss adjustments expenses: In the financial accounts no reinsurer's share is held in the reserve for loss adjustments expenses. This implies a prudent margin which is considered redundant according to the principles used in the Solvency II calculations. The effect of the redundancy in the provision used in the financial statements amounts to KSEK -1 836.

3. Discounting effect: The cash flows from the technical provisions calculated for solvency purposes are discounted with the risk-free rate term structure for the currency of the insurance contracts while the technical provisions shown in the financial report are undiscounted. The discounting effect amounts to KSEK -1 169.

4. Adjustment for counterparty default: Receivables from counterparties need to be adjusted for counterparty default. This affects both the receivables due to premium provision and claims provision from the reinsurers. The effect of the adjustment amounts to KSEK 103.

5. Risk margin: There is no risk margin in the financial accounts while the risk margin is part of the technical provisions calculated by Solvency II principles. The risk margin amounts to KSEK 14 238.

Specification of causes of the differences between the accounting regimes

Specification of causes	Difference net of reinsurance (KSEK)
Valuation principles	-35 232
Redundancy	-1 836
Discounting effect	-1 169
Adjustment counterparty default	103
Risk margin	14 238
Total	**– 23 896**

Degree of uncertainty linked to the assessment of the technical provisions

The calculation of the technical provisions is based on assumptions about future claims, which inevitably involves uncertainty. As regards the claims provision, it concerns claims that already have occurred and are known to the company. Therefore, the uncertainty is slightly less than for the premium provision, where future claims payments concern claims that have not yet occurred, and thus the uncertainty is considered being bigger. The fact that the company underwrites multiannual agreements, which implies that the premium provision extends over several years, also increases the degree of uncertainty.

All assumptions about future events involve uncertainty, not only about claim cost development but also assumptions about the risk-free interest rate and inflation. How the construction sector develops in general is also a source of uncertainty, especially in terms of premium provision.

In order to reduce uncertainty, the company has bought reinsurance protection to reduce the volatility of the claims development. In addition, the development of individual claims as well as claim portfolios are regularly monitored to enable adjustments of assumptions in the calculation models.

Other methods and principles

When calculating technical provisions, the company has not applied any of the following methods and principles set forth in the Insurance Business Act:

- matching adjustment
- volatility adjustment
- the transitional risk-free interest rate-term structure
- the transitional deduction

Recoverables from reinsurance contracts and special purpose vehicles

The Company has both proportional and non-proportional reinsurance cover. The adjustment of the reinsurers' share of technical provisions are adjusted for counterparty default are described under section "Best Estimate" above. No special purpose vehicle is used.

Material changes in the relevant assumptions

No material changes in the relevant assumptions made in the calculation of technical provisions have been made compared to the previous reporting period.

D.3 Other liabilities

The value of insurance, reinsurance, intermediaries and other payables is 22 183 KSEK in Statutory Balance Sheet. The value of accrued expenses is 41 942 KSEK. No adjustment is required to these valuations for the valuation for solvency purposes as the amounts held under IFRS measurement principles are deemed to be approximations of fair value.

The valuation of liabilities based on IFRS compared to Solvency II is shown in the following table (as of 2018-12-31):

Liabilities	**IFRS**	**Reclassification**	**Revalutation**	**Solvency 2**
Insurance liabilities	10 409 435	10 409 435		10 409 435
Reinsurance liabilities	11 773 158	11 773 158		11 773 158
Any other liabilities	42 357 214	42 357 214		42 357 214
Total liabilities	338 381 772			315 874 448

Under IFRS 4, contracts that carry a significant insurance risk must be classified as insurance. Following a review of all products, the company decided that all products must be regarded as insurance. Actuarial provisions consist of provisions for unearned premiums and protracted risks, plus provisions for unsettled claims. For the differences between the valuation according to IFRS and Solvency II, please see Section D2 above.

Liabilities and other prepaid expenses and accrued income are valued at fair value in the annual report. There is no difference between IFRS and Solvency II valuation in this regard.

There are no material changes to the information provided under this section compared to the previous year.

D.4 Alternative methods for valuation

The company does not use any alternative valuation methods for assets or liabilities.

D.5 Any other information

There is no other material information to report regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E.1 Own funds

The company is a single shareholder entity whose shares are fully paid up. It has no debt financing. The Company's own funds are primarily invested in cash deposits in bank accounts or in interest bearing assets. The ratio of eligible own funds to SCR should, according to the company's Risk Appetite Policy, be more than 120 %.

Equity in the Statutory Balance Sheet, KSEK:

Share capital	50,000
Statutory reserve	10,000
Restricted equity	60,000
Profit brought forward	126,515
Share premium reserve	11 150
Profit for the year	- 30 099
Non-restricted equity	107,566
Total Equity	167,566

The eligible amount of own funds to cover the SCR is 187,085 KSEK, 178,519 KSEK is tier 1 capital and 8,566 KSEK is tier 3 capital. The ratio of eligible own funds to SCR is 172 %. The company received an unconditional shareholders contribution of 80 MSEK during 2018.

Eligible Own funds to meet SCR, KSEK:

Ordinary share capital	50,000
Share premium related to ordinary share capital	10,000
Reconciliation reserve	118,519
An amount equal to the deferred tax assets	8,566
Total own funds	187,085

The eligible amount of own funds to cover the MCR is 178,519 KSEK, all tier 1 capital. The ratio of eligible own funds to MCR is 464 %.

Eligible Own funds to meet MCR, KSEK:

Ordinary share capital	50,000
Share premium related to ordinary share capital	10,000
Reconciliation reserve	118,519
Total own funds	178,519

The difference between Total Equity in Statutory Balance sheet and Eligible Own funds to meet SCR according to Solvency II is 19,520 KSEK.

1,389 KSEK relates to the Solvency II valuation of the reinsurance recoverable asset, 22,507 KSEK relates to the Solvency II valuation of the technical provision, including the added risk margin and 4,376 KSEK relates to intangible assets.

The difference between eligible own funds to meet SCR and eligible own fund to meet MCR is an amount equal to the deferred tax asset of 8,566 KSEK.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The company uses the Solvency II standard formula to calculate the SCR and the MCR. The table below shows the SCR for each of the standard formula risk modules and the diversification effects within modules and between modules. As mentioned above, the solvency ratio according to the calculations in the ORSA was predicted to be 145 percent. On actual year-end numbers, the solvency ratio for 2018 was calculated to 172 percent.

Market Risk	6 380 875
Interest Risk	119 715
Equity Risk	-
Property Risk	-
Spread Risk	4 731 087
Currency Risk	3 222 666
Concentration Risk	340 912
Diversification	- 2 033 505
Counterparty Default Risk	11 938 503
Type 1 exposures	6 924 902
Type 2 exposures	5 831 198
Diversification	- 817 597
Non-Life Underwriting Risk	93 270 700
Premium and Reserve Risk	70 417 521
Cat Risk	46 040 811
Diversification	- 23 187 632
Intangible Asset Risk	-
Diversification between modules	- 9 944 405
BSCR	**101 645 673**
Operational Risk	7 112 890
Adjustments	-
SCR	**108 758 563**
MCR	38 485 550
Own Funds	**187 085 196**
Surplus/Deficit	78 326 633
Solvency Ratio	**172%**

Inputs used to calculate the Minimum Capital Requirement

All the inputs described in Articles 248- 253 have been used, where, due to the limited volumes of the company's business, the absolute floor for the minimum capital requirement is applicable, and has been calculated according to article 253 paragraph 2.

Material change to the Solvency Capital Requirement and to the Minimum Capital Requirement

There has been no material change to the SCR and MCR over the reporting period.

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

This is not applicable to Nordic Guarantee.

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

There are no differences to report as Nordic Guarantee only uses the standard formula.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During the reporting period the company was fully compliant with minimum capital requirement and solvency capital requirement.

E.6 Any other information

There is no other material information to report regarding the capital management of Nordic Guarantee.

Appendix – QRT Templates 2018