Nordic Guarantee Solvency and Financial Condition Report 2019

Approved by the Board of Directors on April 7 , 2020

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Major developments after 2019

The company's investigation of the possible impact covid-19 will have on our business, our customers and other stakeholders, the markets we operate in and the capital requirement, is in its initial stage by the time of submission of this report (April 7, 2020). It is , of course, top of mind and we are in regular communication with our board and shareholders.

In the event of any major development significantly affecting the relevance of the information disclosed in this report for 2019, Nordic Guarantee shall disclose appropriate information in the form of amendments supplementing the initial reports, both through submission to the Swedish Financial Authorities (SFSA), and publication on the website.

Summary

This document is the fourth 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 for the reporting year 2019. 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.

The company has been in operation since December 2003 and is licenced to write non-life insurance risks, classes 15 (surety) and 9 (other property damage). Since 2006, only class 15 (surety) insurance has been written. Nordic Guarantee Försäkringsaktiebolag's head office is in Kista, outside Stockholm, Sweden, and its operations are carried out in Sweden and through branches in Norway, Finland and Denmark. As of April 2019, the company is also registered for cross-border business in a number of countries within EU. At the end of 2019 the company employed a total of 40 people.

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, and the United Kingdom. Nordic Guarantee also has a cooperation with Lombard Insurance Company Limited ("Lombard"), the leading provider of surety insurance in Southern Africa. The company has during the year acquired a 31% stake in Lombard Australia Holdings Pty Limited, who in turn acquired 100% in an Australian insurance group, Assetinsure Holdings Pty Limited, based in Sydney Australia. Assetinsure Holdings Pty Limited's main class of insurance business is surety/guarantees.

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. The focus area for the year has been to decrease the risks within the portfolio and this has been achieved. Due to the decreased risk appetite the company's premium income increased by 5% compared to an increase of 20% in the prior year. Claim costs for own account decreased during the year and 18% is attributable to claims that incurred in previous years. A tightening of operating costs and decrease in staffing resulted in costs declining by 8% during the year.

The company has continued to make strides forward in the development of a sustainable business model and ended the year on a small profit before tax of KSEK 756 (2018 : Loss of MSEK 29,9).

The prospects for the company to achieve increased premium volume and lower claims costs are considered good. The Nordic Banks still dominate the guarantee/surety market. The company's product offering provides an attractive alternative to the banking solution, primarily due to banks' requirements for collateral and the simpler administrative functions employed by the company.

The work in recent years to change the risk profile of the company's exposures has yielded results and this work will continue. The long duration of insurance contracts does take time, however, 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

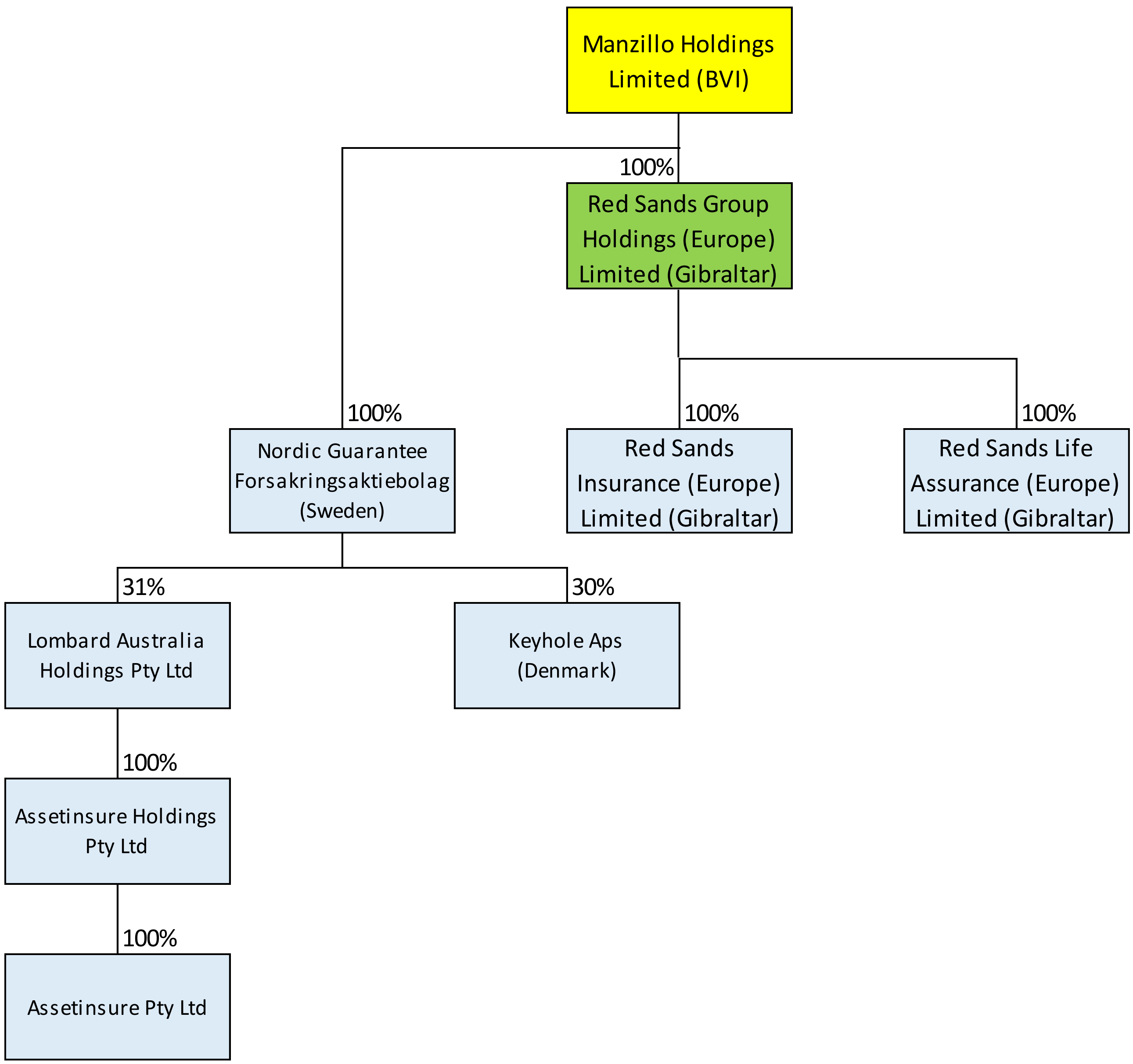
Qualifying holder(s):

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 and Australia. Two investments have been made during 2019, resulting in shares in an Australian surety company, Assetinsure, and a Danish underwriting agency, Keyhole. The organisational chart below illustrates the current structure.



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 as of end of September 2019, there is no exposure. The claims activity is very limited in this portfolio and no more premiums are written.

In 2019, Nordic Guarantee completed the registration for cross-border business in the following countries (in addition to the Nordic countries, and the UK):

- Czech Republic
- Spain
- Portugal
- Poland
- Estonia
- Latvia
- Lithuania
- Italy
- Iceland
- France
- Belgium
- Germany
- Netherlands
- Austria

The registration for cross-border business was made primarily to be able to accommodate for foreign contractors when venturing into the Nordic countries for construction projects. Business in these territories is expected to be limited.

The company's 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".

Significant business and events over the reporting period

Apart from the abovementioned cross-border registration, and the investments in Australia and Denmark, no other significant business or events have occurred over the reporting period.

A.2 Underwriting Performance

The table below is an extract from the 2019 audited financial statements.

2019

	Direct insurance, Swedish risks	Of which surety	Of which other material damage	Direct insurance, foreign risks	Total
Earned premium, ooa	9,683	9,683	-	80,490	90,173
Return on capital transferred from financial business	298	298	-	1,443	1,741
Other technical revenue	392	392	-	5,260	5,652
Insurance compensation, ooa	-6,785	-6,785	-	-46,341	-53,126
Operating costs	-9,806	-9,806	-	-42,931	-52,737
Technical profit from non-life insurance business	**-6,218**	**-6,218**	**-**	**-2,079**	**-8,297**

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**

SUMMARY FINANCIAL INFORMATION

MSEK	2019	2018
Premium income	227,015	215,415
	=======	=======
Technical result from non-life insurance business	(8,297)	(27,933)
	========	========
Equity	164,701	167,566
Solvency capital required	138,230	114,741
Own funds	193,289	191,461
Solvency ratio (Solvency II basis)	139,83%	166,86%

Premium income

The Gross written premium ("GWP") development over the past years has created the desired scale. This is turn, has allowed the company to focus on operational efficiencies and portfolio management. 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 2019 was 5%. The GWP performance in the portfolios were supported by positive trends in both Finland and Denmark, whilst Sweden and Norway did not perform as per expectations. The Norwegian Portfolio, historically the largest portfolio by GWP, improved performance in the latter part of 2019 vs the first half. We continue to develop strategies to regain traction. The Travel Portfolio was impacted by increased competition..

Management anticipates the forward looking projections are expected to hold in the medium-term. We acknowledge that short-term shocks might affect the trajectory but these are expected to correct over the medium term given the underlying demand.

Performance per portfolio

Premium income increased marginally to KSEK 227,015 (215,415) following a deliberate approach to consolidate during 2019 focusing on risk mitigation, portfolio management and operational efficiencies. The aggregate growth rate in 2019 of 5% was achieved by growing market share in Finland and Denmark, whilst maintaining our position in the Travel Book.

Construction Sweden

GWP decreased 6% y-o-y ("year-on-year"). We did manage to get further traction with the input guarantee due to change in legislation. The GWP from the rest of the construction book was adversely impacted by uncertainty in the residential market and the knock-on impact on the broader construction segment.

Construction Norway

GWP decreased 15% y-o-y. The increase in competition had an adverse impact on the GWP. The market fundamentals remain strong as such we remain optimistic of the development in the medium term.

Construction Finland

The 18% increase in the GWP y-o-y has been achieved despite the mature portfolio. The main thrust of the growth has been large bonds to other verticals outside of the construction industry.

Construction Denmark

GWP increased by 53% y-o-y. We continue to leverage off the experience and network of the current team.

Travel and Miscellaneous

GWP was flat y-o-y. Increased competition and NG not increasing its risk appetite impacted the results.

Small Segment

GWP increased 17% y-o-y. We continue pursue the development of distribution channels to compliment the growth. We caution that the developments in the overall Swedish Construction Market may dampen further growth ambitions. Operationally the teams have been amalgamated into the broader country portfolios, the philosophy being that this will improve risk mitigation as well as operational efficiency.

A.3 Investment Performance

The primary aim for the asset management is to always have enough eligible own funds (according to Solvency II valuation of assets and liabilities) 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 following investments, cash and assets are held to cover technical provisions (all numbers in KSEK as per 2019-12-31):

Corporate Bonds	4,692
Investment funds (fixed income only)	133 559
Cash	21 409
Reinsurers share of technical provisions and paid claims	187 642
Total assets to cover technical provisions	**347 302**

The company is always required to maintain assets to match its liabilities to policyholders/beneficiaries .

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 (fixed income only)	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 was recognized in the income statement (all numbers in KSEK) as per 2019-12-31:

Unrealised result on long-term securities	2,470
Realised result on long-term securities	250
Interest from long-term securities	546
Total return on investment	**3,266**

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**

Overall investment performance

The return on invested capital (138,251 MSEK) is estimated to be 1,5 % in the next financial year.

The company mainly invests in secure investments with low risk. The company operates in the currencies SEK, DKK, EUR and NOK. Investments are held to cover the technical provisions by currency. Additional capital is held in SEK and therefore not exposed to exchange rates.

Sensitivity analysis of the fair value of the financial assets

tsek	2019		2018	
Financial investment assets	**Book value**	**Change in value at 1% unit parallel change in interest rate level**	**Book value**	**Change in value at 1% unit parallel change in interest rate level**
Handelsbanken Euro Obligation	11 496	71	2 879	3
Handelsbanken Euro Ranta	49 591	119	13 067	4
Handelsbanken Foretagsobl Cri	14 848	15	49 936	175
Handelsbanken Inst KortRa Cri	16 025	6	27 769	25
Handelsbanken Ranteavkastning	15 102	44	50 119	426
Handelsbanken Likviditet	19 811	6	18 793	4
Handelsbanken Obligasjon	6 686	17	6 344	10
Danish ship	4 692	3	4 623	4
	138 251	**281**	**173 531**	**650**

Sensitivity analysis, currency risk in actuarial provisions

tsek	**DKK**	**EUR**	**NOK**	**Total**
Net position 2019	202	15,505	4,768	20,475
10 % change in currency rates, foreign currencies against SEK 2019	20	1,550	477	2,047
Net position 2018	5,183	-5,631	6,146	5,698
10 % change in currency rates, foreign currencies against SEK 2018	518	-563	615	570

A.4 Performance of other activities

The company's only activity is direct business in the class suretyship insurance.

A.5 Any other information

The company has during the year acquired a 31% stake in Lombard Australia Holdings Pty Limited, who in turn acquired 100% in an Australian insurance group, Assetinsure Holdings Pty Limited, based in Sydney Australia. Assetinsure Holdings Pty Limited's main class of insurance business is surety/guarantees. The acquisition was financed by an corresponding increase of equity.

Nordic Guarantee also acquired a 30% interest in a small Danish start-up company, Keyhole ApS, that distributes rental guarantees to private individuals via a smart application and landlord platform. Nordic Guarantee subscribed for shares in the business and the investment is being used towards developing the IT systems. The product was successfully launched towards the end of December 2019. The related rental guarantee will be underwritten by Nordic Guarantee.

The company has accounted for both these investments using the equity method of accounting and has recognized profit from associates in the amount of SEK 5,4 million during the financial year.

B. System of Governance

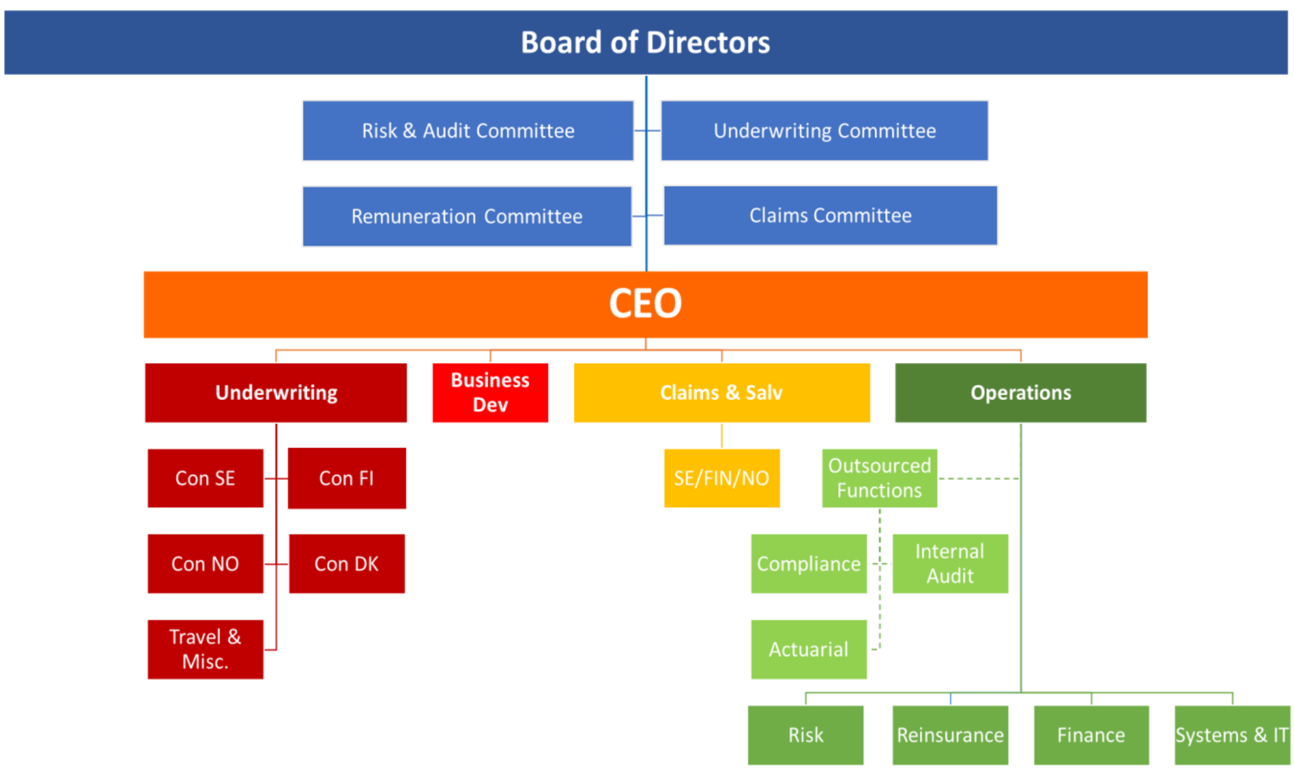
B.1 General information on the system of governance

The organisation chart below depicts the current segregation of responsibilities between the different functionalities of the company. 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 is organised under Business Development and claims handling fall under the responsibility of the country manager.

The Underwriting function comprises all the portfolios, which are split between the different jurisdictions and in the respective specialisations. In 2019, the Small Portfolio (exposure below 5 MSEK) was incorporated into the respective countries' portfolios. Travel 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. As of March 2019, the Board comprises five members (including the Chairman of the Board, and the 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.

The latest collective competence assessment, now incorporating the new competence requirements following the implementation of the IDD in 2018, was performed in April 2019. 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.

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 CEO goes through a fit and proper assessment annually.

Management team

The management team comprises the:

- Chief Executive Officer
- Chief Operating Officer
- Head of Underwriting
- Head of Legal & Claims
- Head of Business Development

The Underwriting function is responsible for all underwriting in the company. The underwriting is 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 and the COO is responsible for the outsourcing of the Compliance function.

A more detailed description regarding the respective key functions' roles and responsibilities are presented under sections B4-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.

Remuneration policy

The company's Remuneration Policy 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 are made 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 CEO, COO, and executives are taken by the CEO. The quantitative and qualitative criteria for the variable salary schemes for each year are decided by the Remuneration Committee.

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.

Variable salary payments are calculated based on the performance of the relevant portfolio after taking into account the performance of the individual employee. Employees not allocated directly to a specific portfolio are measured against the profitability of the company after taking into account the performance of the individual employee.

Material transactions

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 processes and policy documents for complying with the fit and proper requirements for the Board, the CEO and for key function managers and employees. The processes and policies are reviewed at least annually. During the reporting year, there have been no material amendments to the policies and processes established for ensuring that the persons responsible for the key functions are fit and proper.

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 annually 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.

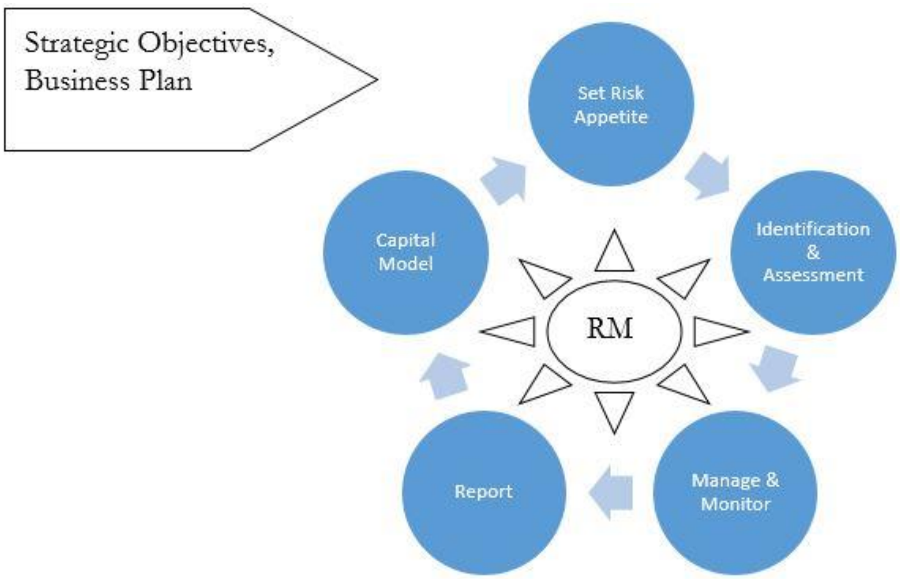
A collective competence assessment is also to be conducted at least annually, regardless of whether the composition has changed or not, or whenever necessary. The result should be used to detect any areas where the BoD on a common or individual level has got a need for competence development.

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 control 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's 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. 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 quarter, 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)

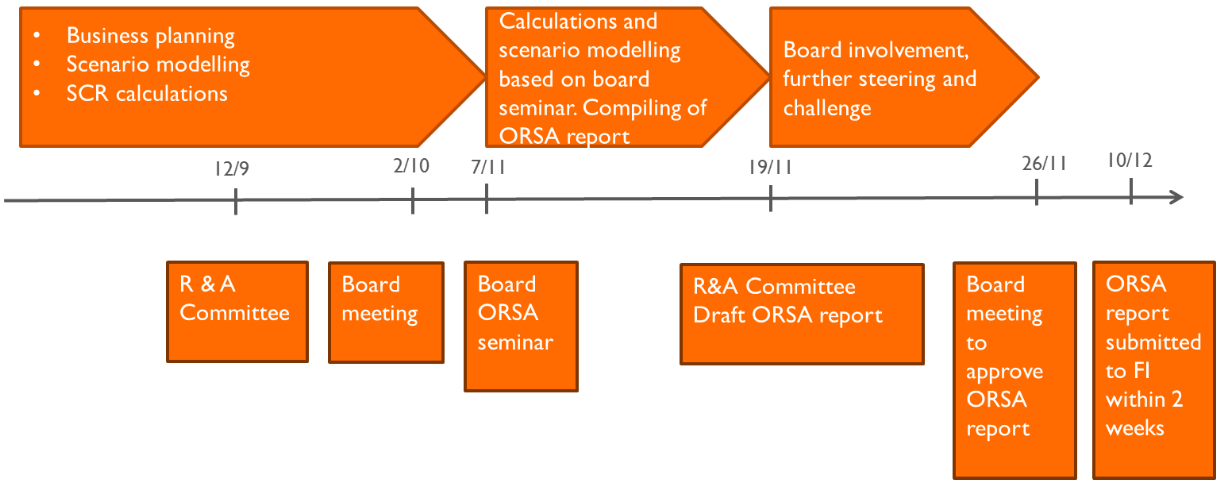
Process

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 2019. 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 2019 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 forecast for 2019 and the business plan for 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 2019 the SCR ratio (according to the calculations in the ORSA) was predicted to be 134 percent and growing over the business plan period to 152 percent in 2022. On actual year-end numbers, the solvency ratio for 2019 was calculated to approximately 140 percent. The business plan is suggesting moderate growth over the next three years, which will increase the capital charge marginally over the period, but also strengthen the own funds by producing profits.

The SCR calculations results for the stressed scenarios show a strain on the solvency ratio, to an extent where further capital would be needed to meet internal and regulatory requirements. The risk tolerance limit for the solvency ratio (own funds/SCR), which is set to a minimum of 1,15 and with an appetite of no less than 1,20 will give room for a development less favourable than the business plan scenario. Some extreme scenarios (reverse stress test), that could bring the own funds below even the MCR level, have been identified and discussed.

The Own Funds were strengthened by a capital injection before year-end 2018, which was to be used for an investment in an Australian surety company, Assetinsure, in 2019. During 2019, another investment was made, this time in a Danish underwriting agency, Keyhole.

The shares investments during 2019 have substantially increased the market risk capital charge. This contributed to a lower solvency ratio at the end of 2019 compared to 2018. The solvency ratio then increases moderately during the whole business plan period.

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 2019, 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 govern**s** 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 above, 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 the period, there have been no changes to the tasks to be performed by the function.

B.7 Outsourcing

The policy establishes 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 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

The SCR and the Minimum Capital Requirement ("MCR") have been calculated on the year-end figures for 2019 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.

All figures in SEK	**2019 (actual)**
Market Risk	74,672,069
Interest Risk	128,993
Equity Risk	20,583,164
Property Risk	0
Spread Risk	4,207,938
Concentration Risk	62,569,220
Currency Risk	27,363,350
Diversification	-40,180,596
Counterparty Default Risk	10,326,677
Type 1 exposures	5,055,113
Type 2 exposures	5,979,044
Diversification	-707,480
Non-Life Underwriting Risk	84,299,178
Premium and Reserve Risk	65,984,453
Cat Risk	38,499,569
Diversification	-20,184,844
Intangible Asset Risk	-
Diversification between modules	-38,178,153
BSCR	**131,119,770**
Operational Risk	7,110,058
Adjustments	-
SCR	**138,229,828**
MCR	39,774,260
Own Funds	**193,289,360**
Surplus/Deficit	55,059,532
Solvency Ratio	**140%**

C.1 Underwriting risk

The Company's largest risk driver in 2019 continues to be the non-life underwriting risk, which is natural, as that is a desired risk and the company's core business. In 2018, the non-life underwriting risk accounted for approximately 90 percent of the total basic solvency capital requirement but reduced to approximately 64 percent in 2019 (before diversification effect between modules). This is a result of the increased market risk (please refer to section C.2. Market Risk).

The non-life underwriting risk contains premium and reserve risk and catastrophe risk.

Spreading the risks between module creates diversification effects.

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 for 2020-2022. During the latest years, however, the ceding to reinsurers have increased, to enable growth at the same time as reducing the retained risk and the capital charge.

The reserve risk stems mainly from uncertainty in the level of the claims provisions. During the latest years, 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. As a result, there was a decrease in the reserve risk during 2019.

However, an increase in year 2020 is expected, which will be driven by a change in the parameters in the Solvency II standard model (the standard deviation for premium risk increased from 12 percent to 19 percent).

Catastrophe risk

The sub module man-made catastrophe risk (cat 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.

The cat risk increases slowly, but steadily, over the period as it is assumed that the largest facilities will be utilised to a higher degree towards the end of the period. The reinsurance arrangements enable NG to write large risks and grow in the markets yet limiting the non-life underwriting and reserve risk.

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.

- **Equity risk**
  The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities

Up until the end of 2018, the market risk in the company was mainly driven by spread risk, a consequence of investing mainly in corporate bonds. Following the acquisition of shares in an Australian and Danish company during 2019, equity risk and market concentration risk have been triggered, and also currency risk, mainly for the Australian investment. The investments are categorised as strategic participation type 2 equity risk and trigger an equity risk charge of 22 percent.

The concentration risk is now one of the main risk drivers, since a high-risk factor is applied to the large investment in the Australian company. The currency risk is also substantial, as we only hold assets, and no liabilities in Australian dollars. Discussions are being held regarding potentially hedging this risk. Apart from that, the other currencies don’t yield much risk, as we can match these currencies more efficiently. 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, currency risk and market concentration risk yield a substantial diversification effect within the market risk module as well as between modules.

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 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.

Investments should be done in a prudent manner and primarily be done to secure the interests of policyholders and beneficiaries and 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.

The risk is mainly driven by large dependencies on reinsurers' ability to honour their commitments and pay claims. 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 panel of reinsurers are, however, rated financially strong, and hence give more mitigation effect than what they contribute with, in terms of counterparty default risk capital charge. The considerable level of counterparty default risk on reinsurers derives from that NG protects very large exposures by ceding large shares of the risk to reinsurers. This can especially be seen in the man-made catastrophe risk sub-module, where the catastrophe scenarios are strongly mitigated by reinsurance arrangements.

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.

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 minimise 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 and countries.

Risk Sensitivity

Following input from the Board, different stressed scenarios that are severe, but plausible have been defined and analysed during the ORSA process 2019. Four adverse scenarios were defined (based on the forecasted numbers for 2019):

Stressed Scenario #1. A scenario, where we see substantially increased default rates and consequently increased claims ratios substantially. 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. None of these consequences or actions have been built into the scenario, as we want to see the full impact.

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.

Stressed Scenario #3. This is a scenario where we see a faster growth than expected. however, 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.

Stressed Scenario #4. In this scenario we will assume that we don't see any result of the improved underwriting during the last years, which will result in no improvement in the claims ratios we had the last couple of years. At the same time there will be no profits coming from the investments made in 2019.

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. At the same time, there are movements of the SCR upwards. The scenario generated losses for 2020, taking the solvency ratio down to slightly below the current tolerance limit and then deteriorates further during the whole three-year period. At the end of the period it reaches slightly below the regulatory requirement level. In such a scenario, actions need to be taken to restore the capital to comfortable levels. It is, however, likely that actions will be taken during the course of the period to change the adverse development and avoid further deterioration. MCR coverage is never at jeopardy.

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 for the three forward looking years, which would trigger actions from management and owners to restore the capital, but slowly recovering towards the end of the period. Also, in this scenario, the biggest difference compared to the business plan scenario is that own funds are reduced severely, even if the increase in SCR is fairly large. The losses will be substantial in 2020 and reducing some in 2021. In 2022 the business will be back at making profits. 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 2021 and 2022. Market risk will remain fairly stable, whereas counterparty default risk will increase, due to higher claims volume being covered by reinsurance. Own funds increase slowly over the period. The underwriting and reserving risk increases sharply due to the higher volumes already in 2020. In 2021 and 20221 the increased claims triggers even sharper increases in the reserve risk. The negative effects reach the bottom in 2021 when solvency ratio goes down to a level which triggers management actions. The solvency ratio will, however pick up again in 2022 to a tolerated level.

The stressed scenario #4 is affecting the solvency from both sides i.e. both the SCR and the own funds are affected in opposite directions during the whole business plan period. The premium and reserve risk goes up, as claims remain on a high level and the planned growth is maintained. The Market risk stays on the same level during the whole period, which is expected when no profits are coming from the Assetinsure investment. Own funds are growing moderately, affected by losses during the period, but held up by best estimate evaluation of premium reserves. The solvency continues to deteriorate over the period and reaches a critical level in 2022.

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 2019-12-31):

Assets	**IFRS**	**Reclassification**	**Revalutation**	**Solvency 2**
Intangible assets	422 136		0	0
Deferred tax	8 309 904	8 309 904		8 309 904
Tangible assets	4 235 193	4 235 193		4 235 193
Financial investments	231 900 282	231 900 282		231 900 282
- where of corporate bonds	*4 781 407*	*4 781 407*		*4 781 407*
- where of collective investments	*133 559 037*	*133 559 037*		*133 559 037*
- equites (unlisted)	*93 559 838*	*93 559 838*		*93 559 838*
Reinsurers share of technical provisions	176 207 343		172 012 327	172 012 327
Insurance receivables	32 458 496	32 458 496		32 458 496
Reinsurance receivalbles	11 434 558	11 434 558		11 434 558
Cash and cash equivalents	25 208 383	25 208 383		25 208 383
Any other assets	19 173 026	19 173 026		19 173 026
Total assets	**509 349 320**			**504 732 169**

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 2019-12-31 is shown in the following table:

Technical Provisions as at 2019-12-31 (KSEK)	
Best estimate	237 002
Riskmargin	8 430
Total	245 432

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 partly based on historic data, partly 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 237 002 and reinsurers' share to KSEK 172 012.

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 8 430.

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	153 976 684	114 038 252	-39 938 431
Claims provision	124 660 017	122 963 678	-1 696 339
Risk margin		8 429 952	8 429 952
Total	**278 636 701**	**245 431 883**	**-33 204 818**
Reinsurance recoverables			
Premium provision	93 685 098	91 424 134	-2 260 965
Claims provision	82 522 246	80 717 364	-1 804 881
Adjustment counterparty default		-129 171	-129 171
Total	**176 207 344**	**172 012 327**	**-4 195 017**
Net	**102 429 357**	**73 419 556**	**-29 009 801**

The total difference between the provisions net of reinsurance calculated for these purposes amounts to KSEK – 29 010.

There are primarily four 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 -38 494

2. 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 925.

3. 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 129.

4. 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 8 430.

Specification of causes of the differences between the accounting regimes

Specification of causes	Difference net of reinsurance (KSEK)
Valuation principles	-38 494
Discounting effect	925
Adjustment counterparty default	129
Risk margin	8 430
Total	**– 29 010**

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 is 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 2019-12-31):

Liabilities	IFRS	Reclassification	Revalutation	Solvency 2
Insurance liabilities	11 020 328	11 020 328		11 020 328
Reinsurance liabilities	13 558 306	13 558 306		13 558 306
Any other liabilities	41 432 292	41 432 292		41 432 292
Total liabilities	344 647 620			311 442 809

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.

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, in interest bearing assets and in associated companies. 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	96 416
Share premium reserve	11 150
Profit for the year	500
Non-restricted equity	104 702
Total Equity	164,702

The eligible amount of own funds to cover the SCR is 193,289 KSEK, 184,979 KSEK is tier 1 capital and 8,310 KSEK is tier 3 capital. The ratio of eligible own funds to SCR is 139,83 %.

Eligible Own funds to meet SCR, KSEK:

Ordinary share capital	50 000
Reconciliation reserve	134 979
An amount equal to the deferred tax assets	8 310
Total own funds	193 289

The eligible amount of own funds to cover the MCR is 184,979 KSEK, all tier 1 capital. The ratio of eligible own funds to MCR is 465,07 %.

Eligible Own funds to meet MCR, KSEK:

Ordinary share capital	50 000
Reconciliation reserve	134 979
Total own funds	184 979

The difference between Total Equity in Statutory Balance sheet and Eligible Own funds to meet SCR according to Solvency II is 28,587 KSEK.

-4,196 KSEK relates to the Solvency II valuation of the reinsurance recoverable asset, 33,205 KSEK relates to the Solvency II valuation of the technical provision, including the added risk margin and -422 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 8,310 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 134 percent. On actual year-end numbers, the solvency ratio for 2019 was calculated to 140 percent.

All figures in SEK	**2019 (actual)**	**2019 (ORSA)**
Market Risk	74,672,069	76,279,663
Interest Risk	128,993	1,089,299
Equity Risk	20,583,164	21,528,760
Property Risk	0	-
Spread Risk	4,207,938	3,663,081
Concentration Risk	62,569,220	65,832,351
Currency Risk	27,363,350	23,949,750
Diversification	-40,180,596	- 39,783,578
Counterparty Default Risk	10,326,677	8,428,433
Type 1 exposures	5,055,113	4,467,997
Type 2 exposures	5,979,044	4,542,333
Diversification	-707,480	- 581,897
Non-Life Underwriting Risk	84,299,178	78,704,000
Premium and Reserve Risk	65,984,453	57,919,864
Cat Risk	38,499,569	40,740,306
Diversification	-20,184,844	- 19,956,170
Intangible Asset Risk	-	-
Diversification between modules	-38,178,153	- 36,642,570
BSCR	**131,119,770**	**126,769,526**
Operational Risk	7,110,058	12,852,233
Adjustments	-	-
SCR	**138,229,828**	**139,621,759**
MCR	39,774,260	38,485,550
Own Funds	**193,289,360**	**187,525,185**
Surplus/Deficit	55,059,532	47,903,426
Solvency Ratio	**140%**	**134%**

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 2019