

# SUMMARY 1-6/2017



**GARANTIA**  
SECURING OWNERSHIP

## STRONG GROWTH IN GARANTIA'S PREMIUMS WRITTEN AND IMPROVED PROFITABILITY

- Premiums written increased by 34% on the comparison period and came to EUR 7.4 (5.5) million. The total insurance exposure increased by 6%.
- The balance on the technical account was good and claims incurred remained on a low level. The claims ratio was 4% (10) and the combined ratio was 53% (58).
- Earnings before tax were EUR 8.9 (3.5) million due to higher net return on investments recognised in profit and loss than in the comparison period.
- The return on investments at fair value was 3.3% (1.5).
- Solvency remained strong and the solvency ratio was 420% (435).

### Profit and loss account and key ratios

EUR t	1-6/2017	1-6/2016	Change	2016
<b>Premiums written</b>	<b>7 353</b>	<b>5 470</b>	<b>34 %</b>	<b>12 218</b>
Other items*	-1 975	-1 096	80 %	-2 751
<b>Earned premiums</b>	<b>5 378</b>	<b>4 374</b>	<b>23 %</b>	<b>9 467</b>
Claims incurred	-215	-419	-49 %	-1 174
Operating expenses	-2 618	-2 137	23 %	-4 966
<b>Balance on technical account before changes in equalisation provision</b>	<b>2 545</b>	<b>1 818</b>	<b>40 %</b>	<b>3 327</b>
Change to equalisation provision	215	419	-49 %	1 174
<b>Balance on technical account</b>	<b>2 760</b>	<b>2 237</b>	<b>23 %</b>	<b>4 501</b>
Investment income and expenses, net	6 120	1 283	377 %	3 212
<b>Earnings before tax</b>	<b>8 880</b>	<b>3 520</b>	<b>152 %</b>	<b>7 713</b>
Combined ratio, %	52,7 %	58,4 %	-5,7 % pp	64,9 %
Claims ratio, %	4,0 %	9,6 %	-5,6 % pp	12,4 %
Expense ratio, %	48,7 %	48,9 %	-0,2 % pp	52,5 %
Return on investments at fair value, %	3,3 %	1,5 %	1,8 % pp	5,8 %
Solvency ratio (S2), %**	419,9 %	501,0 %	-81,1 % pp	435,4 %
Total insurance exposure, EUR bn	1,40	1,23	14 %	1,32
Average number of personnel	25	21	+ 4 pers.	22
Financial strength rating (S&P)	A-	A-	-	A-

The figures used for result comparison are those for the corresponding periods in 2016. The comparison data used for the balance sheet and cross-section items are the data for the end of 2016 unless otherwise indicated.

\*Reinsurers' share of premiums written, change to provision for unearned premiums and reinsurers' share of change to provision for unearned premiums.

\*\* Summary 1-6/2017 figures are not audited.

### Insurance operations

Premiums written increased by 34.4% to EUR 7.4 (5.5) million and earned premiums increased by 23.0% to EUR 5.4 (4.4) million. A busy housing market and a strong construction sector increased guaranty fees especially in residential mortgage guaranties and commercial bonds. The new sales in loan guaranties also grew as investment activity started to pick up.

The insurance exposure grew 6.3% and was EUR 1,402 (1,320) million at the end of June. Residential mortgage guaranties accounted for 37% (35) of the total exposure, commercial bonds 29% (27), loan guaranties 28% (31) and other guaranties 6% (7).

Claims paid remained at an exceptionally low level in the first half of the year. The claims ratio was 4.0% (9.6) and claims incurred (preceding 12 months) in relation to the insurance exposure was 0.07% (0.13). A total of EUR 0.3 (0.4) million was paid in claims in January–June, of which approximately 90% concerned residential mortgage guaranties and the rest commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.0 (0.0) million. A total of EUR 0.5 (0.3) million was recovered from claims paid during and prior to the January–June period. EUR 0.2 (0.1) million of this concerned claims of recourse.

Operating expenses grew by 23% to EUR 2.6 (2.1) million as a result of increased personnel costs. The company's expense ratio was 48.7% (48.9) and the combined ratio was 52.7% (58.4).

The balance on the technical account improved and the balance on the technical account before changes to equalization provision increased to EUR 2.5 (1.8) million. The equalization provision declined by EUR 0.2 (0.4) million to EUR 73.4 (73.6) million, as a result of which the balance on the technical account was EUR 2.7 (2.2) million.

### Investment activities

Net return on investments recognised in profit and loss was EUR 6.1 (1.3) million and comprised sales profits and fixed-income returns. As a result of the sales, the valuation difference of investment assets decreased in the first half of the year and were EUR 7.7 (9.9) million at the end of June.

The investment income at fair value (excl. income, expenses and operating expenses from investment activities unallocated to investment types) was 3.3% (1.5). Net investment income from capital employed at fair value was EUR 4.4 (1.6) million, or 3.2% (1.4).

The investment portfolio (incl. cash and bank balances) at market value was EUR 131 (127) million at the end of June.

### Risk position

The principal risks associated with Garantia's business operations are credit risks arising from guaranty operations, and the market risk regarding investment assets covering technical provisions.

In the first half of the year, Garantia's risk position remained stable. The growth of insurance exposures took place in the highly dispersed mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. As a result of the shortening of loan guaranties, the share of the insurance exposure classified as investment grade, i.e. with a rating between AAA- and BBB-, excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, declined somewhat, however, and was 20% (21). The share of those with lower credit ratings of C+ or lower remained low and was 3.1% (2.8). The principal sectors in the insurance exposure were construction at 42% (37) and manufacturing at 24% (26). The proportion of construction guaranties that is reinsured is 54% (52).

The risk level of investment activities was raised moderately when the share of finance sector fixed income investments was reduced and the share of corporate sector fixed income investments was increased to secure the return level. Fixed income investments (incl. cash and bank balances) made up 80% (79), equity investments (incl. private equity investments) 18% (20) and other investments 1% (1) of the investment portfolio. Fixed income investments mainly consist of investments in the bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The share of investment grade fixed income investments (excl. fixed income funds) was 60% (70). The modified duration of bond investments was 3.7 (3.0).

### Solvency

Garantia's solvency remained strong. Garantia's own funds amounted to EUR 103.1 (100.9) million at the end of June, which exceeded the Solvency Capital Requirement (SCR) of EUR 24.6 (23.2) million by a clear margin. The solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 420% (435). The increase in the Solvency Capital Requirement resulted from an increase in insurance risk related to growth in insurance underwriting and the growth in market risk related to investments.

Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds. Garantia does not use the matching adjustment or the volatility adjustment in the technical provisions calculation. Garantia applies the standard formula for the Solvency Capital Requirement calculation. Garantia does not apply the transition arrangements of technical provisions or market risk calculations. The final figure for Garantia's Solvency Capital Requirement is still being assessed by the Financial Supervisory Authority. The view of the executive management is that Garantia's solvency will remain strong despite a possible increase in the Solvency Capital Requirement for insurance risk.

The Solvency II capital adequacy regulations do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016. The Solvency II capital adequacy figures have not been audited.

## Credit Rating

No changes took place in Garantia's credit rating or its outlook in the first half of the year. Standard & Poor's Credit Market Services Ltd (S&P) confirmed Garantia Insurance Company Ltd's financial strength rating as A- with a stable rating outlook.

## For additional information

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**Profit and loss account**

euros	1-6/2017	1-6/2016	change, %	1-12/2016
<b>Technical Account</b>				
<b>Earned premiums</b>				
Premiums written	7 353 319	5 469 596	34,4 %	12 217 588
Reinsurers' share	-487 767	-497 706	-2,0 %	-810 122
Change to provision for unearned premiums	-1 567 135	-584 827		-1 854 513
Reinsurers' share	79 716	-13 145	-706,4 %	-85 922
	<b>5 378 132</b>	<b>4 373 917</b>	<b>23,0 %</b>	<b>9 467 031</b>
<b>Claims Incurred</b>				
Claims paid	-178 535	-419 086	-57,4 %	-1 038 302
Reinsurers' share	21 097	49 821	-57,7 %	104 627
Change in provision for outstanding claims	-56 815	-54 643	4,0 %	-100 427
Reinsurers' share	-584	5 353	-110,9 %	-140 048
	<b>-214 837</b>	<b>-418 555</b>	<b>-48,7 %</b>	<b>-1 174 149</b>
Operating expenses	-2 618 462	-2 137 087	22,5 %	-4 966 231
<b>Balance on technical account before change to equalisation provision</b>	<b>2 544 834</b>	<b>1 818 275</b>	<b>40,0 %</b>	<b>3 326 650</b>
Change to equalisation provision	214 837	418 555	-48,7 %	1 174 149
<b>Balance on Technical Account</b>	<b>2 759 670</b>	<b>2 236 830</b>		<b>4 500 800</b>
<b>Non-technical account</b>				
Investment income	6 679 183	2 174 948	207,1 %	4 664 641
Investment expenses	-559 312	-892 157	-37,3 %	-1 452 480
Direct taxes on ordinary operations	-1 736 260	-704 007	146,6 %	-1 573 968
<b>Net profit for the financial year</b>	<b>7 143 281</b>	<b>2 815 614</b>	<b>153,7 %</b>	<b>6 138 994</b>
Expense ratio, %	48,7 %	48,9 %		52,5 %
Loss ratio, %	4,0 %	9,6 %		12,4 %
Combined ratio, %	52,7 %	58,4 %		64,9 %

**Balance Sheet**

<b>Assets</b>			
<b>euro</b>	<b>30.06.2017</b>	<b>31.12.2016</b>	<b>change, %</b>
<b>INTANGIBLE ASSETS</b>			
Intangible rights	3 827	4 992	-23,3 %
Other long-term expenditure	59 876	91 008	-34,2 %
	<b>63 704</b>	<b>96 000</b>	<b>-33,6 %</b>
<b>INVESTMENTS</b>			
Other investments			
Shares and participations	24 261 447	23 142 072	4,8 %
Other financial instruments	96 472 162	90 424 224	6,7 %
	<b>120 733 609</b>	<b>113 566 296</b>	<b>6,3 %</b>
<b>Total</b>	<b>120 733 609</b>	<b>113 566 296</b>	<b>6,3 %</b>
<b>DEBTORS</b>			
Arising out of direct insurance operations			
From policy holders	467 503	634 736	-26,3 %
Arising out of reinsurance operations	97 128	136 197	-28,7 %
Other	1 032 323	1 257 798	-17,9 %
	<b>1 596 953</b>	<b>2 028 731</b>	<b>-21,3 %</b>
<b>OTHER ASSETS</b>			
Tangible assets			
Equipment	66 985	76 554	-12,5 %
Other tangible assets	48 830	49 250	-0,9 %
	<b>115 815</b>	<b>125 805</b>	<b>-7,9 %</b>
Cash and bank balances	1 221 203	2 410 436	-49,3 %
<b>Total</b>	<b>1 337 017</b>	<b>2 536 241</b>	<b>-47,3 %</b>
<b>PREPAYMENTS AND ACCURED INCOME</b>			
Accured interest and rental income	1 248 013	1 530 068	-18,4 %
Other accured income	100 888	98 059	2,9 %
	<b>1 348 901</b>	<b>1 628 128</b>	<b>-17,2 %</b>
<b>TOTAL ASSETS</b>	<b>125 080 183</b>	<b>119 855 396</b>	<b>4,4 %</b>

Liabilities euro	30.06.2017	31.12.2016	change, %
<b>SHAREHOLDERS' EQUITY AND RESERVES</b>			
Share capital	10 200 000	10 200 000	0,0 %
Reserve for invested unrestricted equity	25 515	25 515	0,0 %
Retained earnings	15 530 298	13 391 304	16,0 %
Profit / loss of the financial year	7 143 281	6 138 994	16,4 %
<b>Total</b>	<b>32 899 094</b>	<b>29 755 813</b>	<b>10,6 %</b>
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	14 816 144	13 249 008	11,8 %
Reinsurers' share	-403 765	-324 049	24,6 %
	<b>14 412 378</b>	<b>12 924 959</b>	<b>11,5 %</b>
Claims outstanding	1 353 590	1 296 775	4,4 %
Reinsurers' share	-386 217	-386 801	-0,2 %
	<b>967 373</b>	<b>909 973</b>	<b>6,3 %</b>
Equalisation provision	73 399 761	73 614 598	-0,3 %
<b>Total</b>	<b>88 779 512</b>	<b>87 449 531</b>	<b>1,5 %</b>
<b>CREDITORS</b>			
Arising out of direct insurance operations	75 000	75 000	0,0 %
Arising out of reinsurance operations	467 600	377 005	24,0 %
Other	279 870	180 977	54,6 %
	<b>822 469</b>	<b>632 982</b>	<b>29,9 %</b>
<b>ACCRUALS AND DEFERRED INCOME</b>			
Other	2 579 108	2 017 071	27,9 %
	<b>2 579 108</b>	<b>2 017 071</b>	<b>27,9 %</b>
<b>TOTAL LIABILITIES</b>	<b>125 080 183</b>	<b>119 855 396</b>	<b>4,4 %</b>