

SUMMARY 1-6/2019



GARANTIA
OMISTAMISEN TUKENA

Garantia Insurance Company Ltd

Garantia makes investments and deals happen and enables the accumulation of wealth. Our solutions help our customers to promote sales, secure financing and improve capital efficiency.

Garantia was established in 1993. It is a private non-life insurance company specialising in guaranty insurance. The company is domiciled in Helsinki and its business practices are supervised by the Finnish Financial Supervisory Authority. Garantia's solutions for corporates include loan guaranties, commercial bonds, investment guaranties, portfolio guarantees for rental apartments and residual value guaranties. Garantia's solutions for consumers include Takaamo- and Securent rent guarantees and residential mortgage guaranties that are offered to consumers via partners. Based on agreements made with pension insurance companies Garantia is also responsible for calculation of employees' pension insurance (TyEL) interest rates according to calculation bases approved by the Ministry of Social Affairs and Health.

Garantia is a wholly-owned subsidiary of Taaleri Plc and part of the Taaleri Group. Taaleri is a financial group whose parent company Taaleri Plc is listed on Nasdaq Helsinki's main market. The Taaleri Group comprises three business areas: Wealth Management, Financing and Energy. Taaleri provides services to institutional investors, companies and private individuals. In addition, the Group makes investments from its own balance sheet. Taaleri's operations are supervised by the Finnish Financial Supervisory Authority.

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

EARNINGS AND SOLVENCY REMAINED STRONG

- Premiums written totalled EUR 7.8 (7.7) million and earned premiums EUR 6.6 (5.5) million. At the end of June, insurance exposure amounted to EUR 1.65 (1.67) billion.
- The balance on the technical account remained good, despite an increase in claims incurred. The claims ratio was 21.6% (-3.3), the expense ratio 43.7% (45.1) and the combined ratio 65.3% (41.8).
- Earnings before taxes increased to EUR 7.7 (4.3) million while net return on investments recognised in profit and loss came to EUR 4.0 (1.3) million.
- Return on investments at fair value was 5.3% (-0.1).
- Garantia's solvency remained strong. On 17 June 2019, the Financial Supervisory Authority set Garantia's capital add-on (solvency capital requirement) at EUR 19.8 million (previously EUR 17.8 million). Solvency ratio was 224.5% (233.4) including the capital add-on

Profit and loss account and key ratios

EUR t	1-6/2019	1-6/2018	Change	2018
Gross premiums written	7 753	7 695	0,8 %	17 381
Other items*	-1 161	-2 207	-47,4 %	-5 099
Earned premiums	6 593	5 488	20,1 %	12 282
Claims incurred	-1 427	181	-	783
Operating expenses	-2 879	-2 473	16,4 %	-4 954
Balance on technical account before changes in equalisation provision	2 287	3 195	-28,4 %	8 110
Change to equalisation provision	1 427	-181	-	-783
Balance on technical account	3 713	3 014	23,2 %	7 327
Investment income and expenses, net	3 988	1 295	207,9 %	1 897
Other income and expenses	4	0	-	1
Earnings before tax	7 706	4 310	78,8 %	9 225
Combined ratio, %	65,3 %	41,8 %	23,5 pp	34,0 %
Claims ratio, %	21,6 %	-3,3 %	24,9 pp	-6,4 %
Expense ratio, %	43,7 %	45,1 %	-1,4 pp	40,3 %
Return on investments at fair value, %	5,3 %	-0,1 %	5,4 pp	-1,7 %
Solvency ratio (S2), %**	224,5 %	222,0 %	2,5 pp	233,4 %
Total insurance exposure, EUR bn	1,65	1,60	3,2 %	1,67
Average number of personnel	27	23	+ 4	25
Financial strength rating (S&P)	A-	A-	-	A-

The figures used for result comparison are those for the corresponding periods in 2018. The comparison data used for the balance sheet and cross-section items are the data for the end of 2018 unless otherwise indicated. Summary 1-6/2019 figures have not been audited.

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

** The Solvency II 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. Solvency ratio % includes the capital add-on confirmed by FSA from 30th June 2018.

Insurance operations

Gross premiums written (including the reinsurers' share) increased by 0.8% to EUR 7.8 (7.7) million and earned premiums by 20.1% to EUR 6.5 (5.5) million driven by strong demand in residential mortgage guaranties. Premiums written in commercial bonds fell slightly short of the on comparison period, a result of decreased construction activities, and the demand for corporate pension loan guaranties remained low in the first half of the year.

The insurance exposure decreased by 1.3% during the first six months of the year, totalling EUR 1,645 (1,667) million at the end of June. Of the total exposure, residential mortgage guaranties accounted for 43.7% (39.3), commercial bonds 33.1% (30.8), loan guaranties 15.9% (22.1), rental guarantees 0.6% (0.1) and other guaranties 6.7% (7.7).

Claims paid remained at a low level in the first half of the year. Although claims recovered from the commercial bonds and residential mortgage guaranties claims paid during prior years exceeded the amount of claims paid, the change in provision for known claims increased the claims incurred. The claims ratio was 21.6% (-3.3) and claims incurred (preceding 12 months) in relation to the insurance exposure was 0.05% (0.05). A total of EUR 0.1 (0.6) million was paid in claims in January–June, of which 24.0% concerned corporate loan guaranties, 34.3% residential mortgage guaranties and the rest rental guaranties. The proportion of this sum recorded as claims of recourse was EUR 0.0 (0.0) million. A total of EUR 0.3 (0.5) million was recovered from claims paid during and prior to January–June. EUR 0.0 (0.2) million of this concerned claims of recourse. The net outstanding claims provision in the balance sheet (with the reinsurers' share deducted) totalled EUR 2.7 (1.3) million on 30 June 2019 due to a change in the provision for known claims, boosting claims incurred by EUR 1.5 million.

Garantia has received information that a matter concerning a potential insurance event and a claim of five (5) million euros with penalty consequences and legal fees has become pending in the Helsinki District Court. The insurance claim concerns a pension fund which was a loan guaranty customer of Garantia in 2011 and which was placed in liquidation in December 2011 under the Insurance Fund Act (1164/1992, as amended) and subsequently declared bankrupt on 5 February 2018, related to which Garantia originally received a claim on 30 December 2011. The processing of the case in the district court has not yet begun, due to other pending investigations related to the pension fund. Garantia considers that the claim is still unfounded, which is why it has not been entered in the profit and loss account as a provision for outstanding claims.

Operating expenses increased by 16.4% to EUR 2.9 (2.5) million due to higher personnel costs. The average number of personnel in January–June was 27 (23) and on 30 June 2019, the figure was 25. Expense ratio was 43.7% (45.1) and the combined ratio 65.3% (41.8).

Despite a strong growth in earned premiums, balance on the technical account before changes to the equalization provision stood at EUR 2.3 (3.2) million due to higher claims incurred than in the comparison period. The equalization provision decreased by EUR 1.4 (increased by 0.2) million and the balance on the technical account came to EUR 3.7 (3.0) million.

Garantia and the Finnish Landlord Association launched a cooperation scheme under which the Finnish Landlord Association offers the Securent guarantee insurance provided by Garantia to its members. Securent guaranty insurance provides security for housing investments, covering all risks arising from tenants' obligations, including non-payment of rent and damage to the apartment, as well as repair and cleaning costs.

Investment activities

Net return on investments recognised in profit and loss amounted to EUR 4.0 (1.3) million and mostly comprised fixed-income returns and revalued write-downs.

Return on investments at fair value (excl. income, expenses and operating expenses unallocated to investment types) was 5.3% (-0.1). Net investment income from capital employed at fair value was EUR 6.8 (-0.3) million, or 5.1% (-0.2). Valuation difference of investment assets increased to EUR 4.7 (1.8) million in the first half of the year.

The investment portfolio (incl. cash and bank balances) at market value totalled EUR 141 (134) 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 risks regarding investment assets covering equity and technical provisions.

Garantia's risk position remained stable in the first half of the year even though the outlook in construction sector weakened. The growth of insurance exposure took place in a highly dispersed mortgage guaranties of Finnish households and in short-term commercial bonds covered by comprehensive reinsurance. Of the insurance exposure, amounting EUR 1 645 (1667) million at 30 June 2019, 44.3% (39.4) related to consumer exposures¹ and 55.7% (60.6) to corporate exposures. However, as a result of the shortening of loan guaranties, the proportion of the investment-grade guaranties (with a rating between AAA and BBB-) in corporate insurance exposure² declined to 10.3% (10.8). The share of the guaranties with credit ratings of C+ or lower remained small, amounting to 2.3% (1.7). The principal sectors in the corporate insurance exposure were construction at 59.0% (51.8) and manufacturing at 17.7% (21.6). The proportion of reinsured construction guaranties was 54.9% (53.5).

The risk level of investment activities was retained at a moderate level throughout the first half of the year. Fixed income investments (incl. cash and bank balances) accounted for 85.5% (87.4), equity investments (incl. private equity investments) for 13.1% (11.1) and real estate investments for 1.4% (1.4) 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 proportion of investment grade fixed income investments (excl. fixed income funds) was 47.6% (51.2). The modified duration of bond investments was 3.0 (3.4).

Solvency

Garantia's solvency remained strong. Garantia's own funds totalled EUR 105.6 (103.3) million at the end of June. The solvency capital requirement including the capital add-on was EUR 47.0 (44.2) million and excluding the capital add-on EUR 27.2 (26.4) million. The solvency ratio (the ratio of basic own funds to the solvency capital requirement) including the capital add-on was 224.5% (233.4) and excluding the capital add-on 388.5% (390.7). Growth in basic own funds was mainly due to higher fair values of investment assets. The higher solvency capital requirement was mainly based on the capital add-on set by the Financial Supervisory Authority.

Garantia's own funds consist fully of unrestricted Tier 1 basic own funds. Garantia does not apply the transition arrangements in defining its basic own funds and Garantia's own funds do not include items classified as ancillary own funds. Garantia does not use the matching adjustment or the volatility adjustment in the technical provisions calculation. Garantia applies the standard formula for the solvency capital requirement calculation. Garantia does not use simplified calculation in the standard formula's risk modules or sub-modules, or company-specific parameters instead of the parameters of the standard formula. Garantia does not apply the transition arrangements of technical provisions or market risk calculations.

On 17 June 2019, the Financial Supervisory Authority set Garantia's capital add-on at EUR 19.8 million (previously EUR 17.8 million). The Financial Supervisory Authority stated in its decision that the prerequisites for a capital add-on described in the decision made on 12 June 2018 still apply. The Financial Supervisory Authority noted in its June 2018 decision that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation. In addition, the Financial Supervisory Authority reaffirms its view that the requirement to use the internal model is not appropriate in Garantia's case. The capital add-on will be valid for time being. The Financial Supervisory Authority assesses the amount of the capital add-on at least once a year.

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. On 10 December 2018, Standard & Poor's Global Ratings Europe Limited (S&P) confirmed Garantia Insurance Company's financial strength rating (FSR) and the company's financial enhancement rating (FER) as A- with a stable rating outlook.

¹ Residential mortgage guaranties and rental guaranties.

² Insurance exposure excluding residential mortgage guaranties, rental guaranties, residual value insurance and assumed reinsurance.

Management

The Annual General Meeting held on 22 February 2019 elected Hannu Tonteri as Chairman of the Board of Directors and Karri Haaparinne (Vice Chair), Timo Hukka, Jukka Ohls and Antti Suhonen as Board members. All were re-elected to their positions. Tomi Yli-Kyyny resigned from the Board of Directors.

The Board of Directors appointed Deputy CEO Titta Elomaa as the new CEO as from 1 July 2019.

For additional information

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Profit and loss account

euro	1-6/2019	1-6/2018	Change, %	2018
Technical Account				
Earned premiums				
Premiums written	7 753 256	7 694 749	0,8 %	17 381 102
Reinsurers' share	-470 194	-521 632	-9,9 %	-1 034 599
Change to provision for unearned premiur	-928 580	-1 869 443	-50,3 %	-4 205 119
Reinsurers' share	238 079	184 066	29,3 %	140 380
	6 592 561	5 487 739	20,1 %	12 281 764
Claims Incurred				
Claims paid	18 398	-457 180	-104,0 %	186 412
Reinsurers' share	10 073	241 078	-95,8 %	241 078
Change in provision for outstanding claim	-3 632 174	1 194 433	-404,1 %	1 170 473
Reinsurers' share	2 176 953	-797 594	-372,9 %	-815 249
	-1 426 750	180 737	-889,4 %	782 714
Operating expenses	-2 879 102	-2 473 348	16,4 %	-4 954 290
Balance on technical account before change to equalisation provision	2 286 708	3 195 129	-28,4 %	8 110 188
Change to equalisation provision	1 426 750	-180 737	-889,4 %	-782 714
Balance on Technical Account	3 713 459	3 014 391	23,2 %	7 327 474
Non-technical account				
Investment income	4 597 880	3 155 693	45,7 %	6 711 979
Investment expenses	-609 531	-1 860 282	-67,2 %	-4 815 224
Other income and expences	4 454	-93	0,0 %	769
Direct taxes on ordinary operations	-1 555 036	-862 303	80,3 %	-1 939 288
Net profit for the financial year	6 151 225	3 447 406	78,4 %	7 285 711

Balance sheet

Assets			
euro	30.06.2019	31.12.2018	Change, %
INTANGIBLE ASSETS			
Intangible rights	27 141	30 157	-10,0 %
Goodwill	342 032	380 035	-10,0 %
Other long-term expenditure	6 770	7 523	-10,0 %
	375 943	417 714	-10,0 %
INVESTMENTS			
Real estate investments			
Real estate investment funds and collective i	1 773 900	1 829 900	-3,1 %
	1 773 900	1 829 900	-3,1 %
Other investments			
Shares and participations	16 429 169	14 011 891	17,3 %
Debt securities	115 750 539	114 151 352	1,4 %
	132 179 708	128 163 243	3,1 %
Total	133 953 608	129 993 143	3,0 %
DEBTORS			
Arising out of direct insurance operations			
From policy holders	220 511	669 136	-67,0 %
Arising out of reinsurance operations	0	0	-
Other	0	0	-
	220 511	669 136	-67,0 %
OTHER ASSETS			
Tangible assets			
Machinery and equipment	18 240	20 846	-12,5 %
Other tangible assets	48 365	48 365	0,0 %
	66 606	69 211	-3,8 %
Cash and bank balances	681 659	918 439	-25,8 %
Total	748 264	987 650	-24,2 %
PREPAYMENTS AND ACCURED INCOME			
Accured interest and rental income	1 438 431	1 653 541	-13,0 %
Other accured income	10 827	403 013	-97,3 %
	1 449 259	2 056 553	-29,5 %
TOTAL ASSETS	136 747 585	134 124 197	2,0 %

Liabilities euro	30.06.2019	31.12.2018	Change, %
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	10 200 000	10 200 000	0,0 %
Reserve for invested unrestricted equity			
Retained earnings	21 155 569	18 869 858	12,1 %
Profit / loss of the financial year	6 151 225	7 285 711	-15,6 %
Total	37 506 794	36 355 569	3,2 %
TECHNICAL PROVISIONS			
Provision for unearned premiums	22 051 403	21 122 823	4,4 %
Reinsurers' share	-781 763	-543 684	43,8 %
	21 269 640	20 579 139	3,4 %
Claims outstanding	5 512 572	1 880 398	193,2 %
Reinsurers' share	-2 766 425	-589 472	369,3 %
	2 746 147	1 290 926	112,7 %
Equalisation provision	71 891 655	73 318 405	-1,9 %
Total	95 907 441	95 188 470	0,8 %
CREDITORS			
Arising out of direct insurance operations	2 539	875	190,3 %
Arising out of reinsurance operations	470 194	288 994	62,7 %
Other	275 966	170 851	61,5 %
	748 699	460 719	62,5 %
ACCRUALS AND DEFERRED INCOME			
Other	2 584 650	2 119 439	21,9 %
	2 584 650	2 119 439	21,9 %
TOTAL LIABILITIES	136 747 585	134 124 197	2,0 %