



SUMMARY
1-6/2016



GARANTIA
OMISTAMISEN TUKENA

GARANTIA'S PREMIUM INCOME INCREASED SIGNIFICANTLY AND SOLVENCY REMAINED SOLID

- Premiums written increased 22% on the comparison period and came to EUR 5.5 million (4.5). The total insurance exposure increased 5.5% in the first half of the year.
- The balance on the technical account was good. The claims ratio was 10% (6) and the combined ratio was 58% (57).
- Earnings before tax decreased to EUR 3.5 million (6.6) due to lower investment income than in the comparison period.
- The return on investments at fair value was 1.5% (3.7).

Profit and loss account and key ratios

EUR t	1-6/2016	1-6/2015	Change	2015
Premiums written	5 470	4 471	22 %	10 019
Other items*	-1 096	363		-170
Earned premiums	4 374	4 834	-10 %	9 849
Claims incurred	-419	-309	36 %	-1 492
Operating expenses	-2 137	-2 426	-12 %	-4 778
Balance on technical account before changes in equalisation provision	1 818	2 099	-13 %	3 579
Change to equalisation provision**	419	-2 401		-3 517
Balance on technical account	2 237	-302		62
Investment income and expenses, net	1 284	6 855	-81 %	8 460
Earnings before tax	3 520	6 553	-46 %	8 523
Combined ratio, %	58,4 %	56,6 %	1,8 pp	64 %
Claims ratio, %	9,6 %	6,4 %	3,2 pp	15 %
Expense ratio, %	48,9 %	50,2 %	-1,3 pp	49 %
Return on investments at fair value, %	1,5 %	3,7 %	-2,2 pp	4,6 %
Solvency ratio (S2), %***	501 %	n/a	n/a	506 %
Total insurance exposure, EUR bn	1,23	1,23	0,0 %	1,16
Average number of personnel	23	25	-2	25

The figures used for result comparison are those for the corresponding periods in 2015. The comparison data used for the balance sheet and cross-section items are the data for the end of 2015 unless otherwise indicated.

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

** Regulations on the equalization provision were changed by the amended Insurance Companies Act that came into force on 1 January 2016. The equalization provision presented in this report is an estimate of the equalization provision as per the new regulations. The estimate is based on an application submitted by Garantia to the Financial Supervisory Authority on the new calculation bases for Garantia's equalization provision. More information is provided on page 5 of the report.

*** The Solvency II regulations were not in force during the 2015 financial year and they do not fall within the sphere of statutory auditing under the Insurance Companies Act that entered into force on 1 January 2016. In April 2016 the Finnish Financial Supervisory Authority further specified the Solvency II regulations, as a result of which the figures provided above, which comply with Solvency II, differ from those published in the 2015 financial statements.

Insurance operations

Premiums written increased 22% on the comparison period to EUR 5.5 million (4.5). Strong growth in the construction sector and the picked up housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. In the first half of the year, new exposure in corporate loan guaranties exceeded new exposure for the whole of 2015. Despite low interest rates, demand for corporate loan guaranties remained at a low level. Earned premiums decreased as a result of a change in the provision for unearned premiums, however. The change in the provision for unearned premiums was a result of strong growth in premiums written.

The gross exposure of the insurance portfolio increased by 5.5% during the first half of 2016 and was EUR 1.228 million at the end of June (1.164). Residential mortgage guaranties accounted for 33% of the gross exposure (33), loan guaranties 33% (37), commercial bonds 26% (22) and other guaranties 8% (8).

Claims paid remained at a low level. The claims ratio was 9.6% (6.4). During the first half of the year, claims paid (gross) came to EUR 0.4 million (0.6), of which 84% related to residential mortgage guaranties and the rest commercial bonds. Claims incurred (previous 12 month period) in relation to the gross exposure were 0.13% (0.13).

Operating expenses decreased by 12%. Operating expenses for the comparison period include costs related to reorganisation of personnel and moving to new premises.

Investment activities

The return on investments at fair value (excluding the cash and bank balances, and return, expenses and operating expenses from investment activities not allocated to investment types) was 1.5% (3.7). The net return on investments from capital employed at fair value was 1.4% (3.3%). The net return on investments recognised in profit and loss account was EUR 1.3 million (6.8). During the review period, the valuation difference of investment assets increased from EUR 6.7 million to EUR 7.0 million. The market value of the investment portfolio (including cash and bank balances) remained at the year-end level of EUR 120 million.

Solvency

Garantia's solvency remained strong. Garantia's basic own funds amounted to EUR 96.4 million (96.1), which clearly exceeded the solvency capital requirement of EUR 19.2 (19.0) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 501% (506). Garantia's own funds are formed in full of unrestricted Tier 1 basic own funds.

Risk position

The major risks associated with Garantia's business operations are credit risks arising from guaranty operations, and the market risk associated with investments insurance liabilities.

The risk position of guaranty operations remained stable. Growth in the first half of the year occurred in diversified mortgage guaranties and in short-term commercial guaranties covered by comprehensive reinsurance. As a result of the repayments of loan guaranties, the share of investment-grade exposure (a rating between AAA–BBB-), of the insurance exposure, excluding residential mortgages, residual value insurance and assumed reinsurance, fell to 27% (30), however. The share of weaker rating classes with a C+ or lower rating remained low and was 2.7% (2.5). The most important industries in the insurance exposure were construction at 36% (33) and manufacturing 26% (33). Of the construction exposure, 54% has been reinsured (58).

Despite the challenges posed to investment in the first half of the year, the risk position of investment operations remained stable. No significant changes took place in investment allocation by asset type during the first six months and the share of fixed income investments of the investment portfolio (including the cash and bank balances) was 82% (82) and of equity investments 18% (17) at market value. The majority of fixed income investments are invested in bonds issued by Finnish corporates and Nordic credit institutions with a strong credit rating. The share of fixed income investments (excluding fixed income funds) classified at investment level was 73% (78). The modified duration of fixed income investments was 2.8 (2.5).

Credit Rating

There were no changes in Garantia's credit rating during the first half of 2016. Standard & Poor's confirmed Garantia's credit rating on 19 June 2015 as A- with a negative outlook and removed the company from its CreditWatch list.

For additional information

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Profit and loss account

euro	1-6/2016	1-6/2015	2015
Technical Account			
Earned premiums			
Premiums written	5 469 596	4 471 397	10 018 860
Reinsurers' share	-497 706	-478 492	-1 024 928
Change to provision for unearned premiums	-584 827	936 946	1 019 473
Reinsurers' share	-13 145	-95 915	-164 652
	4 373 917	4 833 937	9 848 753
Claims Incurred			
Claims paid	-419 086	-409 523	-1 459 259
Reinsurers' share	49 821	38 505	38 505
Change in provision for outstanding claims	-54 643	112 694	-274 124
Reinsurers' share	5 353	-50 494	203 224
	-418 555	-308 819	-1 491 654
Operating expenses	-2 137 087	-2 425 845	-4 777 713
Balance on technical account before change to equalisation provision	1 818 275	2 099 273	3 579 386
Change to equalisation provision	418 555	-2 400 991	-3 516 924
Technical Account	2 236 830	-301 718	62 461
Non-technical account			
Investment income	2 174 948	7 171 940	9 058 131
Investment expenses	-892 157	-317 214	-597 997
Direct taxes on ordinary operations	-704 007	-1 316 975	-1 711 925
Net profit for the financial year	2 815 614	5 236 033	6 810 670
Expense ratio, %	48,9 %	50,2 %	48,5 %
Loss ratio, %	9,6 %	6,4 %	15,1 %
Combined ratio, %	58,4 %	56,6 %	63,7 %

Balance Sheet
Assets

euro	30.06.2016	31.12.2015
INTANGIBLE ASSETS		
Intangible rights	8 847	12 702
Other long-term expenditure	176 260	261 511
	185 107	274 213
INVESTMENTS		
Other investments		
Shares and participations	20 276 496	19 769 511
Other financial instruments	90 309 174	87 631 416
	110 585 670	107 400 926
DEBTORS		
Arising out of direct insurance operations		
From policy holders	137 777	403 202
Arising out of reinsurance operations	182 600	35 877
Other	1 145 205	1 251 818
	1 465 582	1 690 897
OTHER ASSETS		
Tangible assets		
Equipment	89 313	102 072
Other tangible assets	49 250	49 250
	138 564	151 323
Cash and bank balances	1 209 065	4 024 287
Total	1 347 629	4 175 610
PREPAYMENTS AND ACCURED INCOME		
Accrued interest and rental income	1 197 110	1 836 553
Other accrued income	161 468	22 595
	1 358 578	1 859 149
TOTAL ASSETS	114 942 566	115 400 795

Liabilities

euro	30.06.2016	31.12.2015
SHAREHOLDERS' EQUITY AND RESERVES		
Share capital	10 200 000	10 200 000
Reserve for invested unrestricted equity	25 515	25 515
Retained earnings	13 391 304	9 580 635
Profit / loss of the financial year	2 815 614	6 810 670
Total	26 432 433	26 616 819
TECHNICAL PROVISIONS		
Provision for unearned premiums	11 979 323	11 394 495
Reinsurers' share	-396 826	-409 971
	11 582 497	10 984 524
Claims outstanding	1 250 990	1 196 348
Reinsurers' share	-532 202	-526 849
	718 789	669 499
Equalisation provision	74 370 192	74 788 747
Total	86 671 478	86 442 770
CREDITORS		
Arising out of direct insurance operations	125 000	125 000
Arising out of reinsurance operations	658 940	355 445
Other	262 912	239 184
	1 046 853	719 630
ACCRUALS AND DEFERRED INCOME		
Other	791 802	1 621 576
	791 802	1 621 576
TOTAL LIABILITIES	114 942 566	115 400 795

The new calculation bases for Garantia's equalization provision are being processed by the Financial Supervision Authority

Regulations on the equalization provision changed as a result of the Insurance Companies Act that came into force on 1 January 2016. The equalization provision presented in this report is an estimate of the equalization provision as per the new regulations. The estimate is based on an application submitted to the Financial Supervisory Authority on the new calculation bases for Garantia's equalization provision.

In Garantia's application for new calculation bases for the equalization provision an amount corresponding to the claims incurred for the period in question of the provision is recognized annually into profit and loss until the targeted amount is reached. In the long term the equalization provision will gravitate to its target amount, the calculation of which has been defined in the Insurance Companies Act. Technical provisions are not discounted. The purpose of the equalization provision is to balance the impact of years with exceptional technical results. The equalization provision acts as a buffer, especially against growth in claims incurred.