SUMMARY 1-12/2016

GARANTIA

OMISTAMISEN TUKENA

GARANTIA'S PREMIUMS WRITTEN INCREASED CONSIDERABLY AND S&P CHANGED GARANTIA'S A- CREDIT RATING OUTLOOK TO STABLE

- Premiums written increased 22% on the comparison period and came to EUR 12.2 million (10.0). The total insurance exposure increased 13.3%.
- The balance on the technical account was good. The claims ratio was 12% (15) and the combined ratio was 65% (64).
- Earnings before tax were EUR 7.7 million (8.5) due to lower net return on investments recognised in profit and loss than in the comparison period.
- The return on investments at fair value was 5.8% (4.6).
- Solvency remained strong and the solvency ratio was 435% (506)
- On 1 December 2016, S&P confirmed Garantia's financial strength rating A- and changed the rating outlook to stable.

Profit and loss account and key ratios

EUR t	2016	2015	Change
Premiums written	**12 218**	**10 019**	**22 %**
Other items*	-2 751	-170	
Earned premiums	**9 467**	**9 849**	**-4 %**
Claims incurred	-1 174	-1 492	-21 %
Operating expenses	-4 966	-4 778	4 %
Balance on technical account before changes in	**3 327**	**3 579**	**-7 %**
Change to equalisation provision**	1 174	-3 517	
Balance on technical account	**4 501**	**62**	
Investment income and expenses, net	3 212	8 460	-62 %
Earnings before tax	**7 713**	**8 523**	**-9 %**
Combined ratio, %	64,9 %	63,7 %	1,2 pp
Claims ratio, %	12,4 %	15,1 %	-2,7 pp
Expense ratio, %	52,5 %	48,5 %	3,9 pp
Return on investments at fair value, %	5,8 %	4,6 %	1,2 pp
Solvency ratio (S2), %***	435,4 %	505,8 %	-70,4 pp
Total insurance exposure, EUR bn	1,32	1,16	13 %
Average number of personnel	22	25	-3

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.

** 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. The Solvency II capital adequacy figures have not been audited.

Insurance operations

Gross premiums written increased 21.9% to EUR 12.2 (10.0) million. Strong growth in the construction sector and the recovery on the housing market increased guaranty fees especially in commercial bonds and residential mortgage guaranties. There was a clear increase in new sales in corporate loan guaranties, but despite low interest rates, demand for corporate loan guaranties remained at a low level. Earned premiums declined, however, to EUR 9.5 (9.8) million on account of the change in the provision for unearned premiums. The change in the provision for unearned premiums was a result of strong growth in premiums written.

The insurance exposure grew 13.3% and was EUR 1,320 (1,164) million at the end of the year. Residential mortgage guaranties accounted for 35% (33) of the total exposure, loan guaranties 31% (37), commercial bonds 27% (22) and other guaranties 7% (8).

Claims paid remained at an exceptionally low level. The claims ratio was 12.4% (15.1) and claims incurred in relation to the insurance exposure was 0.09% (0.13). In 2016 a total of EUR 1.2 (1.9) million in claims were paid and about 72% of these were for residential mortgage guaranties, 15% for loan guaranties and 13% for commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.2 (0.0) million. A total of EUR 0.6 (0.7) million was recovered from claims paid during and prior to the financial year. EUR 0.2 (0.1) million of this concerned claims of recourse.

Operating expenses grew by 3.9% to EUR 5.0 (4.8) million. The operating expenses were increased by investments in personnel, in IT, in development of risk models and in the corporate image. The company's expense ratio was 52.4% (48.5) and the combined ratio was 64.9% (63.7).

The balance on the technical account before the change to the equalization provision was EUR 3.3 (3.6) million. The equalization provision declined to EUR 1.2 (increased by 3.5) million, so the balance on the technical account increased to EUR 4.5 (0.06) million. Regulations on the equalization provision changed as a result of the Insurance Companies Act that came into force on 1 January 2016, and the Financial Supervisory Authority confirmed Garantia's calculation bases for the equalization provision on 21 October 2016.

Garantia and Taaleri Private Equity Funds Ltd produced their first joint product, Tuulitehdas III, which offered investors in the fund the opportunity to subscribe the profit participation loan with a guaranty from Garantia. In loan guaranties, Garantia started cooperation with Nordic Investment Bank NIB to launch a loan facility for SMEs and midcaps. In commercial bonds Garantia developed its eService by starting electronic delivery of guarantees to customers and their beneficiaries. Garantia also broadened its partner network in residential mortgage guaranties by launching cooperation with Aktia Bank.

Investment activities

Net return on investments recognised in profit and loss were EUR 3.2 (8.5) million. The valuation difference of investment assets grew from EUR 6.7 million to EUR 9.9 million during the financial year.

The return on investments at fair value (excl. the cash and bank balances, and unallocated income, expenses and operating expenses) was 5.8% (4.6). Net return on investments from capital employed at fair value was EUR 6.5 (5.2) million or 5.4% (4.4).

The investment portfolio (incl. cash and bank balances) was EUR 127 (120) million at the end of the year.

Risk position

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

Garantia's risk position remained stable in 2016. The growth of insurance exposures took place in diversified 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 in investment grade, i.e. with a rating of AAA–BBB-, excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, declined to 21% (30), however. The share of those with lower credit ratings of C+ or lower remained low and was 2.8% (2.5). The biggest sectors in the insurance exposure were construction at 37% (33) and manufacturing 26% (33). The proportion of construction guaranties that is reinsured is 52% (58).

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 and US equities was increased to secure the return level. Fixed income investments made up 79% (82) and equity investments 18% (17) of the investment portfolio (incl. cash and bank balances). 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 (excluding fixed income funds) was 70% (78). The modified duration of the fixed income investments was 3.0 (2.5).

Solvency

Garantia's solvency remained strong. Garantia's own funds amounted to EUR 100.9 (96.1) million and clearly exceeded the Solvency Capital Requirement (SCR) of EUR 23.2 (19.0) million. The solvency ratio, or the ratio of basic own funds to the Solvency Capital Requirement, was 435% (506). The increase in the Solvency Capital Requirement resulted from a growth in the 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 amount of Garantia’s solvency capital requirement is still subject to supervisory assessment. Garantia’s management view is that Garantia’s solvency will remain strong despite the possible increase to solvency capital requirement for insurance risk.

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. The Solvency II capital adequacy figures have not been audited.

Credit Rating

On 1 December 2016, Standard & Poor's Credit Market Services Ltd (S&P) confirmed Garantia Insurance Company Ltd’s financial strength rating A- and changed the rating outlook from negative to stable.

For additional information

Vesa Aho, CEO, vesa.aho@garantia.fi, tel +358 50 343 1841
Niina Pullinen, Chief financial and risk officer, niina.pullinen@garantia.fi, tel +358 50 572 9044

Profit and loss account

euro	2016	2015	change, %
Technical Account			
Earned premiums			
Premiums written	12 217 588,24	10 018 859,90	21,9 %
Reinsurers' share	-810 122,02	-1 024 927,60	-21,0 %
Change to provision for unearned premiums	-1 854 513,01	1 019 473,16	
Reinsurers' share	-85 922,23	-164 652,02	-47,8 %
	9 467 030,98	**9 848 753,44**	**-3,9 %**
Claims Incurred			
Claims paid	-1 038 301,53	-1 459 258,79	-28,8 %
Reinsurers' share	104 627,07	38 504,92	171,7 %
Change in provision for outstanding claims	-100 426,95	-274 124,45	-63,4 %
Reinsurers' share	-140 047,80	203 223,88	-168,9 %
	-1 174 149,21	**-1 491 654,44**	**-21,3 %**
Operating expenses	-4 966 231,44	-4 777 713,42	3,9 %
Balance on technical account before change to equalisation provision	**3 326 650,33**	**3 579 385,58**	**-7,1 %**
Change to equalisation provision	1 174 149,21	-3 516 924,28	
Balance on Technical Account	**4 500 799,54**	**62 461,30**	
Non-technical account			
Investment income	4 664 641,37	9 058 130,51	-48,5 %
Investment expenses	-1 452 479,58	-597 997,33	142,9 %
Direct taxes on ordinary operations	-1 573 967,69	-1 711 924,96	-8,1 %
Net profit for the financial year	6 138 993,64	6 810 669,52	-9,9 %

Balance Sheet

Assets euro	31.12.2016	31.12.2015
INTANGIBLE ASSETS		
Intangible rights	4 992,30	12 702,03
Other long-term expenditure	91 007,93	261 511,46
	96 000,23	**274 213,49**
INVESTMENTS		
Other investments		
Shares and participations	23 142 072,06	19 769 510,75
Other financial instruments	90 424 224,10	87 631 415,53
	113 566 296,16	**107 400 926,28**
Total	**113 566 296,16**	**107 400 926,28**
DEBTORS		
Arising out of direct insurance operations		
From policy holders	634 736,13	403 202,30
Arising out of reinsurance operations	136 197,34	35 876,69
Other	1 257 797,63	1 251 817,72
	2 028 731,10	**1 690 896,71**
OTHER ASSETS		
Tangible assets		
Equipment	76 554,25	102 072,35
Other tangible assets	49 250,40	49 250,40
	125 804,65	**151 322,75**
Cash and bank balances	2 410 436,25	4 024 287,27
Total	**2 536 240,90**	**4 175 610,02**
PREPAYMENTS AND ACCURED INCOME		
Accured interest and rental income	1 530 068,36	1 836 553,14
Other accured income	98 059,39	22 595,49
	1 628 127,75	**1 859 148,63**
TOTAL ASSETS	**119 855 396,14**	**115 400 795,13**

Liabilities euro	31.12.2016	31.12.2015
SHAREHOLDERS' EQUITY AND RESERVES		
Share capital	10 200 000,00	10 200 000,00
Reserve for invested unrestricted equity	25 515,00	25 515,00
Retained earnings	13 391 304,24	9 580 634,72
Profit / loss of the financial year	6 138 993,64	6 810 669,52
Total	**29 755 812,88**	**26 616 819,24**
TECHNICAL PROVISIONS		
Provision for unearned premiums	13 249 008,23	11 394 495,22
Reinsurers' share	-324 048,81	-409 971,04
	12 924 959,42	**10 984 524,18**
Claims outstanding	1 296 774,70	1 196 347,75
Reinsurers' share	-386 801,30	-526 849,10
	909 973,40	**669 498,65**
Equalisation provision	73 614 597,79	74 788 747,00
Total	**87 449 530,61**	**86 442 769,83**
CREDITORS		
Arising out of direct insurance operations	75 000,00	125 000,00
Arising out of reinsurance operations	377 004,79	355 445,24
Other	180 977,08	239 184,37
	632 981,87	**719 629,61**
ACCRUALS AND DEFERRED INCOME		
Other	2 017 070,78	1 621 576,45
	2 017 070,78	**1 621 576,45**
TOTAL LIABILITIES	**119 855 396,14**	**115 400 795,13**

Financial Supervision Authority confirmed the new calculation bases for Garantia’s equalization provision on 21 October 2016

Regulations on the equalization provision changed as a result of the Insurance Companies Act that came into force on 1 January 2016 and the Financial Supervisory Authority confirmed Garantia’s calculation bases for the equalization provision on 21 October 2016.

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. In Garantia’s 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 equalization provision reaches the targeted amount. In the long term the equalization provision will gravitate to its target amount. The calculation of the target amount has been defined in the Insurance Companies Act.