



GARANTIA INSURANCE COMPANY LTD  
FINANCIAL SUMMARY  
JANUARY-JUNE 2020

GARANTIA



## Garantia's summary January-June 2020

### Garantia Insurance Company Ltd

*The mission of Garantia is to improve capital efficiency. Our goal is to modernize collateral practices and provide our customers with easy and cost-effective guarantee solutions and new business opportunities through digital channels.*

We are a specialised non-life credit and guaranty insurance company supervised by the Finnish Financial Supervisory Authority, and we have extensive experience in the financial sector. We collaborate closely with our customers and partners and build long-lasting customer relationships. We increase the trust between different parties and thus promote the generation of business transactions. Our customers are Finnish companies and consumers.

Our competitive advantages are based on a broad network for cooperation and partnership, solutions tailored for individual customers and a scalable way of working. On 11 September 2019, the international credit rating agency Standard & Poor's confirmed Garantia's rating as A- with a stable rating outlook, which is a testament to the reliability and strong solvency of our operations.

Garantia is a wholly owned subsidiary of Taaleri Plc and part of Taaleri Group. Taaleri is a financial services group, and the share of its parent company Taaleri Plc is listed on NASDAQ OMX Helsinki. Taaleri Group's business consists of three segments: Wealth Management, Insurance and Energy. Taaleri offers services to institutional investors, companies and private individuals. Taaleri's operations are supervised by the Finnish Financial Supervisory Authority.

Further information:

[www.garantia.fi](http://www.garantia.fi)

[www.taaleri.com](http://www.taaleri.com)

## Financial results and key figures

Insurance performance remained good, decreased fair values of investment assets put pressure on earnings.

- Gross premiums written increased by 1.4% to EUR 7.9 (7.8) million. Earned premiums grew by 7.6% to EUR 7.1 (6.6) million.
- Total insurance exposure grew by 0.5% during the first half of the year to EUR 1.85 (1.84) billion.
- Claims incurred decreased to EUR 0.3 (1.4) million and claims ratio went down to 4.4% (21.6).
- Operating expenses decreased by 37.6% to EUR 1.8 (2.9) million primarily due to lower personnel expenses. Expense ratio was 25.3% (43.7).
- Balance on the technical account before changes in the equalization provision grew to EUR 5.0 (2.3) million due to increased earned premiums and lower claims and operating expenses. Combined ratio was 29.8% (65.3).
- Net income from investments diminished significantly compared to the corresponding period last year due to the adverse market conditions caused by the COVID-19 pandemic. Return on investments at fair value was -4.5% (5.3) in the first half of the year.
- Earnings before tax decreased to EUR 2.9 (7.7) million. The reduction in earnings was due to the diminished net income from investments.
- Solvency remained strong despite the exceptional operating environment. At the end of June, solvency ratio stood at 232.4% (231.8).

### Profit and loss account and key ratios

EUR thousands	1-6/2020	1-6/2019	Change	2019
<b>Gross premiums written</b>	<b>7,864</b>	<b>7,753</b>	<b>1.4 %</b>	<b>19,627</b>
Other items *	-771	-1,161	-33.6 %	-6,384
<b>Earned premiums</b>	<b>7,093</b>	<b>6,593</b>	<b>7.6 %</b>	<b>13,242</b>
Claims incurred	-314	-1,427	-78.0 %	-1,618
Operating expenses	-1,798	-2,879	-37.6 %	-5,752
<b>Balance on technical account before changes in equalisation provision</b>	<b>4,981</b>	<b>2,287</b>	<b>117.8 %</b>	<b>5,873</b>
Change in equalisation provision	314	1,427	-78.0%	1,618
<b>Balance on technical account</b>	<b>5,296</b>	<b>3,713</b>	<b>42.6 %</b>	<b>7,491</b>
Investment income and expenses, net	-2,428	3,988	-160.9 %	6,266
Other income and expenses	24	4	441.9%	14
<b>Earnings before tax</b>	<b>2,892</b>	<b>7,706</b>	<b>-62.5 %</b>	<b>13,771</b>
Claims ratio, %	4.4 %	21.6 %	-17.2 %-p.	12.2 %
Expense ratio, %	25.3 %	43.7 %	-18.3 %-p.	43.3 %
Combined ratio, %	29.8 %	65.3 %	-35.5 %-p.	55.7 %
Return on investments at fair value, %	-4.5 %	5.3 %	-9.8 %-p.	8.1 %
Solvency ratio, % **	232.4 %	224.5 %	0.6 %-p.	231.8 %
Total insurance exposure, EUR bn.	1.85	1.65	0.5 %	1.84
Average number of personnel	22	27	-5	25
Credit rating (S&P)	A-	A-	-	A-

Profit & loss items are compared against figures of the corresponding period in 2019. Balance sheet and other cross-section items are compared against the end of 2019 unless otherwise indicated. Figures for the half-year periods 1-6/2020 and 1-6/2019 have not been audited.

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

\*\* Solvency II regulations do not fall within the sphere of statutory auditing. Solvency II figures have not been audited.

## Insurance operations

Garantia's gross premiums written increased by 1.4 % to EUR 7.9 (7.8) million compared to the corresponding period last year. Premiums from consumer exposures decreased in the first half of the year, as the decrease in house sales volumes temporarily reduced the demand for residential mortgage guaranties. However, premiums from corporate exposures grew substantially, as the general demand for corporate loans was exceptionally strong. Earned premiums grew by 7.6% to EUR 7.1 (6.6) million.

Total insurance exposure grew by 0.5% during the first half of the year and amounted EUR 1,847 (1,837) million at the end of June.

Claims incurred totalled EUR 0.3 (1.4) million. Claims incurred decreased from the period of comparison, and the overall level of claims remained low despite the exceptional circumstances. Claims ratio went down to 4.4% (21.6) as earned premiums increased and claims incurred decreased.

Operating expenses decreased by 37.6% when compared to the corresponding period last year. This was mainly due to lower personnel expenses. The company's average number of personnel was 22 (27) during the first half of the year. Expense ratio went down due to smaller operating expenses and increased premiums earned and was 25.3% (43.7). Combined ratio was 29.8% (65.3).

The balance on the technical account grew to EUR 5.0 (2.3) million before changes in the equalisation provision. The improvement in the profitability of insurance operations resulted from increased insurance revenues and decreases in claims and operating expenses. Equalization provision decreased by EUR 0.3 (1.4) million and hence, the balance on the technical account came up to EUR 5.3 (3.7) 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.

## Investment operations

The investment result for the first half of the year was characterized by the global COVID-19 pandemic, that had an abrupt and pronounced impact on the capital markets. The anticipated effects of the pandemic and related control measures on the global economy led to falling stock prices and widening bond credit spreads. However, the development in the capital markets reversed towards the end of June, and stock prices partially returned to levels preceding the onset of the pandemic. Bond credit spreads nevertheless remained on a higher level compared to the levels seen in the beginning of the year.

Garantia's net return on investments recognised in profit and loss amounted to EUR -2.4 (4.0) million. The net return decreased due to booked impairments that arose from lowered fair values of investment assets.

The return on investments, at fair value and without operating expenses allocated to investment activities, was -4.5% (5.3). Net return on investments at fair value<sup>1</sup> was EUR -6.5 (6.8) million, or -4.6% (5.1).

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<sup>1</sup> The net return on investments includes the effect of operating expenses allocated to investment operations.

Garantia's investment portfolio (incl. cash and bank balances), at fair value, was worth EUR 142.7 (150,8) million at the end June, and the fair value difference between the market value and book value of investment assets was EUR 2.3 (6.4) million.

## Risk and risk management

The principal risks associated with Garantia's operations are credit risk arising from insurance operations, and market risks incurred in investment operations.

Garantia's risk position remained stable in the first half of the year despite the exceptional circumstances set forth by the COVID-19 pandemic. Within total insurance exposure, consumer exposures displayed a modest growth and corporate exposures slightly decreased during the first half of the year. At the end of June, corporate exposures made up 53% (55) of total insurance exposure and consumer exposures made up 47% (45).

At the end of June, the proportion of corporate exposures with investment grade ratings of AAA...BBB- was 14.7% (12.6). Exposures rated BB- or better comprised 72.4% (72.4) of corporate exposures. The proportion of exposures with weak ratings of C+ or lower remained stable at 1.5% (1.7). The major industry sectors represented in the corporate portfolio were construction with a share of 42.1% (50.9), and manufacturing with a share of 22.7% (21.0). Of the construction sector exposures, 51.7% (55.3) are reinsured.

The consumer exposures are mainly made up of residential mortgage guaranties. The residential mortgage guaranty portfolio is highly dispersed with regards to counterparties, geographical locations of loan collaterals, and underwriting year. No significant changes took place in the risk position of the residential mortgage portfolio during the first half of the year.

The risk level of investment operations was kept low, as in previous years. At the end of June, fixed income investments made up 88.5% (84.4), equity & private equity investments 10.2% (14.4) and real estate investments 1.3% (1.2) of the investment portfolio (incl. cash and bank balances). Fixed income investments mainly consist of investments in 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 63.1% (54.5). The modified duration of bond investments was 3.2 (3.3).

## Solvency

Garantia's solvency remained strong. Garantia's basic own funds amounted to EUR 107.8 (112.7) million at the end of June. Solvency capital requirement was EUR 46.4 (48.6) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 232.4% (231.8).

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 calculation of technical provisions. Garantia applies the standard formula for 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.

The Financial Supervisory Authority, through a decision made on 29 May 2020, reset the capital add-on imposed on Garantia Insurance Company Ltd. at EUR 15.3 (19.8) million. The new capital add-on has been applied from 30 June 2020 onwards. The main reason behind the reduction of the capital add-on was a change in calculation principles. The Financial Supervisory Authority for the first time utilised Garantia's own economic capital model while determining the amount of the capital add-on. Garantia's solvency capital requirement has included a capital add-on since 30 June 2018. The Financial Supervisory Authority reassesses the capital add-on at least annually.

On 23 March 2020, Garantia published its Solvency and Financial Condition Report for 2019. The Financial Supervisory Authority has subsequently informed insurance companies, that it considers the COVID-19 pandemic as a remarkable alteration as decreed by paragraph 2 of Section 8a of the Insurance Companies' Act, requiring that the effects of the crisis be included in the report. Garantia published an amendment to the Solvency and Financial Condition

Report on 13 August 2020. The original report and the amendment are available on the company's website [www.garantia.fi](http://www.garantia.fi).

Solvency II capital adequacy regulations do not fall within the sphere of statutory auditing, and Solvency II figures have not been audited.

## Credit rating

Standard & Poor's Global Ratings Europe Limited (S&P) affirmed Garantia Insurance Company's issuer rating, financial strength rating (FSR) and the company's financial enhancement rating (FER) as A- with a stable rating outlook on 11 September 2019. There have been no changes to the rating or rating outlook since the rating affirmation.

## Management and governance

The Annual General Meeting held on 21 February 2020 elected Hannu Tonteri as Chairman of the Board of Directors and Karri Haaparinne (Vice Chair), Timo Hukka, Kenneth Kaarnimo and Antti Suhonen as Board members. Kenneth Kaarnimo was elected as a new member. Jukka Ohls left his position on the Board at the Annual General Meeting.

The Board of Directors nominated Tuukka Fabritius as deputy to the Chief Executive Officer as of 1<sup>st</sup> May 2020.

## Additional information

Chief Executive Officer Titta Elomaa, [titta.elomaa@garantia.fi](mailto:titta.elomaa@garantia.fi), tel. +358 50 552 8666

Chief Financial & Risk Officer Henrik Allonen, [henrik.allonen@garantia.fi](mailto:henrik.allonen@garantia.fi), tel. +358 50 303 7436

## Financial information

### Profit and loss account

euro	1-6/2020	1-6/2019	Change, %
<b>Technical Account</b>			
Earned premiums			
Premiums written	7,864,230	7,753,256	1.4 %
Reinsurers' share	-178,533	-470,194	-62.0 %
Change in provision for unearned premiums	-341,028	-928,580	-63.3 %
Reinsurers' share	-251,451	238,079	-205.6 %
	<b>7,093,219</b>	<b>6,592,561</b>	<b>7.6 %</b>
Claims incurred			
Claims paid	-1,089,668	18,398	-6022.8 %
Reinsurers' share	517,116	10,073	5033.9 %
Change in provision for outstanding claims	502,980	-3,632,174	-113.8 %
Reinsurers' share	-244,848	2,176,953	-111.2 %
	<b>-314,421</b>	<b>-1,426,750</b>	<b>-78.0 %</b>
Operating expenses	-1,797,653	-2,879,102	-37.6 %
<b>Balance on technical account before change in equalisation provision</b>	<b>4,981,145</b>	<b>2,286,708</b>	<b>117.8 %</b>
Change in equalisation provision	314,421	1,426,750	-78.0 %
<b>Balance on Technical Account</b>	<b>5,295,565</b>	<b>3,713,459</b>	<b>42.6 %</b>
<b>Non-technical account</b>			
Investment income	8,305,767	4,597,880	80.6 %
Investment expenses	-10,733,822	-609,531	1661.0 %
Other income and expenses	24,136	4,454	441.9 %
Direct taxes on ordinary operations	-679,502	-1,555,036	-56.3 %
<b>Net profit for the financial year</b>	<b>2,212,143</b>	<b>6,151,225</b>	<b>-64.0 %</b>



## Balance sheet

Assets euro	30.06.2020	31.12.2019	Change, %
<b>INTANGIBLE ASSETS</b>			
Intangible rights	21,110	24,125	-12.5 %
Goodwill	286,507	326,786	<b>-12.3 %</b>
Other long-term expenditure	5,266	6,018	-12.5 %
	<b>312,882</b>	<b>356,930</b>	<b>-12.3 %</b>
<b>INVESTMENTS</b>			
Real estate investments			
Real estate investment funds and collective investments	1,599,900	1,639,900	-2.4 %
	<b>1,599,900</b>	<b>1,639,900</b>	<b>-2.4 %</b>
Other investments			
Shares and participations	13,099,537	18,267,699	-28.3 %
Debt securities	117,722,820	122,384,220	-3.8 %
	<b>130,822,357</b>	<b>140,651,919</b>	<b>-7.0 %</b>
<b>Total</b>	<b>132,422,257</b>	<b>142,291,819</b>	<b>-6.9 %</b>
<b>RECEIVABLES</b>			
Arising out of direct insurance operations			
From policy holders	373,046	1,334,979	-72.1 %
Arising out of reinsurance operations	35,880	139,056	-74.2 %
Other	4,376,033	0	-
	<b>4,784,959</b>	<b>1,474,035</b>	<b>224.6 %</b>
<b>OTHER ASSETS</b>			
Tangible assets			
Machinery and equipment	13,680	15,635	-12.5 %
Other tangible assets	48,365	48,365	0.0 %
	<b>62,046</b>	<b>64,000</b>	<b>-3.1 %</b>
Cash and bank balances	2,235,820	607,525	268.0 %
<b>Total</b>	<b>2,297,865</b>	<b>671,525</b>	<b>242.2 %</b>
<b>PREPAYMENTS AND ACCURED INCOME</b>			
Accured interest and rental income	1,436,647	1,509,235	-4.8 %
Other accured income	2,109	31,757	-93.4 %
	<b>1,438,756</b>	<b>1,540,992</b>	<b>-6.6 %</b>
<b>TOTAL ASSETS</b>	<b>141,256,720</b>	<b>146,335,301</b>	<b>-3.5 %</b>



Liabilities euro	30.06.2020	31.12.2019	Change, %
<b>SHAREHOLDERS' EQUITY AND RESERVES</b>			
Share capital	10,200,000	10,200,000	0.0 %
Reserve for invested unrestricted equity			
Retained earnings	26,143,060	21,155,569	23.6 %
Profit / loss of the financial year	2,212,143	10,987,490	-79.9 %
<b>Total</b>	<b>38,555,203</b>	<b>42,343,060</b>	<b>-8.9 %</b>
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	27,092,884	26,751,856	1.3 %
Reinsurers' share	-545,838	-797,289	-31.5 %
	<b>26,547,046</b>	<b>25,954,567</b>	<b>2.3 %</b>
Claims outstanding	4,461,488	4,964,468	-10.1 %
Reinsurers' share	-2,146,680	-2,391,528	-10.2 %
	<b>2,314,808</b>	<b>2,572,940</b>	<b>-10.0 %</b>
Equalisation provision	71,386,223	71,700,643	-0.4 %
<b>Total</b>	<b>100,248,077</b>	<b>100,228,151</b>	<b>0.0 %</b>
<b>PAYABLES</b>			
Arising out of direct insurance operations	0	60,506	-100.0 %
Arising out of reinsurance operations	98,069	526,358	-81.4 %
Other	192,221	196,464	-2.2 %
	<b>290,290</b>	<b>783,328</b>	<b>-62.9 %</b>
<b>ACCRUALS AND DEFERRED INCOME</b>			
Other	2,163,151	2,980,763	-27.4 %
	<b>2,163,151</b>	<b>2,980,763</b>	<b>-27.4 %</b>
<b>TOTAL LIABILITIES</b>	<b>141,256,720</b>	<b>146,335,301</b>	<b>-3.5 %</b>