

GARANTIA

GARANTIA INSURANCE COMPANY LTD
FINANCIAL SUMMARY
JANUARY-JUNE 2021

Financial summary January-June 2021

Garantia Insurance Company Ltd

The mission of Garantia is to promote capital efficiency. We modernize inefficient collateral practices for the benefit of our customers and provide our customers with easy and cost-effective guaranty 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 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 14 October 2020, the international credit rating agency Standard & Poor's confirmed Garantia's rating as A- with a stable rating outlook, a demonstration of 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 Nordic investment and asset manager with an emphasis on renewable energy and other alternative investments. Taaleri's business consists of two reporting business segments: Private Asset Management and Strategic Investments. The Private Asset Management segment includes the renewable energy, real estate, bioindustry and infrastructure businesses. The Strategic Investments segment includes Garantia Insurance Company Ltd. The share of Taaleri Plc is listed on Nasdaq OMX Helsinki.

Further information:

www.garantia.fi

www.taaleri.com

Financial results and key figures

Premiums written grew and profitability improved in the first half of the year

- Gross premiums written grew by 33.4 per cent to EUR 10.5 (7.9) million owing to growth in residential mortgage guaranties. Earned premiums grew by 15.8 per cent to EUR 8.2 (7.1) million.
- Total insurance exposure contracted 5.0 per cent during the first half of the year to EUR 1.72 (1.82) billion. The contraction has mainly been the result of the company's strategic decision to discontinue underwriting new construction sector related commercial bonds as of 1 January 2020.
- Claims incurred remained on a low level and amounted to EUR 0.2 (0.3) million. Claims ratio decreased to 2.6 per cent (4.4).
- Operating expenses grew compared to the previous year and amounted to EUR 2.2 (1.8) million. However, growth in the expense ratio remained limited as earned premiums grew. The expense ratio stood at 27.3 per cent (25.3).
- Balance on the technical account before changes in the equalisation provision increased to EUR 5.8 (5.0) million. Combined ratio was at the level seen in the previous year at 29.9 per cent (29.8).
- Net income from investments grew significantly compared to the corresponding period last year. During the period of comparison, net income from investments was weighed down by the market effects of the COVID-19 pandemic. Return on investments at fair value reached 4.1 per cent (-4.5) in the first half of the year.
- Earnings before tax improved to EUR 10.1 (2.9) million. The improvement was a result of good profitability development of both insurance and investment operations.
- Garantia's solvency strengthened. At the end of June, the company's solvency ratio stood at 241.6 per cent (229.4).

Profit and loss account and key ratios

EUR thousands	1-6/2021	1-6/2020	Change	2020
Gross premiums written	10,488	7,864	33.4 %	18,988
Other items ¹⁾	-2,276	-771	195.2 %	-4,104
Earned premiums	8,212	7,093	15.8 %	14,885
Claims incurred	-217	-314	-31.1 %	-592
Operating expenses	-2,242	-1,798	24.7 %	-5,030
Balance on technical account before changes in equalisation provision	5,753	4,981	15.5 %	9,263
Change in equalisation provision	217	314	-31.1 %	592
Balance on technical account	5,970	5,296	12.7 %	9,855
Investment income and expenses, net	4,123	-2,428	-	3,716
Other income and expenses	27	24	10.8 %	33
Earnings before tax	10,119	2,892	250.0 %	13,604
Claims ratio, %	2.6 %	4.4 %	-1.8 %-p.	4.0 %
Expense ratio, %	27.3 %	25.3 %	2.0 %-p.	33.8 %
Combined ratio, %	29.9 %	29.8 %	0.2 %-p.	37.8 %
Return on investments at fair value, %	4.1 %	-4.5 %	8.6 %-p.	1.8 %
Solvency ratio, % ²⁾	241.6 %	232.4 %	12.2 %-p.	229.4 %
Total insurance exposure, EUR bn.	1.72	1.85	-5.0 %	1.82
Average number of personnel	22	22	0	21
Credit rating (S&P)	A-	A-	-	A-

Profit & loss items are compared against the figures of the corresponding period in 2020. Balance sheet and other cross-section items are compared against the end of 2020 unless otherwise indicated. Figures for the half-year periods 1-6/2021 and 1-6/2020 have not been audited.

¹⁾ Reinsurers' share of premiums written, change in provision for unearned premiums and reinsurers' share of change in provision for unearned premiums. The provision for unearned premiums represents the portion of premiums written that will be recognised as earned premiums in future reporting periods.

²⁾ Solvency II regulations do not fall within the scope of statutory audit, hence the solvency figures have not been audited.

Insurance operations

Garantia's gross premiums written grew 33.4 per cent to EUR 10.5 (7.9) million from the period of comparison. Premium growth resulted from the growth of residential mortgage guaranty premiums, which was especially attributable to the sales volume brought in by the new distribution channel that opened in October 2020. Premiums written from corporate exposure decreased compared to the corresponding period last year, as the period of comparison saw exceptionally strong demand for corporate financing due to the uncertainty brought in by the COVID-19 pandemic.

Garantia's earned premiums grew 15.8 per cent to EUR 8.2 (7.1) million. Compared to earlier periods, a proportionately larger share of written premiums accumulated during the period was booked in the provisions for unearned premiums, and hence, the net provision for unearned premiums increased by EUR 1.8 million (0.1) in the first half of the year. The growth in the provision for unearned premiums was due to increased underwriting volumes of new residential mortgage guaranties.

Total insurance exposure contracted by 5.0 per cent during the first half of the year and amounted to EUR 1,725 (1,817) million at the end of June. The contraction of the insurance exposure has mainly been due to the company's strategic decision to discontinue underwriting new construction sector related commercial bonds as of 1 January 2020. The commercial bond exposure forms a part of the corporate exposure. The development of consumer exposure was positive during the period, and the amount of this exposure grew.

Claims incurred amounted to EUR 0.2 (0.3) million in the first six months of the year. Claims incurred remained on a low level despite the exceptional operating environment caused by the COVID-19 pandemic. Claims ratio decreased to 2.6 per cent (4.4).

Operating expenses grew by 24.7 per cent in the first half of the year, when compared to the corresponding period last year, and amounted to EUR 2.2 million (1.8). The growth was mainly attributable to personnel expenses. Despite the growing expenses, the increase in the expense ratio remained limited as earned premiums grew. The expense ratio stood at 27.3 per cent (25.3). Combined ratio was at the level seen in the previous year at 29.9 per cent (29.8).

The balance on the technical account before changes in the equalisation provision improved to EUR 5.8 (5.0) million in the reporting period. The strong technical performance was based on growing premiums earned and a sustaining low level of claims expenses. The equalisation provision, a part of balance sheet technical provisions, was reversed by EUR 0.2 (0.3) million, and hence, the balance on the technical account came up to EUR 6.0 (5.3) million.

Investment operations

Capital market performance was strong overall during the reporting period. Equity prices in the main markets kept on reaching new record levels and the credit spreads on euro nominated bonds narrowed. The second quarter of the year, however, saw high inflation figures, and fears of faster than expected tightening of monetary policy by central banks left equity prices without clear direction in June.

Garantia's net investment income recognised in profit and loss amounted to EUR 4.1 (-2.4) million. The net income was mainly composed of interest income and reversals of impairments caused by increasing fair values of investments. The strong growth in net investment income compared to the corresponding period last year was due to the exceptionally weak net investment income in the period of comparison. In the corresponding period last year, net investment income was negative due to the market reactions caused by the COVID-19 pandemic.

Return on investments, at fair value, was 4.1 per cent (-4.5). Net return on investments at fair value¹ was EUR 5.9 (-6.5) million, or 3.9 per cent (-4.6).

Garantia's investment portfolio (incl. cash, bank balances and accrued interest), at fair value, was worth EUR 159.0 (159.5) million, and the fair value difference between the market value and book value of investment assets was EUR 7.2 (5.2) million at the end of June.

¹ The net return on investments includes the deduction of operating expenses allocated to investment operations.

Risk and risk management

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

The risk position of Garantia's insurance operations has remained stable. Of the company's gross guaranty insurance exposure of EUR 1,725 (1,817) million in the end of June, 59 (54) percent or EUR 1 019 (972) million was made up of consumer exposures, and 41 (46) percent or EUR 705 (844) of corporate exposures. The consumer exposures include residential mortgage guaranties and rent guaranties, where underwriting risk relates to the credit risk of households. The corporate exposure is made up of corporate loan guaranties, commercial bonds, and other business-related guaranties, where underwriting risk relates to the credit risk of companies and other organisations.

Regarding the risk position of the consumer exposures, the company's residential mortgage guaranty portfolio plays a central part. No significant changes concerning the risk position of the residential mortgage guaranty portfolio took place during the first half of the year. The portfolio is well diversified by counterparty, geographical location of collateral property and underwriting year. The counterparties in the residential mortgage guaranty portfolio have on average very good creditworthiness. In addition, the credit risks of the portfolio are managed through an excess of loss portfolio reinsurance arrangement, that came in to force on 1 January 2021.

At the end of June, the share of corporate exposures with investment grade ratings of AAA...BBB- was 18.7 per cent (15.6). Exposures rated BB- or better made up 74.5 per cent (73.2) of corporate exposures. The share of exposures with weak ratings of C+ or lower increased somewhat and stood at 4.4 per cent (3.7). The principal industry sectors in the corporate portfolio were construction at 30.1 per cent (35.4), and manufacturing at 25.0 per cent (24.7). Moreover, 46.8 per cent (48.8) of the construction sector exposure is reinsured. The economic recession related to the COVID-19 pandemic, that emerged in 2020, has had limited effect on the creditworthiness of the counterparties of the corporate portfolio. This is mainly since the proportion of service sector exposures, the sector that has particularly suffered from the crisis, is small.

Garantia has in 2017 received information that a matter concerning a potential insurance event and a related claim has become pending in the Helsinki District Court. The amount of the claim is EUR 5 million, with added penalty interest and legal expenses. The claim concerns a pension fund, a guaranty insurance customer of Garantia, that was placed in liquidation in 2011, and subsequently declared bankrupt in 2018. The court proceedings are currently ongoing in the district court. Garantia considers the claim unfounded, and hence no provision for an outstanding claim has been booked.

The risk level of investment operations was kept low, as in previous years. At the end of June, fixed income investments made up 84.6 per cent (86.4), equity & private equity investments 14.4 per cent (12.5) and real estate investments 1.0 per cent (1.1) of the investment portfolio (incl. cash, bank balances and accrued interest). Fixed income investments mainly include investments in bonds of Finnish and Nordic companies and credit institutions with strong creditworthiness. The proportion of investment grade fixed income investments was 66.8 per cent (61.4). The modified duration of bond investments was 3.7 (3.5).

Solvency

Garantia's solvency strengthened. The company's basic own funds amounted to EUR 124.0 (114.1) million at the end of June. Solvency capital requirement was EUR 51.3 (49.7) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 241.6 per cent (229.4).

In the first half of the year, basic own funds grew due to accumulated profits and the increases in the fair values of investment assets. The solvency capital requirement grew as a result of increased capital requirement for market risks and growth of the capital add-on. The growth in the capital requirement for market risks was attributable to increasing equity and foreign exchange risks.

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, nor do Garantia's own funds 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.

During the reporting period, Garantia changed its Solvency 2 calculation principles regarding the definition of foreseeable dividends. According to the new definition, and the company's dividend policy, the company only considers dividends foreseeable when the dividend distribution criteria related to solvency, credit rating and financial results can be estimated to be satisfied with certainty. Hence, the company no longer deducts foreseeable dividends from basic own funds before the end of the financial year.

Garantia's solvency capital requirement has included a capital add-on set by the Financial Supervisory Authority as of 30 June 2018. The Financial Supervisory Authority reassesses the capital add-on at least annually. Most recently, The Financial Supervisory Authority, through a decision made on 10 June 2021, reset the capital add-on of Garantia Insurance Company Ltd. at EUR 15.6 (15.3²) million. The new capital add-on has been applied from 30 June 2021 onwards. The Financial Supervisory Authority considers the company's own economic capital requirement for underwriting risk, when assessing the amount of the capital add-on.

On 25 March 2021, Garantia published its Solvency and Financial Condition Report for 2021. The report is available on the company's website www.garantia.fi.

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

Credit rating

Standard & Poor's (S&P) affirmed Garantia Insurance Company's credit rating A-, with stable outlook³, on 14 October 2020. There have been no changes in the credit rating nor the rating outlook since.

Management and governance

The Annual General Meeting held on 19 February 2021 elected Karri Haaparinne (Chairperson), Timo Hukka (Vice Chairperson), Kenneth Kaarnimo, Robin Lindahl and Antti Suhonen as members of the Board. Robin Lindahl was elected as a new member. Hannu Tonteri, a long-serving Chairperson of the Board, expressed prior to the Annual General Meeting that he will retire from board duties.

Additional information

Chief Executive Officer Titta Elomaa, titta.elomaa@garantia.fi, tel. +358 50 552 8666

Chief Financial & Risk Officer Henrik Allonen, henrik.allonen@garantia.fi, tel. +358 50 303 7436

² Reported in the parenthesis is the capital add-on that came into effect on 30 June 2020.

³ The credit rating and the rating outlook reflect the company's Issuer Credit Rating (ICR), financial strength rating (FSR) and the financial enhancement rating (FER).

Financial information

Profit and loss account

EUR	1.1.-30.6.2021	1.1.-30.6.2020	Change, %
Technical Account			
Earned premiums			
Premiums written	10,488,086	7,864,230	33.4 %
Reinsurers' share	-499,932	-178,533	180.0 %
Change in provision for unearned premiums	-1,853,998	-341,028	443.7 %
Reinsurers' share	78,056	-251,451	-131.0 %
	8,212,212	7,093,219	15.8 %
Claims incurred			
Claims paid	-523,082	-1,089,668	-52.0 %
Reinsurers' share	98,876	517,116	-80.9 %
Change in provision for outstanding claims	752,978	502,980	49.7 %
Reinsurers' share	-545,409	-244,848	122.8 %
	-216,637	-314,421	-31.1 %
Operating expenses	-2,242,359	-1,797,653	24.7 %
Balance on technical account before change in equalisation provision	5,753,216	4,981,145	15.5 %
Change in equalisation provision	216,637	314,421	-31.1 %
Balance on Technical Account	5,969,853	5,295,565	12.7 %
Non-technical account			
Investment income	4,651,383	8,305,767	-44.0 %
Investment expenses	-528,604	-10,733,822	-95.1 %
Other income and expenses	26,741	24,136	10.8 %
Direct taxes on ordinary operations	-2,035,600	-679,502	199.6 %
Net profit for the financial year	8,083,772	2,212,143	265.4 %

Balance sheet

Assets EUR	30 Jun 2021	31 Dec 2020	Change, %
INTANGIBLE ASSETS			
Intangible rights	15,078	18,094	-16.7 %
Goodwill	263,567	310,248	-15.0 %
Other long-term expenditure	3,761	4,514	-16.7 %
	282,407	332,856	-15.2 %
INVESTMENTS			
Real estate investments			
Real estate investment funds and collective investments	1,375,500	1,525,900	-9.9 %
	1,375,500	1,525,900	-9.9 %
Other investments			
Shares and participations	18,812,438	17,528,001	7.3 %
Debt securities	127,853,542	132,440,137	-3.5 %
	146,665,980	149,968,138	-2.2 %
Total	148,041,480	151,494,038	-2.3 %
RECEIVABLES			
Arising out of direct insurance operations			
From policy holders	290,616	1,244,365	-76.6 %
Arising out of reinsurance operations	164,525	64,994	153.1 %
	455,141	1,309,359	-65.2 %
OTHER ASSETS			
Tangible assets			
Machinery and equipment	9,703	11,089	-12.5 %
Other tangible assets	48,365	48,365	0.0 %
	58,068	59,454	-2.3 %
Cash and bank balances	2,776,846	1,278,861	117.1 %
Total	2,834,914	1,338,316	111.8 %
PREPAYMENTS AND ACCURED INCOME			
Accured interest and rental income	921,028	1,466,911	-37.2 %
Other accured income	2,731	23,333	-88.3 %
	923,759	1,490,245	-38.0 %
TOTAL ASSETS	152,537,701	155,964,813	-2.2 %

Equity and liabilities			
EUR	30 Jun 2021	31 Dec 2020	Change, %
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	10,200,000	10,200,000	0.0 %
Retained earnings	26,885,095	26,143,060	2.8 %
Profit / loss of the financial year	8,083,772	10,742,035	-24.7 %
Total	45,168,867	47,085,095	-4.1 %
TECHNICAL PROVISIONS			
Provision for unearned premiums	32,001,313	30,147,315	6.1 %
Reinsurers' share	-410,523	-332,467	23.5 %
	31,590,790	29,814,848	6.0 %
Claims outstanding	3,619,898	4,372,876	-17.2 %
Reinsurers' share	-1,517,617	-2,063,025	-26.4 %
	2,102,281	2,309,850	-9.0 %
Equalisation provision	70,892,427	71,109,064	-0.3 %
Total	104,585,499	103,233,762	1.3 %
PAYABLES			
Arising out of direct insurance operations		55,822	-100.0 %
Arising out of reinsurance operations	105,236	99,905	5.3 %
Other	228,638	194,057	17.8 %
	333,874	349,784	-4.5 %
ACCRUALS AND DEFERRED INCOME			
Other	2,449,462	5,296,172	-53.8 %
	2,449,462	5,296,172	-53.8 %
TOTAL EQUITY AND LIABILITIES	152,537,701	155,964,813	-2.2 %