GARANTIA

Garantia Insurance Company Ltd

Financial Summary
1 January – 30 June 2023

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Garantia Insurance Company Ltd

The mission of Garantia is to promote capital efficiency. We modernise 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. The international credit rating agency Standard & Poor's has 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, and bioindustry businesses. The Strategic Investments segment includes Garantia Insurance Company Ltd. The share of Taaleri Plc is listed on Nasdaq OMX Helsinki.

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

Financial results and key figures

A good result in a challenging environment, solvency strengthened further

- Gross premiums written decreased by 26.0% to EUR 8.0 (1–6/2022: 10.9) million as the housing market cooled down and dragged down sales of new residential mortgage guaranties.
- Earned premiums grew by 25.2% to EUR 10.0 (8.0) million. The growth was driven by growth in the guaranty insurance portfolio, and a change in its product mix, as compared against the corresponding period last year.
- Total insurance exposure decreased 0.3% during the first half of the year to EUR 1,856 (1,862) million. The share of consumer exposures was 72% (72) and the share of corporate exposures 28% (28).
- Claims incurred remained on a low level during the first half of the year and amounted to EUR 0.5 (0.3) million. Claims ratio was 4.8% (3.2).
- Operating expenses grew 13.6% and amounted to EUR 2.5 (2.2) million. However, the expense ratio came down from the previous year and stood at 24.8% (27.4).
- Balance on the technical account before changes in the equalisation provision strengthened to EUR 7.0 (5.5) million. Combined ratio improved to 29.6 per cent (30.6).
- Net income from investments grew significantly from the corresponding period last year, as investment income was depressed in the period of comparison due to inflation, surging interest rates and the start of the war in Ukraine. Return on investments at fair value was 2.4% (-11.2) in the first half of the year.
- Earnings before tax strengthened to EUR 10.3 (-10.1) million. Earnings from insurance operations developed well, with investment operations also delivering a fair result.
- Garantia's solvency strengthened clearly thanks to the profits accumulated. At the end of June, the company's solvency ratio stood at 259.8% (231.3).

Profit and loss account and key ratios

EUR thousands	1–6/2023	1–6/2022	Change	2022
Gross premiums written	**8,043**	**10,873**	**-26.0 %**	**24,664**
Other items[1)]	1,954	-2,890	-	-6,420
Earned premiums	**9,998**	**7,983**	**25.2 %**	**18,244**
Claims incurred	-479	-256	87.2 %	-579
Operating expenses	-2,481	-2,185	13.6 %	-4,676
Balance on technical account before changes in equalisation provision	**7,037**	**5,542**	**27.0 %**	**12,990**
Change in equalisation provision	479	256	87.2 %	579
Balance on technical account	**7,517**	**5,798**	**29.6 %**	**13,568**
Investment income and expenses, net	2,771	-15,937	-	-15,211
Other income and expenses	22	-2	-	15
Earnings before tax	**10,309**	**-10,141**	**-**	**-1,627**
Claims ratio, %	4.8 %	3.2 %	1.6 %	3.2 %
Expense ratio, %	24.8 %	27.4 %	-2.6 %	25.6 %
Combined ratio, %	29.6 %	30.6 %	-1.0 %	28.8 %
Return on investments at fair value, %	2.4 %	-11.2 %	13.6 %	-11.2 %
Solvency ratio, % [2)]	259.8 %	237.8 %	28.6 %	231.3 %
Total insurance exposure, EUR bn.	1,856	1,742	-0.3 %	1,862
Average number of personnel	24	23	1	23
Credit rating (S&P)	A-	A-	-	A-

Profit & loss items are compared against the figures of the corresponding period in 2022. Balance sheet and other cross-section items are compared against the end of 2022 unless otherwise indicated. Figures for the half-year periods 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.

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 insurance operations consist of guaranty insurance. The company's gross premiums written decreased 26.0% from the period of comparison and amounted to EUR 8.0 (10.9) million. The decrease in premiums was caused by lower sales volume of new residential mortgage guaranties. The housing market weakened significantly from the period of comparison, the number of home sales declined, and the volume of new home loans was clearly lower than previously, putting pressure on the demand for residential mortgage guaranties.

During the reporting period, the company started cooperation with a new partner concerning the distribution of rent guarantees to private households on a digital platform.

The net provision for unearned premiums decreased by EUR 2.4 during the first half of the year, whereas in the corresponding period last year the net provision grew by EUR 2.4 million. The reduction in the provision for unearned premiums was attributable to lower underwriting volumes.

Earned premiums grew by 25.2% during the first half of year and amounted to EUR 10.0 (8.0) million. Earned premiums grew thanks to an increase in the volume of the guaranty insurance portfolio, and a change in its product mix, as compared against the corresponding period last year.

Total insurance exposure decreased by 0.3% during the first six months of the year and amounted to EUR 1,856 (1,862) million at the end of June. The general composition of the guaranty insurance portfolio remained unchanged. Of the total guaranty insurance exposure at the end of June, EUR 1,345 (1,343) million, or 72% (72), consisted of consumer exposures, and EUR 511 (519) million, or 28% (28), consisted of corporate exposures. The consumer exposures include residential mortgage guarantees and rent guarantees underwritten to private households. The corporate exposure is made up of corporate loan guarantees, commercial bonds, and other business-related guarantees, underwritten to companies and other organisations.

Claims incurred amounted to EUR 0.5 (0.3) million in the first six months of the year. The amount of claims incurred increased slightly, but remained low overall. Claims ratio came up to 4.8% (3.2).

Operating expenses grew 13.6% and amounted to EUR 2.5 (2.2) million. Operating expenses were driven up by increased variable staff compensation expenses compared to the corresponding period last year. However, expense ratio improved to 24.8% (27.4) thanks to the growth in the premiums earned. Combined ratio also improved and stood at 29.6% (30.6).

The balance on the technical account before changes in the equalisation provision grew significantly from the previous year and amounted to EUR 7.0 (5.5) million. The improvement of technical profitability was a result of increased level of premiums earned. The equalisation provision, a part of the balance sheet technical provisions, was reversed by EUR 0.5 (0.3) million, and hence the balance on the technical account came up to EUR 7.5 (5.8) million.

Investment operations

Investment market performance was varied in the first six months of the year. The stock markets saw strong development in the United States and Japan, whereas in Europe markets developed without clear direction. In the fixed income market, rate hikes by central banks continued beyond investor expectations, depressing the returns from fixed-income investments. In general, the investment market has remained sensitive to monetary policy decisions, as the global economy faces a weakening trend.

Garantia's net investment income recognised in profit and loss amounted to EUR 2.8 (-15.9) million. The net income was mainly composed of interest income and impairments and reversals of impairments caused by changes in the fair values of investments. The net income from investments improved significantly from the period of comparison, as during the period of comparison net income from investments was depressed by inflation, rising interest rates, and the market reactions caused by the start of the war in Ukraine.

At the end of June, fixed income investments made up 88.1% (88.2), equity & private equity investments 10.4% (10.4) and real estate investments 1.5% (1.4) of the investment portfolio[1]. Return on investments, at fair value, was 2.4% (-11.2). Net return on investments at fair value[2] was EUR 3.4 (-18.2) million, or 2.3% (-11.2).

Garantia's investment portfolio, at fair value, was worth EUR 153.1 (154.7) million at the end of June. The value of the investment portfolio was affected by the EUR 10.0 million dividend distributed to the parent company during the reporting period. At the end of June, the positive valuation difference between the fair value and the book value of investment assets was EUR 3.8 (3.2) million

Risk and risk management

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

In guaranty insurance, credit risk refers to the risk of the guaranteed counterparty being unable to meet its contractual obligations towards the beneficiary of the guaranty. The amount of credit risk is mainly dependent on the creditworthiness of the guaranteed counterparties and the amount of any counter-collateral. The market risks regarding investment operations consist of interest, equity, property, currency, and counterparty credit risks affecting the value and return of investment assets.

The risk position of Garantia's guaranty insurance operations has remained stable. Total guaranty insurance exposure contracted slightly compared to the end of the previous year, and the shares of consumer and corporate exposures remained unchanged.

Consumer exposures amounted to EUR 1,345 (1,343) million at the end of June and represented 72% (72) of the total guaranty insurance exposure. The consumer exposures are made up of residential mortgage guaranties and rent guarantees underwritten to private households. The residential mortgage guaranty is a supplementary collateral underwritten to cover a housing loan. The rent guarantee protects landlords against tenants defaulting on their lease contract obligations.

Most of the consumer exposure is made up of the residential mortgage guaranty portfolio, the risk position of which did not see any material changes during the half of the year. The portfolio is well diversified with respect to counterparty, geographical location of collateral property and underwriting year, and the creditworthiness of the counterparties in the portfolio is very good on average. The credit risks of the portfolio are in addition limited by means of an excess-of-loss portfolio reinsurance arrangement. Increased interest rates and inflation have in general put a strain on the debt service capacity of mortgage borrowers, and housing prices have come down during the first half of the year, resulting in lower residential collateral values. However, this has not materially increased claims, thanks to the good underlying creditworthiness of the borrowers.

Corporate exposure amounted to EUR 511 (519) million at the end of June and represented 28% (28) of the total guaranty insurance exposure. The corporate exposure is made up of corporate loan guarantees, commercial bonds, and other business-related guarantees. The guaranteed companies in the corporate portfolio mainly include medium and large Finnish companies and other organisations. The credit risks in the portfolio are, in addition to risk selection, managed by applying reinsurance, collaterals and risk-mitigating contractual arrangements.

The share of corporate exposures with investment grade ratings of AAA…BBB- amounted to 22.3% (23.0), and the share of exposures rated BB- or better made up 72.8% (67.0) of all rated corporate exposures. The share of exposures

[1] The value of the investment portfolio includes cash & bank balances and accrued interest.
[2] The net return on investments includes operating expenses allocated to investment operations as a deduction.

with weak ratings of C+ or lower came down to 0.9% (2.2). The creditworthiness of the corporate counterparties in the company's guaranty insurance portfolio has remained good on average, although the weakened economic environment has had an impact on the creditworthiness of individual counterparties.

The principal industry sectors in the corporate portfolio were manufacturing at 24.2% (23.8), construction at 16.0% (17.2), retail and wholesale trade at 15.2% (15.6), and financial and insurance services at 13.0% (13.1). The shares of other industry sectors were all less than 10%.

In investment operations, the overall risk level was kept unhanged during the first half of the year. At the end of the reporting period, fixed-income investments made up 88.1% (88.2), equity & private equity investments 10.4% (10.4) and real estate investments 1.5% (1.4) of the investment portfolio (incl. cash, bank balances and accrued interest). The majority of the fixed income investments was made up of investments in bonds of Nordic companies, credit institutions and insurance companies with strong creditworthiness. The fixed-income investments also include bond funds that invest in government debt securities. The proportion of investment grade-rated fixed-income investments was 69.6% (71.4). The modified duration of the fixed-income investments was 2.1 (2.3).

Solvency

Garantia's solvency strengthened clearly during the first half of the year thanks to growth in own funds and a simultaneous reduction in the solvency capital requirement. The company's basic own funds amounted to EUR 113.7 (105.3) million at the end of June. Solvency capital requirement was EUR 43.8 (45.5) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 259.8% (231.3).

Own funds grew thanks to profits accumulated in the first half of the year. Solvency capital requirement came down because of diminished capital requirements for market 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.

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 9 June 2023, reset Garantia's capital add-on at EUR 11.9 (11.7[3]) million. The new capital add-on has been applied from 30 June 2023 onwards. The Financial Supervisory Authority considers the company's own economic capital model for underwriting risk, when assessing the amount of the capital add-on.

On 5 April 2023, Garantia published its Solvency and Financial Condition Report for 2022. The report is available on the company's website at https://www.garantia.fi/en/about-us/financial-information/.

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

3 Reported in the parenthesis is the capital add-on that came into effect on 30 June 2022.

Credit rating

On 7 November 2022, Standard & Poor's Global Ratings (S&P) confirmed Garantia Insurance Company's credit rating as A- with a stable outlook[4]. There have been no changes in the credit rating or the outlook since.

Management and governance

The Annual General Meeting held on 17 February 2023 elected Karri Haaparinne (Chairperson), Antti Suhonen (Vice Chairperson), Kenneth Kaarnimo, Laura Paasio and Peter Ramsay as members of the Board. Peter Ramsay was elected as a new member.

The Annual General Meeting appointed Ernst & Young Oy as the auditor and Authorised Public Accountant Johanna Winqvist-Ilkka as the principally responsible auditor.

Additional information

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

[4] The credit rating and outlook concern the company's Issuer Credit Rating (ICR), Financial Strength Rating (FSR) and the company's Financial Enhancement Rating (FER) depicting its capacity and willingness to meet its commitments on financial guarantees.

Financial information

Profit and loss account

euro	1.1.-30.6.2023	1.1.-30.6.2022	Change, %
Technical Account			
Earned premiums			
Premiums written	8,043,479	10,873,321	-26.0 %
Reinsurers' share	-434,122	-459,089	-5.4 %
Change in provision for unearned premiums	2,196,840	-2,580,001	-
Reinsurers' share	191,642	148,869	28.7 %
	9,997,839	**7,983,100**	**25.2 %**
Claims incurred			
Claims paid	-622,715	-1,073,675	-42.0 %
Reinsurers' share		470,538	-100.0 %
Change in provision for outstanding claims	144,237	919,659	-84.3 %
Reinsurers' share	-923	-572,546	-99.8 %
	-479,401	**-256,024**	**87.2 %**
Operating expenses	-2,481,211	-2,185,015	13.6 %
Balance on technical account before change in equalisation provision	**7,037,227**	**5,542,061**	**27.0 %**
Change in equalisation provision	479,401	256,024	87.2 %
Balance on Technical Account	**7,516,628**	**5,798,084**	**29.6 %**
Non-technical account			
Investment income	8,400,330	2,808,425	199.1 %
Investment expenses	-5,629,776	-18,745,231	-70.0 %
Other income and expenses	22,231	-2,061	-
Direct taxes on ordinary operations	-1,786,447		-
Net profit/loss for the financial year	**8,522,966**	**-10,140,783**	**-**

Balance sheet

Assets EUR	30 Jun 2023	31 Dec 2022	Change, %
Intangible assets			
Intangible rights	3,016	6,031	-50.0 %
Goodwill	146,440	203,064	-27.9 %
Other long-term expenditure	752	1,505	-50.0 %
	150,208	**210,600**	**-28.7 %**
Investments			
Real estate investments			
Real estate investment funds	1,910,943	1,773,917	7.7 %
	1,910,943	**1,773,917**	**7.7 %**
Other investments			
Shares and participations	22,543,882	30,336,985	-25.7 %
Debt securities	120,120,494	117,207,347	2.5 %
	142,664,376	**147,544,332**	**-3.3 %**
Total	**144,575,319**	**149,318,249**	**-3.2 %**
Receivables			
Arising out of direct insurance operations			
From policy holders	55,459	955,834	-94.2 %
Arising out of reinsurance operations	233,781	377,552	-38.1 %
	289,239	**1,333,386**	**-78.3 %**
Other assets			
Tangible assets			
Machinery and equipment	5,458	6,238	-12.5 %
Other tangible assets	48,365	48,365	0.0 %
	53,823	**54,603**	**-1.4 %**
Cash and bank balances	4,546,952	781,010	482.2 %
Total	**4,600,775**	**835,613**	**450.6 %**
Prepayments and accrued income			
Accrued interest and rental income	1,172,087	1,374,391	-14.7 %
Other accrued income	1,575	926	70.1 %
	1,173,662	**1,375,317**	**-14.7 %**
TOTAL ASSETS	**150,789,203**	**153,073,165**	**-1.5 %**

Equity and liabilities EUR	30 Jun 2023	31 Dec 2022	Change, %
Shareholders' equity and reserves			
Share capital	10,200,000	10,200,000	0.0 %
Retained earnings	16,157,225	27,784,217	-41.8 %
Profit / loss of the financial year	8,522,966	-1,626,992	-
Total	**34,880,191**	**36,357,225**	**-4.1 %**
Technical provisions			
Provision for unearned premiums	40,344,555	42,541,395	-5.2 %
Reinsurers' share	-232,553	-40,911	468.4 %
	40,112,001	**42,500,483**	**-5.6 %**
Claims outstanding	1,103,518	1,247,755	-11.6 %
Reinsurers' share	-5,935	-6,858	-13.5 %
	1,097,583	**1,240,897**	**-11.5 %**
Equalisation provision	69,373,673	69,853,074	-0.7 %
Total	**110,583,257**	**113,594,454**	**-2.7 %**
Provisions			
Other provisions	4,948	17,781	-72.2 %
	4,948	**17,781**	**-72.2 %**
Payables			
Arising out of direct insurance operations		40,935	-100.0 %
Arising out of reinsurance operations	87,718	101,781	-13.8 %
Other	1,301,966	405,731	220.9 %
	1,389,683	**548,447**	**153.4 %**
Accruals and deferred income			
Other accrued expenses	3,931,123	2,555,258	53.8 %
	3,931,123	**2,555,258**	**53.8 %**
TOTAL EQUITY AND LIABILITIES	**150,789,203**	**153,073,165**	**-1.5 %**