

SUMMARY 1-6/2018



GARANTIA
SECURING OWNERSHIP

PREMIUMS WRITTEN INCREASED AND BALANCE ON THE TECHNICAL ACCOUNT STRENGTHENED

- Garantia's premiums written increased by 4.6% on the comparison period and came to EUR 7.7 million (7.4). Insurance exposure grew by 7.0%.
- The balance on the technical account strengthened. The claims ratio was -3.3% (4.0) and the combined ratio stood at 41.8% (52.7).
- Earnings before taxes were EUR 4.3 million (8.9) and net return on investments recognised in profit and loss totalled EUR 1.3 million (6.1).
- Return on investments at fair value was -0.1% (3.3).
- Garantia's solvency remained strong, despite the capital add-on, or the increase to solvency capital requirement, confirmed by the Financial Supervisory Authority in June. Solvency ratio was 222.0% (237.6 pro forma) including the capital add-on, and 365.3% (393.6) excluding the capital add-on.

Profit and loss account and key ratios

EUR t	1-6/2018	1-6/2017	Change	2017
Gross premiums written	7 695	7 353	4.6 %	15 235
Other items*	-2 207	-1 975	11.7 %	-4 598
Earned premiums	5 488	5 378	2.0 %	10 638
Claims incurred	181	-215	-	-1 079
Operating expenses	-2 473	-2 618	-5.5 %	-5 330
Balance on technical account before changes in equalisation provision	3 195	2 545	25.6 %	4 228
Change to equalisation provision	-181	215	-184.1 %	1 079
Balance on technical account	3 014	2 760	9.2 %	5 307
Investment income and expenses, net	1 295	6 120	-78.8 %	11 458
Other income and expenses	0	0	-	3
Earnings before tax	4 310	8 880	-51.5 %	16 768
Combined ratio, %	41.8 %	52.7 %	-10.9 %-pp.	60.3 %
Claims ratio, %	-3.3 %	4.0 %	-7.3 %-pp.	10.1 %
Expense ratio, %	45.1 %	48.7 %	-3,6 % -pp.	50.1 %
Return on investments at fair value, %	-0.1 %	3.3 %	-3.4 %-pp.	6.6 %
Solvency ratio (S2), %**	222.0 %	419.9 %	-197.9 %-pp.	393.6 %
Total insurance exposure, EUR bn	1.60	1.40	14 %	1.49
Average number of personnel	23	25	-2	24
Financial strength rating (S&P)	A-	A-	-	A-

The figures used for result comparison are those for the corresponding periods in 2017. The comparison data used for the balance sheet and cross-section items are the data for the end of 2017 unless otherwise indicated. Summary 1-6/2018 figures are not audited.

*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 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. Solvency ratio % includes the capital add-on confirmed by FSA on June 2018 from 30th June 2018.

Insurance operations

Premiums written increased by 4.6% to EUR 7.7 (7.4) million and earned premiums grew by 2.0% to EUR 5.5 (5.4) million. Construction activity remained strong, which increased guaranty fees, especially in commercial bonds. There was also an increase in the income from the investment guaranties introduced in cooperation with Taaleri. The demand for residential mortgage guaranties decreased slightly from the comparison period but picked up during the second quarter.

The insurance exposure grew by 7.0% in the first half of the year, totalling EUR 1,595 (1,491) million at the end of June. Of the total exposure, residential mortgage guaranties accounted for 37.5% (38.9), commercial bonds 33.3% (29.5), loan guaranties 21.3% (24.5) and other guaranties 7.9% (7.2)¹.

Claims paid remained at a low level in the first half of the year. The claims ratio was -3.3% (4.0), a result of changes in provision for claims outstanding for incurred claims provision, and claims incurred (preceding 12 months) in relation to the insurance exposure was 0.05% (0.07). A total of EUR 0.6 (0.3) million was paid in claims in January–June, of which 40.1% concerned residential mortgage guaranties and the rest commercial bonds. The proportion of this sum recorded as claims of recourse was EUR 0.0 (0.0) million. A total of EUR 0.5 (0.5) million was recovered from claims paid during and prior to January–June. EUR 0.2 (0.2) million of this concerned claims of recourse. The net outstanding claims provision in the balance sheet (with the reinsurers' share deducted) decreased to EUR 1.2 (1.6) million, a result of changes in provision for claims outstanding for incurred claims provision, and this caused a decrease of EUR 0.4 million in claims incurred.

Garantia has received information that a matter concerning a potential insurance event and a EUR 5 million claim 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 Pension Fund Act (1164/1992, as amended), related to which Garantia originally received a claim on 30 December 2011. Garantia considers that the claim remains unfounded, which is why it has not been entered in the profit and loss account as a provision.

Operating expenses decreased by 5.5% to EUR 2.5 (2.6) million. The company's expense ratio was 45.1% (48.7) and the combined ratio amounted to 41.8% (52.7).

The balance on the technical account improved, increasing to EUR 3.2 (2.5) million before changes to the equalization provision. The equalization provision increased by EUR 0.2 (decreased by 0.2) million and the balance on the technical account totalled EUR 3.0 (2.8) million.

Investment activities

Net return on investments recognised in profit and loss was EUR 1.3 (6.1) million and comprised fixed-income returns and sales profits.

Volatility in the investment markets increased during the first half of the year and nervousness was also heightened by political instability at a global level. Return on investments at fair value (excl. income, expenses and operating expenses unallocated to investment types) was -0.1% (3.3). Net investment income from capital employed at fair value was EUR -0.3 (4.4) million, or -0.2% (3.2). Valuation difference of investment assets decreased to EUR 4.7 (6.4) million in the first half of the year.

The investment assets (incl. cash and bank balances) at market value was EUR 131 (134) million at the end of June.

Risk position

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

Garantia's risk position remained stable in the first half of the year. Most of the growth in insurance exposure took place in short-term commercial guaranties covered by comprehensive reinsurance, and highly dispersed mortgage guaranties account for a large proportion of the guaranty portfolio. As a result of the shortening of loan guaranties,

¹ Comparison data was changed on 31 December 2017 as a result of the changes in product grouping made on H1/2018, in which investment guaranties were moved from the commercial bonds product group to other guaranties.

the share of the insurance exposure classified as investment grade (with a rating between AAA and BBB), excluding residential mortgage guaranties, residual value guaranties and assumed reinsurance, declined somewhat, however, and was 19.0% (21.3). The proportion of those with lower credit ratings (C+ or lower) declined further, totaling 1.8% (2.7). The principal sectors in the insurance exposure were construction at 47.3% (43.7) and manufacturing at 21.9% (24.6). The proportion of construction guaranties that are reinsured is 55.1% (55.0).

In investment activities, the share of equity investments was reduced, a result of the uncertainties in the investment markets. Fixed income investments (incl. cash and bank balances) accounted for 79.7% (76.0), equity investments (incl. private equity investments) 18.8% (22.7) and other investments 1.5% (1.3) of the investment portfolio. Fixed income investments mainly consist of investments in the bonds of Finnish and other Nordic companies and credit institutions with strong creditworthiness. The proportion of investment grade fixed income investments (excl. fixed income funds) was 51.7% (54.0). The modified duration of bond investments was 3.4 (3.7).

Solvency

Garantia's solvency remained strong. Garantia's own funds totalled EUR 100.8 (106.8) million at the end of June. The solvency capital requirement including the capital add-on was EUR 45.4 (44.9 pro forma) million and excluding the capital add-on EUR 27.6 (27.1) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, including the capital add-on was 222.0% (237.6 pro forma) and excluding the capital add-on 365.3% (393.6). The decrease in basic own funds was the result of the extraordinary distribution of funds in June and changes in the fair value of investments. The increase in the solvency capital requirement excluding the capital add-on was the result of a higher non-life insurance risk.

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. In June, the Financial Supervisory Authority confirmed the capital add-on, or the increase to solvency capital requirement, at EUR 17.8 million for Garantia. In its decision, the Financial Supervisory Authority stated that the risk profile of Garantia's non-life underwriting risk differs from the underlying assumptions in the standard formula for the solvency capital requirement calculation. The Financial Supervisory Authority also stated that the requirement to use the internal model is not appropriate in Garantia's case. The capital add-on is valid from 30 June 2018 and it will remain in effect until further notice. The Financial Supervisory Authority will assess the amount of capital add-on at least once a year

The Solvency II capital adequacy regulations 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.

Extraordinary distributions of funds

An extraordinary general meeting held on 20 June 2018 decided on an extraordinary distribution of funds totalling EUR 5,000,000. The distribution of funds was carried out from the retained earnings account. Garantia's distributable funds totalled EUR 23,869,858.07 in the latest approved and audited financial statements on 31 December 2017.

Business arrangements and new partnerships

Garantia is expanding its business to rental guarantees. It has concluded an agreement to acquire the entire share capital of Suomen Vuokravastuu Oy (SVV) from its current shareholders. SVV was established in 2015 and it offers rental guarantees under two different brands: Takaamo and Securent. SVV also offers portfolio guarantee solutions tailored for the needs of large lessors. Rental guarantees can be used as replacements for the traditional rental collateral paid to bank accounts.

In the initial stages, the purchase will have a limited economic impact to Garantia because SVV is currently operating on a small scale and it is still a start-up company. The company's turnover in the financial year ending in July 2017 totalled EUR 0.3 million, the operating profit was EUR 0.02 million and the guarantee portfolio amounted to EUR 1.2 million. If the business arrangement materializes, it will be a related party transaction because the current main owner of SVV is related to a Garantia board member. Under the letter of intent between the parties, the sale price comprises the initial price, which is paid as the contract is concluded, and the additional earn-out, which is paid for the calendar years 2019-2021 and is based on the percentage of each year's premiums written. An independent expert has assessed SVV's fair value.

Garantia and the Mortgage Society of Finland (Hypo) have started cooperation in the financing of repair and renovation projects in housing companies. Under the As Oy Hypoteekkitakaus scheme, financially healthy housing companies with repair and renovation needs located in Finland's growth regions may seek additional collateral from Garantia for the financing of major renovation projects. Hypo is responsible for the practical arrangements concerning the loan and the collateral.

Credit Rating

No changes took place in Garantia's credit rating or its outlook in the first half of the year. Standard & Poor's Credit Market Services Ltd (S&P) has confirmed Garantia Insurance Company Ltd's financial strength rating as A- with a stable rating outlook.

For additional information

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Profit and loss account

euro	1-6/2018	1-6/2017	change, %	2017
Technical Account				
Earned premiums				
Premiums written	7 694 749	7 353 319	4.6 %	15 235 465
Reinsurers' share	-521 632	-487 767	6.9 %	-1 008 260
Change to provision for unearned premiums	-1 869 443	-1 567 135	19.3 %	-3 668 696
Reinsurers' share	184 066	79 716	130.9 %	79 255
	5 487 739	5 378 132	2.0 %	10 637 765
Claims Incurred				
Claims paid	-457 180	-178 535	156.1 %	-363 828
Reinsurers' share	241 078	21 097	1042.7 %	21 097
Change in provision for outstanding claims	1 194 433	-56 815	-2202.3 %	-1 754 096
Reinsurers' share	-797 594	-584	136441.6 %	1 017 920
	180 737	-214 837	-184.1 %	-1 078 907
Operating expenses	-2 473 348	-2 618 462	-5.5 %	-5 330 391
Balance on technical account before change to equalisation provision	3 195 129	2 544 834	25.6 %	4 228 467
Change to equalisation provision	-180 737	214 837	-184.1 %	1 078 907
Balance on Technical Account	3 014 391	2 759 670	9.2 %	5 307 373
Non-technical account				
Investment income	3 155 693	6 679 183	-52.8 %	12 583 249
Investment expenses	-1 860 375	-559 312	232.6 %	-1 125 453
Other income and expenses	0	0	0.0 %	3 253
Direct taxes on ordinary operations	-862 303	-1 736 260	-50.3 %	-3 454 376
Net profit for the financial year	3 447 406	7 143 281	-51.7 %	13 314 045

Balance sheet

Assets			
euro	30.06.2018	31.12.2017	change, %
INTANGIBLE ASSETS			
Intangible rights	0	2 662	-100.0 %
Other long-term expenditure	14 372	28 745	-50.0 %
	14 372	31 407	-54.2 %
INVESTMENTS			
Other investments			
Shares and participations	23 820 964	28 564 749	-16.6 %
Other financial instruments	101 058 057	97 399 980	3.8 %
	124 879 021	125 964 728	-0.9 %
Total	124 879 021	125 964 728	-0.9 %
DEBTORS			
Arising out of direct insurance operations			
From policy holders	429 674	522 668	-17.8 %
Arising out of reinsurance operations	0	36 066	-100.0 %
Other	657 220	900 938	-27.1 %
	1 086 894	1 459 672	-25.5 %
OTHER ASSETS			
Tangible assets			
Equipment	24 320	51 207	-52.5 %
Other tangible assets	48 365	48 365	0.0 %
	72 686	99 572	-27.0 %
Cash and bank balances	339 734	447 327	-24.1 %
Total	412 420	546 899	-24.6 %
PREPAYMENTS AND ACCURED INCOME			
Accrued interest and rental income	1 269 589	1 381 152	-8.1 %
Other accrued income	139 424	18 237	664.5 %
	1 409 013	1 399 389	0.7 %
TOTAL ASSETS	127 801 721	129 402 095	-1.2 %

Liabilities			
euro	30.06.2018	31.12.2017	change, %
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital	10 200 000	10 200 000	0.0 %
Reserve for invested unrestricted equity	0	0	0.0 %
Retained earnings	18 869 858	10 555 813	78.8 %
Profit / loss of the financial year	3 447 406	13 314 045	-74.1 %
Total	32 517 265	34 069 858	-4.6 %
TECHNICAL PROVISIONS			
Provision for unearned premiums	18 787 147	16 917 704	11.1 %
Reinsurers' share	-587 370	-403 304	45.6 %
	18 199 778	16 514 400	10.2 %
Claims outstanding	1 856 438	3 050 871	-39.2 %
Reinsurers' share	-607 127	-1 404 721	-56.8 %
	1 249 311	1 646 150	-24.1 %
Equalisation provision	72 716 429	72 535 691	0.2 %
Total	92 165 517	90 696 241	1.6 %
CREDITORS			
Arising out of direct insurance operations	0	54 622	-100.0 %
Arising out of reinsurance operations	525 692	313 145	67.9 %
Other	283 239	239 425	18.3 %
	808 931	607 193	33.2 %
ACCRUALS AND DEFERRED INCOME			
Other	2 310 008	4 028 803	-42.7 %
	2 310 008	4 028 803	-42.7 %
TOTAL LIABILITIES	127 801 721	129 402 095	-1.2 %