



GARANTIA

GARANTIA INSURANCE COMPANY LTD
FINANCIAL SUMMARY
JANUARY-JUNE 2022

Financial summary January-June 2022

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, 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

Profitability of insurance operations remained good, decreased fair values of investment assets put pressure on earnings.

- Gross premiums written grew by 3.7 per cent to EUR 10.9 (10.5) driven by the consumer business.
- Earned premiums decreased by 2.8 per cent to EUR 8.0 (8.2) million due to the change in the provision for unearned premiums. The provision for unearned premiums grew due to the increased weight of consumer exposures in the guaranty insurance portfolio.
- Total insurance exposure increased 2.8 per cent during the first half of the year to EUR 1,742 (1,695) million. The volume of consumer exposure increased, and the volume of corporate exposures decreased.
- Claims incurred remained on a low level and amounted to EUR 0.3 (0.2) million. Claims ratio increased to 3.2 per cent (2.6).
- Operating expenses decreased 2.6 per cent compared to the previous year and amounted to EUR 2.2 (2.2) million. The expense ratio stood at the previous year's level at 27.4 per cent (27.3).
- Balance on the technical account before changes in the equalisation provision decreased to EUR 5.5 (5.8) million. Combined ratio increased to 30.6 per cent (29.9).
- Net income from investments decreased significantly compared to the corresponding period last year. During the first half of the year, net income from investments was weighted down by the pronounced increases in interest rates, widening risk margins and declining equity markets. Return on investments at fair value was -11.2 per cent (4.1) in the first half of the year.
- Earnings before tax decreased to EUR -10.1 (10.1) million. The development of insurance operations profitability remained good, but the weak result of investment operations put significant pressure on overall earnings.
- Garantia's solvency strengthened. At the end of June, the company's solvency ratio stood at 237.8 per cent (219.2).

Profit and loss account and key ratios

EUR thousands	1-6/2022	1-6/2021	Change	2021
Gross premiums written	10,873	10,488	3.7 %	25,142
Other items ¹⁾	-2,890	-2,276	27.0 %	-7,277
Earned premiums	7,983	8,212	-2.8 %	17,865
Claims incurred	-256	-217	18.2 %	-677
Operating expenses	-2,185	-2,242	-2.6 %	-5,657
Balance on technical account before changes in equalisation provision	5,542	5,753	-3.7 %	11,531
Change in equalisation provision	256	217	18.2 %	677
Balance on technical account	5,798	5,970	-2.9 %	12,208
Investment income and expenses, net	-15,937	4,123	-	7,652
Other income and expenses	-2	27	-107.7 %	44
Earnings before tax	-10,141	10,119	-200.2 %	19,904
Claims ratio, %	3.2 %	2.6 %	0.6 %-p.	3.8 %
Expense ratio, %	27.4 %	27.3 %	0.1 %-p.	31.7 %
Combined ratio, %	30.6 %	29.9 %	0.6 %-p.	35.5 %
Return on investments at fair value, %	-11.2 %	4.1 %	-15.3 %-p.	6.1 %
Solvency ratio, % ²⁾	237.8 %	241.6 %	18.6 %-p.	219.2 %
Total insurance exposure, EUR million	1,742	1,725	2.8 %	1,695
Average number of personnel	23	22	1	23
Credit rating (S&P)	A-	A-	-	A-

Profit & loss items are compared against the figures of the corresponding period in 2021. Balance sheet and other cross-section items are compared against the end of 2021 unless otherwise indicated. Figures for the half-year periods 1-6/2022 and 1-6/2021 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 gross premiums written grew 3.7 per cent to EUR 10.9 (10.5) million from the period of comparison. The increase in premiums written was mainly the result of growth in premiums from residential mortgage guaranties, which was supported by the sustained favourable development seen in the housing market. However, premium income from corporate exposures declined because of meagre demand for corporate financing.

When compared against earlier periods, a larger proportion of the gross premiums accumulated during the period was booked into provisions for unearned premiums, that are deferred and recognised as earned in future reporting periods. The net provision for unearned premiums grew by EUR 2.4 (1.8) million during the period. The growth in the provision for unearned premiums was mainly the consequence of the growth of the residential mortgage guaranty portfolio and the increased weight of consumer exposures in the portfolio. Earned premiums grew by 2.8% during the first half of year and amounted to EUR 8.0 (8.2) million.

Total insurance exposure increased by 2.8 per cent during the first half of the year and amounted to EUR 1,742 (1,695) million at the end of June. The volume of consumer exposures increased, and the volume of corporate exposures decreased. Of the total guaranty insurance exposure at the end of June, EUR 1,242 (1,130) million, or 71% (67), consisted of consumer exposures and EUR 500 (565) million, or 29% (33), consisted of corporate exposures. The consumer exposures include residential mortgage guarantees and rent guarantees. The corporate exposure is made up of corporate loan guarantees, commercial bonds, and other business-related guarantees.

Claims incurred amounted to EUR 0.3 (0.2) million in the first six months of the year. Claims incurred remained on a low level despite the increase in overall economic uncertainty and the worrying geopolitical situation. Claims ratio increased to 3.2 per cent (2.6). The increase in the claims ratio resulted from lower earned premiums and higher incurred claims.

In the first half of the year, operating expenses remained near the level seen in the period of comparison and amounted to EUR 2.2 million (2.2). The expense ratio remained at the level of the period of comparison at 27.4 per cent (27.3). Combined ratio remained at a good level and stood at 30.6 per cent (29.9).

The balance on the technical account before changes in the equalisation provision decreased to EUR 5.5 (5.8) million in the reporting period. The decrease in technical profitability was caused by the decrease in premiums earned. The equalisation provision, a part of balance sheet technical provisions, was reversed by EUR 0.3 (0.2) million, and hence, the balance on the technical account came up to EUR 5.8 (6.0) million.

Investment operations

Capital market performance was weak overall during the reporting period. Equity indices declined in the main markets, interest rates hiked and the credit spreads on euro nominated bonds widened. The second quarter saw increasing market volatility due to war in Ukraine, high inflation figures and subsequent expectations of more vigorous interest rate hikes by the central banks, as well as increasing fears of global recession.

Garantia's net investment income recognised in profit and loss amounted to EUR -15.9 (4.1) million. The net income was mainly composed of interest income and impairments caused by decreasing fair values of investments. Net investment income was negative due to weak performance in the equity markets and fixed income investment impairments caused by the rising interest rates and the widening of credit risk spreads. However, the credit risk inherent in the fixed-income portfolio did not materially change during the reporting period, and the credit rating distribution of the portfolio remained good.

At the end of June, fixed income investments made up 87.5 per cent (83.2), equity & private equity investments 11.5 per cent (15.9) and real estate investments 1.0 per cent (0.9) of the investment portfolio (incl. cash, bank balances and accrued interest). Return on investments, at fair value, was -11.2 per cent (4.1). Net return on investments at fair value¹ was EUR -18.2 (5.9) million, or -11.2 per cent (3.9).

Garantia's investment portfolio (incl. cash, bank balances and accrued interest), at fair value, was worth EUR 145.0 (170.5) million. The decrease in the fair value of the investment portfolio was mainly driven by the negative return on investments and the EUR 15.0 million dividend distribution during the reporting period. The fair value difference between the market value and book value of investment assets was EUR 4.6 (6.8) million at the end of June.

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 guaranty insurance operations has remained stable. Of the company's total gross guaranty insurance exposure of EUR 1,742 (1,695) million in the end of June, EUR 1,242 (1,130) million, or 71% (67), was made up of consumer exposures, and EUR 500 (565) million, or 29% (33), of corporate exposures. In consumer exposures the company's underwriting risk relates to the credit risk of households. In corporate exposures underwriting risk relates to the credit risk of companies and other organisations.

Regarding the risk position of the consumer exposure, the most central factor is the company's residential mortgage guarantee portfolio. There have been no material changes in the risk position of this portfolio. The portfolio is well diversified by counterparty, geographical location of collateral property and underwriting year. The creditworthiness of the counterparties in the portfolio is very good on average. The credit risks of the portfolio are also managed through an excess-of-loss type portfolio reinsurance arrangement.

At the end of June, the share of corporate exposures rated BB- or better made up 71.2 per cent (78.4) of corporate exposures. The share of exposures with investment grade ratings of AAA...BBB- amounted to 24.7 per cent (20.6) of all rated corporate exposures. The share of exposures with weak ratings of C+ or lower remained near the levels seen in the beginning of the year and stood at 3.2 per cent (3.9). The creditworthiness of the corporate counterparties in the company's guarantee insurance portfolio has remained good on average, although the uncertainty in the operating environment, induced by the war in Ukraine, has negatively impacted the economic outlook of some individual corporate counterparties.

The principal industry sectors in the corporate portfolio were manufacturing at 29.9 per cent (28.3), construction at 21.9 per cent (25.6), and trade at 12.0 per cent (10.4). The shares of other industry sectors were all less than 10 per cent.

In investment operations the investment allocation was kept conservative, as in previous years, and the share of fixed income investments was increased. At the end of June, fixed income investments made up 87.5 per cent (83.2), equity & private equity investments 11.5 per cent (15.9) and real estate investments 1.0 per cent (0.9) 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 of all fixed income investments was 71.7 per cent (73.4). The modified duration of the bond investments was 3.0 (3.9).

¹ The net return on investments includes operating expenses allocated to investment operations as a deduction.

Solvency

Garantia's solvency strengthened during the first half of the year. The company's basic own funds amounted to EUR 106.6 (117.0) million at the end of June. Solvency capital requirement was EUR 44.8 (53.4) million. The solvency ratio, or the ratio of basic own funds to the solvency capital requirement, was 237.8 per cent (219.2).

In the first half of the year, basic own funds decreased due to the loss reported for the period and due to decreased fair values of investment assets. The solvency capital requirement decreased as a consequence of diminished capital requirements for market risk and a reduction in the capital add-on. The decrease in the capital requirement for market risk was mainly attributable to the decreased value of investment assets and allocation changes made in the investment portfolio.

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 17 June 2022, reset Garantia's capital add-on at EUR 11.7 (15.6²) million. The new capital add-on has been applied from 30 June 2022 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 4 April 2022, 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

On 11 October 2021, Standard & Poor's Global Ratings (S&P) confirmed Garantia Insurance Company's credit rating as A- with a stable outlook³. There have been no changes in the credit rating or the outlook since.

Management and governance

The Annual General Meeting held on 18 February 2022 elected Karri Haaparinne (Chairperson), Antti Suhonen (Vice Chairperson), Kenneth Kaarnimo and Laura Paasio as members of the Board. Laura Paasio was elected as a new member. Timo Hukka, a long-serving Member of the Board, expressed prior to the Annual General Meeting that he will retire from board duties.

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

² Reported in the parenthesis is the capital add-on that came into effect on 30 June 2021.

³ 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.

Additional information

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

Financial information

Profit and loss account

euro	1.1.-30.6.2022	1.1.-30.6.2021	Change, %
Technical Account			
Earned premiums			
Premiums written	10,873,321	10,488,086	3.7 %
Reinsurers' share	-459,089	-499,932	-8.2 %
Change in provision for unearned premiums	-2,580,001	-1,853,998	39.2 %
Reinsurers' share	148,869	78,056	90.7 %
	7,983,100	8,212,212	-2.8 %
Claims incurred			
Claims paid	-1,073,675	-523,082	105.3 %
Reinsurers' share	470,538	98,876	375.9 %
Change in provision for outstanding claims	919,659	752,978	22.1 %
Reinsurers' share	-572,546	-545,409	5.0 %
	-256,024	-216,637	18.2 %
Operating expenses	-2,185,015	-2,242,359	-2.6 %
Balance on technical account before change in equalisation provision	5,542,061	5,753,216	-3.7 %
Change in equalisation provision	256,024	216,637	18.2 %
Balance on Technical Account	5,798,084	5,969,853	-2.9 %
Non-technical account			
Investment income	2,808,425	4,651,383	-39.6 %
Investment expenses	-18,745,231	-528,604	3446.2 %
Other income and expenses	-2,061	26,741	-107.7 %
Direct taxes on ordinary operations		-2,035,600	-100.0 %
Net profit/loss for the financial year	-10,140,783	8,083,772	-225.4 %

Balance sheet

Assets EUR	30 Jun 2022	31 Dec 2021	Change, %
Intangible assets			
Intangible rights	9,047	12,063	-25.0 %
Goodwill	259,689	316,313	-17.9 %
Other long-term expenditure	2,257	3,009	-25.0 %
	270,992	331,384	-18.2 %
Investments			
Real estate investments			
Real estate investment funds and collective investments	1,114,100	1,171,500	-4.9 %
	1,114,100	1,171,500	-4.9 %
Other investments			
Shares and participations	24,792,539	22,289,169	11.2 %
Debt securities	112,725,706	135,622,786	-16.9 %
	137,518,244	157,911,955	-12.9 %
Total	138,632,344	159,083,455	-12.9 %
Receivables			
Arising out of direct insurance operations			
From policy holders	42,798	1,893,711	-97.7 %
Arising out of reinsurance operations	337,451	426,982	-21.0 %
	380,248	2,320,693	-83.6 %
Other assets			
Tangible assets			
Machinery and equipment	6,931	8,317	-16.7 %
Other tangible assets	48,365	48,365	0.0 %
	55,296	56,682	-2.4 %
Cash and bank balances	813,568	3,446,785	-76.4 %
Total	868,864	3,503,467	-75.2 %
Prepayments and accrued income			
Accrued interest and rental income	997,836	1,188,120	-16.0 %
Other accrued income	25,222	20,540	22.8 %
	1,023,058	1,208,660	-15.4 %
TOTAL ASSETS	141,175,507	166,447,659	-15.2 %

Equity and liabilities			
EUR	30 Jun 2022	31 Dec 2021	Change, %
Shareholders' equity and reserves			
Share capital	10,200,000	10,200,000	0.0 %
Retained earnings	27,784,217	26,885,095	3.3 %
Profit / loss of the financial year	-10,140,783	15,899,122	-163.8 %
Total	27,843,434	52,984,217	-47.4 %
Technical provisions			
Provision for unearned premiums	39,247,081	36,667,080	7.0 %
Reinsurers' share	-256,620	-107,751	138.2 %
	38,990,461	36,559,329	6.6 %
Claims outstanding	1,488,212	2,407,871	-38.2 %
Reinsurers' share	-117,810	-690,356	-82.9 %
	1,370,402	1,717,515	-20.2 %
Equalisation provision	70,175,568	70,431,592	-0.4 %
Total	110,536,432	108,708,437	1.7 %
Provisions			
Other provisions	7,301	39,704	-81.6 %
	7,301	39,704	-81.6 %
Payables			
Arising out of direct insurance operations	21,066	253,894	-91.7 %
Arising out of reinsurance operations	76,419	52,642	45.2 %
Other	349,051	452,674	-22.9 %
	446,536	759,210	-41.2 %
Accruals and deferred income			
Other	2,341,804	3,956,092	-40.8 %
	2,341,804	3,956,092	-40.8 %
TOTAL EQUITY AND LIABILITIES	141,175,507	166,447,659	-15.2 %