

ANNUAL REPORT 2003



GARANTIA
INSURANCE COMPANY LTD

Garantia in Nutshell

Garantia Insurance Company is a non-life insurance company specialising in guaranties in the Finnish domestic market. Garantia's principal product is guaranty insurance for long-term loans. Other products include fund, bond and rental guaranties.

Garantia is owned by the Central Pension Security Institute, all the pension insurance companies and most of the single and multi employer pension funds operating subject to the Finnish TEL Employment Pensions Act.

At December 2003 Garantia's gross guaranty exposure was EUR 982 million and solvency capital EUR 71 million.

Garantia has 950 corporate customers and a staff of 27.

Garantia's Products

LOAN GUARANTY

Loan guaranty is issued as security for loans and other liabilities. Garantia's guaranty is accepted as prime collateral by most Finnish creditors, for example all pension insurance companies.

CAPITAL LOAN GUARANTY

Capital loan guaranty is issued as security for equity loan. Capital loan strengthens the solvency of the company and is suitable for financing acquisitions, change of ownership and general grown finance purposes of the company.

FUND GUARANTY

Fund guaranty secures the capital invested for example in equity, fixed income or venture capital funds. Guaranty terms are tailor-made for the individual fund or investor. Fund guaranty usually covers the entire investment period of the long-term investment (a minimum of 3 years).

PERFORMANCE BOND

Performance bond is issued to secure the completion of a contract or delivery. The guarantee is given to the subscriber on behalf of supplier and is suitable for fairly large individual projects.



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Annual Report

2003

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The Annual General Meeting of Garantia Insurance Company Ltd will be held in Helsinki on 26 April 2004.
The original signed financial statements are kept at the company's premises at Salomonkatu 17 A, 00100 Helsinki.



Managing Director's *review*

In 2003 the world economy grew faster than in the previous year, mainly due to growth in the United States and particularly in Japan. On the other hand, economic growth in Europe continued to be sluggish as the big economies in the euro area either contracted or grew quite slowly. The Finnish economy also developed more slowly than in the previous year, although it continued to grow somewhat faster than the rest of the euro area. In 2004, world economic growth is expected to pick up again, mostly because of continued expansion in the United States and Asian economies. Economic development in the euro area will clearly remain slow, however, even though growth in Finland and the rest of the euro area is clearly on the upswing from the previous year.

Weak growth expectations in important export markets as well as weakened short-term price competitiveness due to exchange rate developments last year led to an unexpectedly low level of investment in many industrial sectors. Mostly due to the low demand for investment financing as well as the large gap between long-term and short-term market interest rates that continued through 2003, demand for the company's main product, guaranty insurance for pension loans, remained clearly below expectations.

The volume of new underwritings in 2003 was approximately one third lower than that of 2002, which was a record volume in the company's history. However, gross premiums written were somewhat higher than in the previous year. The total growth came largely from self-retained underwritings. This was predictable since the reinsurance market remained weak all year, as expected.

The reorganisation of investment activities begun in 2002 was completed by the beginning of 2003. The restructuring of the investment portfolio will continue until the end of 2004 according to plan. The turn in the downward trend in the stock market brought the desired improvement in investment results. After a few difficult years, return on investment exceeded both budgeted and benchmark index returns. This enables the company to show a profit again after a two-year break.

Over the year we continued to develop the company's risk management and quality control systems. I believe the results of this activity will continue to be seen in steadier and better profitability. I would like to thank our customers, the employees of Garantia and our other stakeholders for their trust and good cooperation in 2003.

Helsinki, 12 March 2004

Garantia Insurance Company Ltd
Mikael Englund





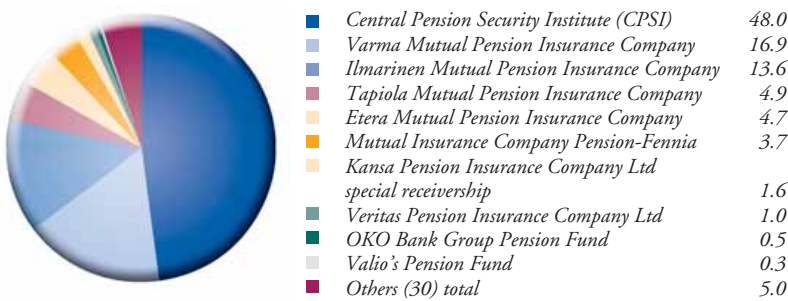
Business

and risk management

Garantia is an insurance corporation specialising in guaranty insurance for companies and associations. The goal of the company is to achieve good financial results while taking all of its stakeholder groups fairly into account and complying with sustainable ethical principles.

In the company's risk management plan risks are categorised into strategic, business, and operational risks. Business risks include insurance and investment risks.

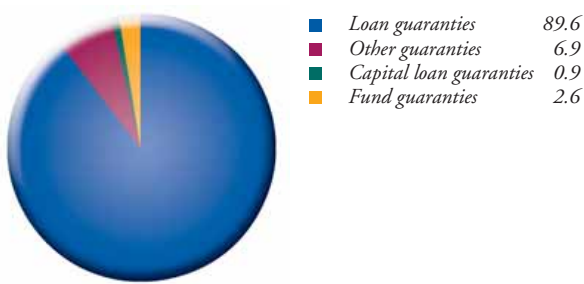
Strategic risks arise principally from the chosen strict niche strategy. Garantia manages strategic risks by developing a specialized expertise in the chosen line of business.



Largest shareholders (%)

INSURANCE OPERATIONS

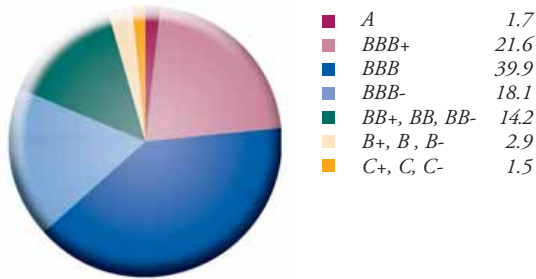
All of Garantia's insurance products are classified to an insurance class 15, guaranty. The total insurance exposure as of December 31, 2003 was EUR 982 million. The credit exposure for a run-off portfolio of EUR 80 million, included in the total exposure, is transferred to Central Pension Security Institute (CPSI) under a stop-loss agreement until the end of 2005. Excluding this run-off portfolio Garantia's insurance exposure is divided among the following products:



Garantia's insurance exposure by product (%)

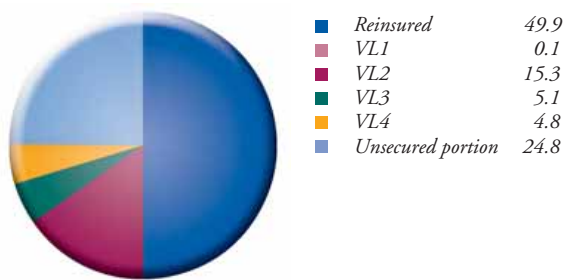
Descriptions of the products can be found at our homepage: www.garantia.fi.

Garantia manages the credit risks arising from its main product, loan guaranty insurance, through several quantitative and qualitative measures. The crucial tool for credit risk management is credit rating, which is based on a thorough corporate evaluation. The credit rating for each potential customer is assigned by Garantia's own staff before any exposure is assumed and updated as long as a credit exposure is open. Garantia uses a credit risk rating scale similar to those used by large international rating agencies.



Guaranty exposures by credit rating (%)

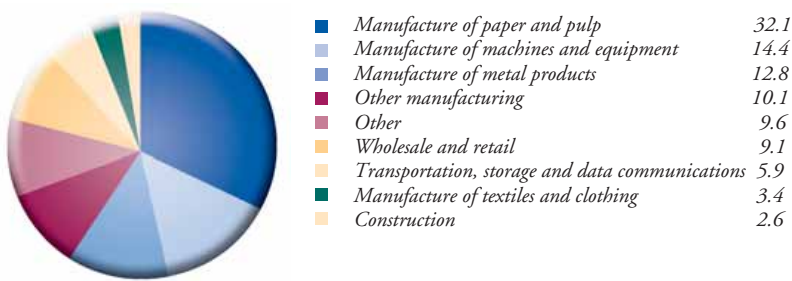
The exposure to credit risk assumed for each customer depends on the customer's credit rating. The amount of risk can further be limited with reinsurance and collateral.



Reinsurance and collateral limiting credit risk exposure (%)

The amount of credit risk for each customer concern is capped at EUR 7.0 million by a decision taken by the Board of Directors. Collateral items are classified into four classes, with VL1 being the best and VL4 the weakest. Reinsurance contracts can be made with reinsurance companies that have a sufficiently strong counterparty rating (currently at least AA/Aa or equivalent).

Garantia regularly monitors the exposure to each industry and maintains an adequate diversification over different industries in its insurance portfolio.



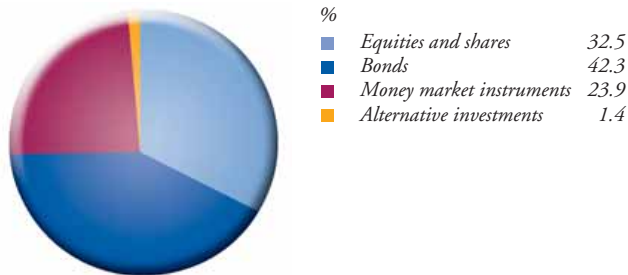
Loan guaranty exposure by industry (%)

INVESTMENT OPERATIONS

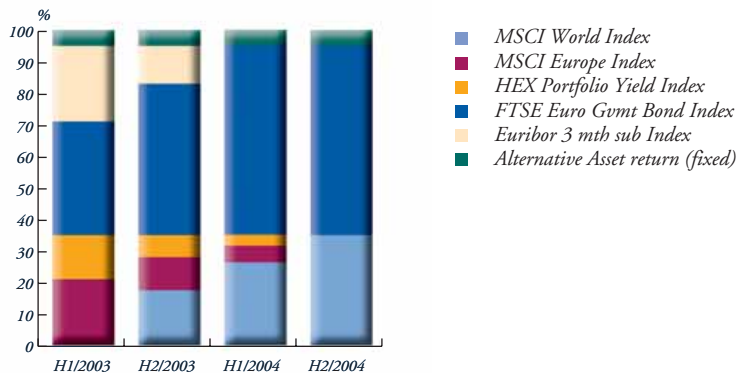
The purpose of Garantia's investment operations is to accumulate and preserve its funds and to gain the best possible return on its investment portfolio within the limits defined in the investment plan. The investment portfolio is effectively diversified and the cumulative risks between the investment portfolio and the insurance portfolio are minimised, to prevent a concentration of risks.

Investment operations are directed and run with the help of a pre-defined investment process. The Board of Directors takes a decision upon the strategic asset allocation every year when it approves the annual investment plan for Garantia. Also the tactical asset allocation is confirmed by the Board of Directors for each quarter. Implementation of asset allocations and investments are carried out by placements in mutual funds and/or direct asset management mandates.

Investment portfolio is diversified into different asset classes. Calculating the benchmark return, the average allocation of fixed-income investments is 60 %, equity investments 35 % and alternative investments 5 %. During the 2003 investment year, the following average asset allocation applied:



Components to calculate the benchmark index return to specify the expected return on investments are replaced during 2003–2004 accordingly:



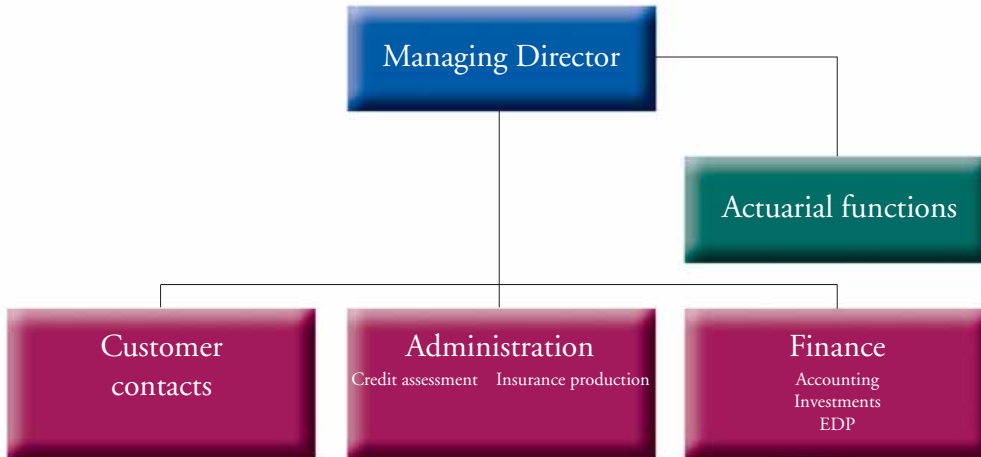
Investment return on the entire portfolio was 7.8 % and the return on the benchmark index was 6.6 % in 2003.

The maximum level of investment risk is set at EUR 18 million. This is equivalent to the amount of solvency capital that is not considered to be committed for covering risk in the insurance portfolio through the end of 2008. At the end of 2003, the risk exposure for the investment portfolio was EUR 9.2 million, resulting from equity exposure of EUR 7.5 million and fixed-income exposure of EUR 1.7 million.

OPERATIONAL RISKS AND QUALITY CONTROL

The Garantia Board of Directors annually confirms a risk management plan covering all operations. The plan takes into account the obligations and implementation of rules and directives imposed by law and by supervisory agencies.

The organisation is crucially designed so that same person is not making proposals, taking decisions and carrying out decisions upon the same cases. Thus, risk assessment and the sales of products to customers are performed by different groups of individuals.



The organisation of Garantia

The quality of operations and in particular the performance of the risk management system are continually evaluated and improved by means of the quality process.



*Shown in the photograph from the left
Kari Puro, Veikko Savela, Seppo Sipola, Kai Miesmäki, Jukka Rantala and Lauri Koivusalo.*

Board of Directors

REGULAR MEMBER

Chairman

Seppo Sipola, Chairman of the Board

Deputy Chairman

*Kari Puro, CEO
Ilmarinen Mutual Pension Insurance Company*

*Lauri Koivusalo, CEO
Etera Mutual Pension Insurance Company*

*Kai Miesmäki, CFO
Tamrock's Pension Fund*

*Veikko Savela, Managing Director
Kesko Pension Fund*

*Jukka Rantala, Managing Director
CPSI*

CHARTERED ACCOUNTANT

*Jyri Heikkinen, Authorised Public Accountant
Folke Tegengren, Authorised Public Accountant*

DEPUTY MEMBER

*Esko Raunio, Investment Manager
Tapiola Mutual Pension Insurance Company*

*Jorma Leinonen, Senior Vice President,
Chief Investment Officer
Varma Mutual Pension Insurance Company*

*Mikael Englund, CEO
Garantia Insurance Company Ltd*

*Keijo Rautio, Managing Director
Valio's Pension Fund*

*Eero Lehti, Chairman of the Board
Taloustutkimus Oy*

*Bo Lundqvist, Director
CPSI*

DEPUTY ACCOUNTANT

*PricewaterhouseCoopers Oy
Tilintarkastajien Oy - Ernst & Young*

Report of the Board of Directors

MARKET SITUATION

Growth in the Finnish and world economy was slow in 2003 for the third year in a row. Dim economic prospects caused companies to limit their investments. Given that interest rates for pension loans were at the same time occasionally higher than market interest rates, the demand for pension loans and their associated guaranties remained weaker than predicted. The reinsurance market was also softer than the previous year. As a result of this guaranty insurance exposure to large companies grew much less than in the previous year.

The total number of new guaranties granted by Garantia during 2003 amounted to EUR 154 million, approximately EUR 100 million less than the previous year. However, insurance volume measured by gross premiums written rose to EUR 6.9 million (+EUR 0.4 million).

INSURANCE OPERATIONS

Garantia's guaranty insurance exposure stood at EUR 984 million at the beginning of the year and EUR 982 million at the end of the year. The portfolio of guaranty insurance issued by Garantia accounted for EUR 876 million at the beginning of the year and EUR 902 million at the end of the year. The insurance portfolio transferred from the Central Pension Security Institute (CPSI) was EUR 108 million at the beginning of the year and EUR 80 million at the end of the year. Altogether there were 1,339 current policies at the end of the year, of which 905 were transferred from CPSI. The corresponding figures for the previous year were 1,510 and 1,053 respectively.

PREMIUMS

Premiums written for the portfolio transferred from CPSI totalled EUR 1.0 million in 2003, compared to EUR 1.2 million for the previous year. Premiums written for guaranty insurance granted by Garantia totalled EUR 5.9 million, compared to EUR 5.4 million for the previous year. The reinsurers' share of premiums written was EUR 1.4 million, the same as for the previous year.

CLAIMS

There were four claims in the guaranty insurance portfolio underwritten by Garantia in 2003, resulting in paid-out claims totalling EUR 1.3 million. Recoveries on claims paid during the financial year or earlier amounted to EUR 0.1 million during the financial year.

The majority of the recourse receivable associated with the portfolio transferred to the company from the Central Pension Security Institute was sold during the year to the Swedish collection firm AB Varbergs Finans, whose Finnish subsidiary is handling the collections.

There were nine new claims in the portfolio transferred from the Central Pension Security Institute in 2003 and the total claims expenditure for them amounted to EUR 0.3 million. A total of 0.4 million in gross claims was paid out on the transferred portfolio, whereas in the previous year claims totalled 1.6 million. Claims paid on the transferred portfolio are stated net of recoveries, which totalled EUR 5.8 million in the review period and EUR 7.0 million in the preceding year. The majority of the recoveries in the transferred portfolio are due to the sale of the recourse receivables.

UNDERWRITING RESULT

The balance on technical account on business written by Garantia before the change in equalisation provision was EUR -2.8 million and the transfer to the equalisation provision was EUR -1.4 million. The corresponding figures for the previous year were EUR 2.0 and 3.5 million respectively. The balance on technical account for the transferred portfolio will be transferred to the Central Pension Security

Institute according to the stop-loss reinsurance contract. Mainly as a result of the claims recoveries, EUR 4.1 million received in the previous years under the stop-loss contract will be refunded to CPSI. The refund for the previous year was EUR 4.7 million.

INVESTMENTS

During the year the calculation of the benchmark index return changed twice in accordance with the investment plan. The changes were a result of a broader geographic diversification of equity investments. The net investment income amounted to EUR 4.7 million, compared to EUR -4.5 million in the previous year. During the same period the unrealised capital gain on investments declined from EUR 1.5 million to EUR 1.4 million.

RISK MANAGEMENT

Risk management at Garantia is based on a plan for internal supervision and management of risk, confirmed annually by the company's Board of Directors.

The main methods of managing the credit risks inherent in the guaranty insurance business are adequate diversification of the insurance portfolio, reinsurance of large risks, continuous evaluation of the credit of corporate clients, and imposition of special covenants and collateral requirements for clients with credit ratings. The exposure not covered by reinsurance and the stop-loss contract or by safe collaterals was EUR 340.1 million at year end.

The revaluation risk of liquid investments as of 31 December 2003 was EUR 9.2 million. The volatility used for the risk factor of equity investments was 30 % and the change in value of interest-bearing investments has been estimated to correspond to a one percentage point change in interest rates for all interest maturities.

According to the investment plan confirmed by the Board of Directors, investments made in foreign currencies were protected from exchange rate risks with derivatives contracts. The amount of hedging is 80–100% of the principal at the time of investment.

The management of operative risks is based on the constant assessment and updating of operational guidelines, and training related to the implementation of these guidelines. The company continued work on the construction of a quality system embracing all operations begun in 2002.

ADMINISTRATION

The annual general meeting held on 14 May 2003 re-elected Seppo Sipola and Jukka Rantala, as members of the Board on the expiry of their terms of office, and Esko Raunio and Bo Lundqvist, as their personal deputies. The meeting also elected Jorma Leinonen as personal deputy for Kari Puro on the resignation of Matti Niemi from his duties as a deputy member of the Board.

CHANGES IN SHAREHOLDER EQUITY

Retained losses reported in previous periods of EUR 2,019,584.74 have been covered by lowering the reserve fund according to a resolution of the Annual General Meeting.

The earnings for the financial year and the distributable capital and reserves total EUR 2,937,772.06. The Board of Directors proposes that the earnings for the financial year be transferred to the retained earnings account and that dividends be distributed in the amount of EUR 40 per share, altogether EUR 2,400,000.00.

OUTLOOK FOR 2004

Demand for loans granted by pension insurance companies, for which guaranty insurance is still Garantia's main product, is likely to remain modest this year as the main market interest rates have declined markedly below the minimum interest rates for new pension loans. Uncertain economic prospects are also likely to keep demand for corporate investment loans at the level of the previous year. The outlook appears to be satisfactory for investments, particularly investments in shares.

Statement of Changes in Financial Position

	2003	2002
CASH FLOW FROM OPERATIONS		
Profit/loss from ordinary operations/ profit/loss before extraordinary items	2 937 772.06	-5 629 447.81
Adjustments		
Change in technical provisions	2 909 393.93	2 635 392.49
Write-downs and revaluations on investments	-7 311 938.47	5 072 698.80
Planned depreciation	129 636.49	164 474.43
Other adjustments	4 622 390.07	1 768 134.85
Cash flow before changes in working capital	3 287 254.08	4 011 252.76
Change in working capital		
Short-term non-interest-bearing trade receivables increase (-)/decrease (+)	1 175 971.38	1 242 719.02
Short-term non-interest-bearing liabilities increase (+)/decrease (-)	262 023.93	-765 406.78
Cash flow from operations before financing items and taxes	4 725 249.39	4 488 565.00
Interest paid and payments for other business financing expenses	-112 222.90	-173 409.73
Direct taxes paid	0.00	0.00
Cash flow before extraordinary items	4 613 026.49	4 315 155.27
Cash flow attributable to extraordinary items (net)	0.00	0.00
Cash flow from operations	4 613 026.49	4 315 155.27
CASH FLOW FROM INVESTMENTS		
Placements in investments/capital gains on investments (excl. financial assets)	-3 795 464.09	11 813 910.65
Investment and capital gains (net) related to intangible and tangible assets and other assets	-1 720.30	-159 640.63
Cash flow from investments	-3 797 184.39	11 654 270.02
CASH FLOW FROM FINANCING		
Loan withdrawals	6 053 125.00	4 983 434.37
Loan repayments	-6 706 100.00	-19 085 905.00
Dividends paid / interest on guaranty capital and other distribution of profits	0.00	-1 800 000.00
Cash flow from financing	-652 975.00	-15 902 470.63
CHANGE IN FINANCIAL ASSETS	162 867.10	66 954.66
Financial assets at the start of the financial year	448 235.99	381 281.33
Financial assets at the end of financial year	611 103.09	448 235.99

The currency used in the Financial Statements is euro.

Profit and Loss Account

TECHNICAL ACCOUNT	2003	2002
Earned premiums		
Premiums written	6 897 497.74	6 624 288.38
Reinsurers' share	-1 387 316.97	-1 387 165.00
Change to provision for unearned premiums	-109 283.74	23 408.49
Reinsurers' share	<u>60.79</u>	<u>114 619.79</u>
	<u>5 400 957.82</u>	<u>5 375 151.66</u>
Claims incurred		
Claims paid	3 835 587.40	4 986 169.41
Reinsurers' share	0.00	-1 467 176.78
Change in provision for outstanding claims	-4 245 101.67	412 647.47
Reinsurers' share	<u>7.60</u>	<u>14 327.47</u>
	<u>-409 506.67</u>	<u>3 945 967.57</u>
Operating expenses	-2 517 046.43	-2 417 660.32
Stop-loss provisions	-5 703 244.69	-4 811 706.53
Balance on technical account before change to equalisation provision	-3 228 839.97	2 091 752.38
Change to equalisation provision	1 444 923.09	-3 200 395.71
Balance on technical account	-1 783 916.88	-1 108 643.33
 NON-TECHNICAL ACCOUNT		
Investment income	11 699 892.21	4 632 938.21
Investment expenses	-6 978 443.08	-9 168 672.94
Other income and expenses	239.81	14 930.25
Direct taxes on ordinary operations	0.00	0.00
Net profit / loss for the financial year	<u>2 937 772.06</u>	<u>-5 629 447.81</u>

Balance Sheet

	31.12.2003	31.12.2002
ASSETS		
INTANGIBLE ASSETS		
Intangible rights	14 617.14	20 938.95
Other long-term expenditure	<u>98 476.85</u>	<u>127 543.74</u>
	113 093.99	148 482.69
INVESTMENTS		
Investments in real property		
Real property and shares in property	3 011 821.93	3 011 821.93
Investments in companies belonging to the same Group and in affiliated companies		
Shares in affiliated companies	111 508.76	111 508.76
Other investments		
Shares and participations	40 701 955.32	24 305 634.46
Money market instruments	37 108 115.63	46 895 496.78
Mortgage loan receivables	<u>2 852.23</u>	<u>14 556.55</u>
	77 812 923.18	71 215 687.79
Total	80 936 253.87	74 339 018.48
DEBTORS		
From primary insurance		
From policyholders	507 020.74	432 591.62
From reinsurance	286 621.00	560 600.65
Other debtors	<u>0.00</u>	<u>1 370 735.20</u>
	793 641.74	2 363 927.47
OTHER ASSETS		
Tangible assets		
Equipment	185 292.04	274 486.80
Other tangible assets	<u>39 929.01</u>	<u>43 261.74</u>
	225 221.05	317 748.54
Cash in hand and at bank	611 103.09	448 235.99
Total	836 324.14	765 984.53
PREPAYMENTS AND ACCRUED INCOME		
Interests and rents	988 775.66	632 550.32
Other prepayments and accrued income	<u>294 791.20</u>	<u>256 702.19</u>
	1 283 566.86	889 252.51
ASSETS, TOTAL	<u>83 962 880.60</u>	<u>78 506 665.68</u>
LIABILITIES	31.12.2002	31.12.2001
CAPITAL AND RESERVES		
Share capital	10 200 000.00	10 200 000.00
Reserve fund	29 825 715.00	31 845 299.74
Retained earnings	0.00	3 609 863.07
Net profit/loss for year	<u>2 937 772.06</u>	<u>-5 629 447.81</u>
Total	42 963 487.06	40 025 715.00
TECHNICAL PROVISIONS		
Provision for unearned premiums	2 758 999.09	2 649 715.35
Reinsurers' share	<u>-554 926.79</u>	<u>-554 866.00</u>
	2 204 072.30	2 094 849.35
Provision for outstanding claims	4 628 882.76	383 781.09
Reinsurers' share	<u>-69 365.85</u>	<u>-69 358.25</u>
	4 559 516.91	314 422.84
Equalisation provision	28 962 693.68	30 407 616.77
Total	35 726 282.89	32 816 888.96
CREDITORS		
From primary insurance	242 190.62	282 555.72
From reinsurance	500 193.09	251 291.85
Other creditors	<u>69 321.57</u>	<u>126 168.38</u>
	811 705.28	660 015.95
ACCRUALS AND PREPAID INCOME		
Debt to the Central Pensions Security Institute	4 090 942.71	4 743 917.71
Other accruals and prepaid income	<u>370 462.66</u>	<u>260 128.06</u>
	4 461 405.37	5 004 045.77
LIABILITIES, TOTAL	<u>83 962 880.60</u>	<u>78 506 665.68</u>

Accounting Policies

The financial statements have been prepared in accordance with the Accounting Act, the Companies Act and the Insurance Companies Act, in compliance with the decisions, rules and regulations of the authorities which supervise insurance companies.

VALUATION OF INVESTMENTS IN THE BALANCE SHEET

Real estate shares have been valued at the acquisition cost or at the market value if lower.

Shares in affiliated companies have been valued at the acquisition cost.

Shares and participations have been valued at the acquisition cost, or at the market price if lower. Write-downs booked have been reversed as a credit to income to the extent that the market value of the investment exceeds the written down acquisition cost at the balance sheet date. Reversals have been made up to a maximum of the original acquisition cost.

Within financial market instruments short-term debt instruments have been valued at the acquisition cost and government bonds at the acquisition cost, adjusted bond by bond evenly over the maturity period down to its face value. If the market value of a bond is smaller than the acquisition cost less previous depreciations, the acquisition cost is written down as a charge to income.

Mortgage loan receivables have been valued at their par value.

During the financial year, currency forwards have been used to protect investments denominated in foreign currencies. In accounting, hedging calculations are not applied to forwards. Losses arising from open forward contracts have been charged to income, but profits arising from open forward contracts are not reflected in income. Profits and losses arising from closed and matured derivatives have been credited or charged to income in full.

METHODS OF DETERMINING MARKET VALUES OF INVESTMENTS

The market values of the real properties in the company's own use have been taken to be the acquisition cost plus expenditure on basic improvements. The market values of other shares in real property are taken to be the acquisition cost.

The market value of listed shares and bonds or debentures is taken to be the last traded price of the year or, in its absence, the bid price.

The market value of other asset items is the book value.

Derivative contracts have been valued at their market value on the date of the financial statements.

ITEMS DENOMINATED IN FOREIGN CURRENCY

Transactions occurring in foreign currencies have been recorded at the exchange rate prevailing on the date of the transaction. Values of investments in the financial statements have been converted to euros at the exchange rate prevailing on the date of the financial statements.

PENSION SECURITY ARRANGEMENTS FOR STAFF

The staff's pension security has been arranged by taking out statutory insurance based on the Employment Pensions Act (TEL) with Tapiola Mutual Pension Insurance Company.

CONSOLIDATED FINANCIAL STATEMENTS

Garantia Insurance Company has not prepared consolidated financial statements for 2003.

Kiinteistö Oy Vantaan Peltokulma Oy property management company is a subsidiary of Garantia Insurance Company Ltd.

The holding is a result of a loss incurred and it is not intended as a long-term arrangement. The holding is minor in amount and its business is not part of Garantia's line of business. The non-inclusion of the subsidiary in the consolidated accounts does not affect the true and fair view of the result of operations and financial position presented in Garantia's financial statements.

The par value of the shares of Kiinteistö Oy Vantaan Peltokulma property is EUR 13,455 and the book value is EUR 17,491.54.

The net loss according to the company's financial statements as at 31 December 2003 was EUR 58.55 and the shareholders' equity was EUR 20,961.96.

Garantia Insurance Company Ltd is a general partner in Garantia PK-Lainarahasto Ky II, a limited partnership in which Garantia's contribution to the partnership capital is EUR 16,818.79. Garantia acts as the guarantor of the fund's sleeping partners for the investments which they make in various companies. For providing guaranties, Garantia collects guaranty commissions – i.e., insurance premiums – according to the rates set by it. Any guaranty losses are booked to Garantia's claims incurred according to the same principles as claims related to other credit insurance granted by the company. Accordingly, if consolidated financial statements were prepared for Garantia and the limited partnership, they would not alter the view of the financial position and result of operations as presented for Garantia alone.

PRINCIPLES APPLIED TO DEPRECIATION ACCORDING TO PLAN

Intangible assets	
Computer software	straight-line depreciation 5 years
Other long-term expenditure	
Improvement expenses	straight-line depreciation 10 years
Computer application work	straight-line depreciation 5 years
Computer network	straight-line depreciation 5 years
Equipment	declining balance depreciation 25 %
Other tangible assets	straight-line depreciation 5 years

Depreciation according to plan corresponds to depreciation under the Finnish Companies Taxation Act.

Notes to the Financial Statements

	2003	2002
GROSS PREMIUMS WRITTEN		
Non-life insurance		
Direct insurance		
In Finland	6 897 497.74	6 597 466.38
Reinsurance	<u>0.00</u>	<u>26 822.00</u>
Premiums written before reinsurers' share	<u>6 897 497.74</u>	<u>6 624 288.38</u>
ITEMS DEDUCTED FROM PREMIUMS WRITTEN		
Credit losses on premium receivables	1 765.17	23 757.27
ITEMISED OPERATING EXPENSES IN THE PROFIT AND LOSS ACCOUNT		
Policy acquisition expenses	1 120 048.02	1 081 143.67
Policy management expenses	685 140.43	627 428.94
Administrative expenses	711 857.98	709 087.71
	<u>2 517 046.43</u>	<u>2 417 660.32</u>
TOTAL OPERATING EXPENSES BY FIELD OF BUSINESS		
Claims paid	144 847.98	156 927.00
Operating expenses	2 517 046.43	2 417 660.32
Investment expenses	108 609.91	70 450.21
	<u>2 770 504.32</u>	<u>2 645 037.53</u>
DEPRECIATION ACCORDING TO FIELD OF BUSINESS		
Claims paid	7 149.24	8 766.38
Operating expenses	121 369.43	154 217.62
Investment expenses	1 117.82	1 490.43
	<u>129 636.49</u>	<u>164 474.43</u>
PERSONNEL EXPENSES		
Salaries and bonuses	1 545 513.54	1 318 388.19
Pension expenses	289 448.20	283 374.15
Other social security expenses	102 692.37	52 342.46
	<u>1 937 654.11</u>	<u>1 654 104.80</u>
Salaries and bonuses paid to the Managing Director and members of the Board of Directors	196 654.28	218 229.60
Average number of employees during the financial year	27	26
ITEMISED NET INCOME FROM INVESTMENTS	2003	2002
Investment income		
Income from real property investments		
From other property investments		
Other income	150 004.18	149 017.80
	<u>150 004.18</u>	<u>149 017.80</u>
Income from other investments		
Dividend income	300 708.55	503 748.84
Interest income	1 397 332.14	1 793 028.24
Other income	394 723.43	33 051.41
	<u>2 092 764.12</u>	<u>2 329 828.49</u>
Reversals of write-downs	7 483 840.40	185 111.40
Capital gains	1 973 283.51	1 968 980.52
	<u>9 457 123.91</u>	<u>2 154 091.92</u>
Total income from investments	<u>11 699 892.21</u>	<u>4 632 938.21</u>
Investment expenses		
Expenses of real property investments	-57 999.00	-35 083.35
Expenses of other investments	-152 868.57	-138 664.02
Interest expenses and other expenses of borrowed capital	-112 222.90	-173 409.73
	<u>-323 090.47</u>	<u>-347 157.10</u>
Write-downs	-171 901.93	-5 257 810.20
Capital losses	-6 483 450.68	-3 563 705.64
	<u>-6 655 352.61</u>	<u>-8 821 515.84</u>
Total investment expenses	<u>-6 978 443.08</u>	<u>-9 168 672.94</u>
Net income from investments	<u>4 721 449.13</u>	<u>-4 535 734.73</u>

Notes to the Financial Statements

RESULT BY INSURANCE CATEGORY

Columns: 1 = Premiums written before reinsurers' share
 2 = Premiums earned before reinsurers' share
 3 = Claims incurred before reinsurers' share
 4 = Operating expenses before reinsurers' commissions and profit-sharing
 5 = Reinsurers' share
 6 = Balance on technical account before change in joint guaranty item and equalisation provision

Direct insurance	1	2	3	4	5	6
Loan and guaranty						
2003	6 897 497.74	6 788 214.00	-409 514.27	-2 517 046.43	-7 090 493.27	-3 228 839.97
2002	6 597 466.38	6 627 690.75	5 398 816.88	-2 417 660.32	-7 537 101.05	2 072 598.25
2001	6 673 027.31	7 072 525.81	16 318 746.74	-2 428 829.18	-18 518 707.99	2 443 735.38
Reinsurance						
2003	0.00	0.00	0.00	0.00	0.00	0.00
2002	26 822.00	20 006.12	-851.99	0.00	0.00	19 154.13
2001	9 782.29	7 950.59	-228.96	0.00	0.00	7 721.63
Total						
2003	6 897 497.74	6 788 214.00	-409 514.27	-2 517 046.43	-7 090 493.27	-3 228 839.97
2002	6 624 288.38	6 647 696.87	5 398 816.88	-2 417 660.32	-7 537 101.05	2 091 752.38
2001	6 682 809.60	7 080 476.40	16 318 517.78	-2 428 829.18	-18 518 707.99	2 451 457.01
Change in equalisation provision						
2003						1 444 923.09
2002						-3 200 395.71
2001						-3 933 813.42
Balance on technical account						
2003						-1 783 916.88
2002						-1 108 643.33
2001						-1 482 356.41

ITEMISATION OF PREMIUM INCOME	2003	2002
Share of transferred portfolio	1 035 412.91	1 220 931.03
New business	5 862 084.83	5 403 357.35
	<u>6 897 497.74</u>	<u>6 624 288.38</u>

CLAIMS PAID	2003	2002
Share of transferred portfolio	5 072 893.50	-4 960 413.61
New business	-1 237 306.10	-25 755.80
	<u>3 835 587.40</u>	<u>-4 986 169.41</u>

ACCOUNTING PERIOD RESULTS FOR TRANSFERRED AND NEW PORTFOLIO

	Transferred portfolio	New portfolio	Total
Earned premiums			
Premiums written	1 035 412.91	5 862 084.83	6 897 497.74
Reinsurers' share	0.00	-1 387 316.97	-1 387 316.97
Change in provision for unearned premiums	74 207.25	-183 490.99	-109 283.74
Reinsurers' share	0.00	60.79	60.79
	<u>1 109 620.16</u>	<u>4 291 337.66</u>	<u>5 400 957.82</u>
Claims incurred			
Claims paid	5 072 893.50	-1 237 306.10	3 835 587.40
Reinsurers' share	0.00	0.00	0.00
Change in provision for outstanding claims	-562 797.43	-3 682 304.24	-4 245 101.67
Reinsurers' share	0.00	7.60	7.60
	<u>4 510 096.07</u>	<u>-4 919 602.74</u>	<u>-409 506.67</u>
Operating expenses	-392 767.05	-2 124 279.38	-2 517 046.43
Stop-loss provisions	-5 703 244.69	0.00	-5 703 244.69
Balance on technical account before change in equalisation provision	-476 295.51	-2 752 544.46	-3 228 839.97
Change in equalisation provision	65 346.00	1 379 577.09	1 444 923.09
Balance on technical account	-410 949.51	-1 372 967.37	-1 783 916.88
Investments	410 949.51	4 310 499.62	4 721 449.13
Other income and expenses	0.00	239.81	239.81
Taxes		0.00	0.00
Net profit for financial year	<u>0.00</u>	<u>2 937 772.06</u>	<u>2 937 772.06</u>

Expense ratio, % (equivalent in year 2002)	35.4 (29.8)	49.5 (50.1)	46.6 (45.0)
Loss ratio, %	-406.5 (-289.2)	114.6 (-0.7)	7.6 (-73.4)
Combined ratio, %	-371.1 (-259.4)	164.1 (49.5)	54.2 (-28.4)

Notes to the Financial Statements

MARKET VALUE AND DEPRECIATION DIFFERENCE OF INVESTMENTS

Investments 31.12.2003	Remaining acquisition cost	Book value	Market value
Investments in real property			
Shares in real property in Group companies	17 491.54	17 491.54	17 491.54
Other shares in real property	<u>2 994 330.39</u>	<u>2 994 330.39</u>	<u>3 379 047.15</u>
	3 011 821.93	3 011 821.93	3 396 538.69
Investments in affiliated companies			
Shares and participations	111 508.76	111 508.76	111 508.76
Other investments			
Shares and participations	40 701 955.32	40 701 955.32	41 635 590.50
Financial market instruments	37 108 115.63	37 108 115.63	37 200 266.60
Mortgage loan receivables	<u>2 852.23</u>	<u>2 852.23</u>	<u>2 852.23</u>
	77 812 923.18	77 812 923.18	78 838 709.33
 Total	 <u>80 936 253.87</u>	 <u>80 936 253.87</u>	 <u>82 346 756.78</u>

The remaining acquisition cost of financial market instruments includes the difference between the face value and acquisition cost matched as interest income or a reduction in interest income

-45 550.78

Valuation difference

1 410 502.91

CHANGES IN INVESTMENTS IN REAL PROPERTY

	Shares in real property
Acquisition cost 1 Jan.	3 246 612.28
Increases	0.00
Decreases	<u>0.00</u>
Acquisition cost 31 Dec.	3 246 612.28
Write-downs 1 Jan.	-234 790.35
Write-downs for the financial year	<u>0.00</u>
Write-downs 31 Dec.	-234 790.35
Book value 31 Dec.	<u>3 011 821.93</u>

HARES IN REAL PROPERTY IN THE COMPANY'S USE

Remaining acquisition cost	1 803 733.56
Book value	1 803 733.56
Market value	2 154 672.20

SHARES IN AFFILIATED COMPANIES

Acquisition cost 1 Jan.	111 508.76
Increases	0.00
Decreases	<u>0.00</u>
Acquisition cost 31 Dec.	<u>111 508.76</u>

CHANGES IN INTANGIBLE AND TANGIBLE ASSETS

	Intangible assets	Tangible assets	Total
Acquisition cost 1 Jan.	499 300.70	1 028 505.64	1 527 806.34
Depreciated by end of previous year	-99 741.67	0.00	-99 741.67
Increases	29 428.84	12 492.84	41 921.68
Decreases	0.00	-62 549.33	-62 549.33
Acquisition cost 31 Dec.	428 987.87	978 449.15	1 407 437.02
Accumulated depreciation 1 Jan.	-350 818.01	-710 757.10	-1 061 575.11
Depreciated by end of previous year	99 741.67	0.00	99 741.67
Accumulated depreciation on reductions	0.00	22 347.95	22 347.95
Depreciation for the financial year	-64 817.54	-64 818.95	-129 636.49
Accumulated depreciation 31 Dec.	-315 893.88	-753 228.10	-1 069 121.98
Book value 31 Dec. 2003	<u>113 093.99</u>	<u>225 221.05</u>	<u>338 315.04</u>

Notes to the Financial Statements

CHANGES IN CAPITAL AND RESERVES	2003	2002
Restricted		
Share capital 1 Jan.	10 200 000.00	10 200 000.00
Reserve fund 1 Jan.	31 845 299.74	31 845 299.74
Covering of previous years losses	<u>-2 019 584.74</u>	<u>31 845 299.74</u>
	40 025 715.00	42 045 299.74
Non-restricted		
Retained earnings 1 Jan.	-2 019 584.74	5 409 863.07
Distribution of dividends	0.00	-1 800 000.00
Dividend	<u>2 019 584.74</u>	<u>0.00</u>
	2 937 772.06	-5 629 447.81
Net profit / loss for the financial year	<u>2 937 772.06</u>	<u>-2 019 584.74</u>
Capital and reserves, total	<u>42 963 487.06</u>	<u>40 025 715.00</u>
DISTRIBUTABLE FUNDS		
Net profit / loss for the financial year	2 937 772.06	-5 629 447.81
Retained earnings	0.00	3 609 863.07
Distributable funds total	<u>2 937 772.06</u>	<u>-2 019 584.74</u>
DEBT TO THE CENTRAL PENSION SECURITY INSTITUTE		
	2003	2002
Stop-loss provision liability 1 Jan.	4 743 917.71	18 846 388.34
Repayments	-6 466 760.00	-19 085 905.00
Interest	<u>-30 556.37</u>	<u>45 420.52</u>
	-1 753 398.66	-194 096.14
Stop-loss provisions	5 703 244.69	4 811 706.53
Interest	<u>141 096.68</u>	<u>126 307.32</u>
Stop-loss provision liability 31 Dec.	<u>4 090 942.71</u>	<u>4 938 013.85</u>
	4 090 942.71	4 743 917.71
LIABILITIES		
	2003	2002
Total credit liability insurance	982 290 000	984 294 000
Share of transferred portfolio	80 205 000	107 991 000
New business	902 085 000	876 303 000
Total credit insurance liability less imputed policy values	391 391 000	377 345 000
Share of transferred portfolio	52 097 000	64 260 000
New business	339 294 000	313 085 000
Leasing liability contracts		
Rent in 2003 financial year	38 597	13 690
Rents payable subsequently	93 971	13 690
Derivative contracts, hedging		
Currency derivatives		
Open contracts		
Forward and futures contracts		
Nominal values	6 254 949	0
Current value	204 842	0

All open derivative contracts have less than one year until expiry

Notes to the Financial Statements

HOLDINGS

AFFILIATED COMPANIES

Company name	Domicile	Holding, %	Equity	Net result for year
Uudenkaupungin Telakkakiinteistöt Oy	Uusikaupunki	18.52	476 591.46	4 705.00
Air-Ix Oy	Tampere	45.00	2 292 495.16	315 077.90
Garantia PK-lainarahasto Ky II *	Helsinki	0.30	<u>336 841.23</u>	<u>26 845.35</u>
Total			<u>3 105 927.85</u>	<u>346 628.25</u>

* Share of ownership is calculated according to the proportions of invested capital. Garantia is the only responsible partner.

LISTED COMPANIES

Company name	Home state	Holding, %	Book value	Market value
Amer Group Plc	Finland	0.03	240 550.99	312 585.00
Elisa Communications Corporation	Finland	0.01	223 840.20	223 840.20
Fortum Corporation	Finland	0.01	520 597.22	737 836.00
Huhtamäki Oyj	Finland	0.02	196 047.74	243 100.00
Lassila & Tikanoja Oyj	Finland	0.04	118 916.56	211 750.00
Metso Corporation	Finland	0.02	257 488.00	257 488.00
Nokia Corporation	Finland	0.00	989 862.00	989 862.00
Nordea AB FRD	Sweden	0.02	523 328.00	523 328.00
Outokumpu Oyj	Finland	0.02	400 542.42	427 956.72
Rautaruukki Corporation K	Finland	0.04	258 365.57	362 080.00
Sampo Plc A	Finland	0.01	455 100.00	455 100.00
Stora-Enso Oyj R	Finland	0.01	755 076.00	755 076.00
TeliaSonera Ab	Sweden	0.00	675 234.00	675 234.00
UPM-Kymmene Corporation	Finland	0.01	864 622.29	870 912.00
YIT Corporation	Finland	0.03	167 912.35	258 240.00
Others	Finland		<u>994 775.48</u>	<u>1 104 546.00</u>
Total			<u>7 642 258.82</u>	<u>8 408 933.92</u>

MUTUAL FUNDS

	Book value	Market value
ING Invest Europe	2 087 117.40	2 087 117.40
Carnegie Eurooppa	2 410 330.82	2 410 330.82
Gyllenberg European Index	2 419 486.81	2 419 486.81
Nordea Pro Global	2 217 485.49	2 217 485.49
State Street World Index	6 679 487.18	6 826 939.26
Alfred Berg Europe B	7 304 828.98	7 311 650.50
OP-Cash Treasury	<u>9 939 441.42</u>	<u>9 952 127.95</u>
	<u>33 058 178.10</u>	<u>33 225 138.23</u>

SOLVENCY INDICATORS	2003	2002
SOLVENCY CAPITAL		
Capital and reserves after proposed reduction in distribution of profit	40 563 487.06	40 025 715.00
Valuation difference between assets' market values and balance sheet book values	1 410 503.00	1 478 639.03
Intangible assets	<u>-113 093.99</u>	<u>-148 482.69</u>
	<u>41 860 896.07</u>	<u>41 355 871.34</u>
Minimum solvency margin requirement	1 400 000.00	1 400 000.00
Equalisation provision included in technical provisions	28 962 693.68	30 407 616.77
Relative to total, %	33.9	34.9
Solvency capital and equalisation provision as a ratio of earned premiums net of reinsurance for the previous 12 months, %	2003	1311
	2002	1335
	2001	1213
	2000	1287
	1999	1655
Solvency capital and equalisation provision as a ratio of technical provisions net of reinsurance less equalisation provision and 75% of the provision for investment-linked policies, %	2003	1047
	2002	2979
	2001	2515
	2000	2074
	1999	3001

Helsinki, 24 February 2004

Seppo Sipola

Lauri Koivusalo

Kai Miesmäki

Kari Puro

Jukka Rantala

Veikko Savela

Mikael Englund
Managing Director

Auditor's Report

TO THE SHAREHOLDERS OF GARANTIA INSURANCE COMPANY LTD

We have examined the bookkeeping, financial statements and administration of the Garantia Insurance Company Ltd for the accounting period 1 January – 31 December 2003. The Annual Report compiled by the Board of Directors and the Managing Director contains the Report of the Board of Directors, Profit and Loss Statement, Balance Sheet and Notes to the Financial Statements. On the basis of our investigation, we now issue an audit opinion on the financial statements and corporate administration.

Mr Jyri Heikkinen, Authorised Public Accountant responsible for the supervisory audit, has issued his own separate report.

The audit has been conducted in accordance with Standard Auditing Practice. The bookkeeping and the principles for drafting the financial statements, their contents and presentation have been examined to an extent necessary for ascertaining the absence of substantial errors or omissions. During the audit of the corporate administration, the legality of the acts by the members of the Board of Directors and the Managing Director were inspected under the requirements of the Finnish Insurance Companies Act and the Companies Act.

In our opinion, the financial statements have been drawn up in accordance with the Finnish Bookkeeping Act and other applicable rules and regulations concerning the drafting of financial statements. The financial statements present a fair and adequate view of the company's operating results and financial position as prescribed in the Bookkeeping Act. The financial statements can be approved and the members of the Board of Directors and the Managing Director discharged from liability for the accounting period now audited. The Board of Directors' proposal for distributable funds is in conformity with the Companies Act.

Helsinki, 9 March 2004

Jyri Heikkinen
Authorised Public Accountant

Folke Tegengren
Authorised Public Accountant



Shown in the photograph

First row from the left: Yrjö Romppainen, Pia Tanner, Mikael Englund, Pirjo Mahlamäki, Jari-Pekka Julkunen and Kirsi Viitanen. Second row from the left: Tuula Karinen, Gun Stjernberg, Timo Lehtikoinen, Lenina Rautonen, Anne Gustafsson, Soile Simenius and Markku Dufva. Third row from the left: Timo Lanki, Ossi Paanala, Marjo Honkanen, Jorma Hilden, Titta Elomaa, Raija Tanskanen-Öblom, Juha Vehviläinen and Hannu Loponen. Back row from the left: Ari Parmi, Jyrki Tarkkonen, Risto Kandell, Riitta Tarkiainen, Erkki Kallinen and Silja Bjondahl.

Garantia's personnel

31 December 2003

Bjondahl Silja
account manager

Dufva Markku
research manager

Elomaa Titta
investment manager

Englund Mikael
managing director

Gustafsson Anneli
office secretary

Hilden Jorma
director, portfolio management
and control

Honkanen Marjo
corporate analyst

Julkunen Jari-Pekka
corporate analyst

Kallinen Erkki
account manager

Kandell Risto
director, corporate guaranties

Karinen Tuula
policy processor

Lanki Timo
corporate analyst

Lehtikoinen Timo
legal counsel,
account manager

Loponen Hannu
risk manager

Mahlamäki Pirjo
executive assistant

Paanala Ossi
corporate analyst

Parmi Ari
account manager

Rautonen Lenina
account manager

Romppainen Yrjö
actuary

Simenius Soile
policy processor

Stjernberg Gun
policy processor

Tanner Pia
account assistant

Tanskanen-Öblom Raija
bookkeeper

Tarkiainen Riitta
financial manager

Tarkkonen Jyrki
corporate analyst

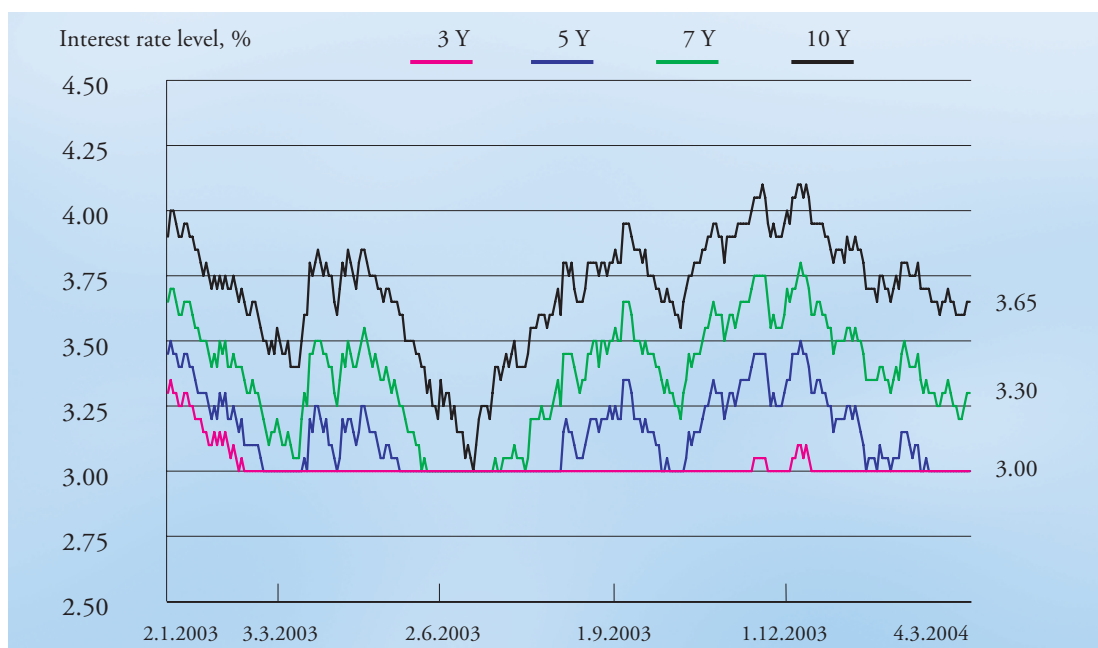
Vehviläinen Juha
IT specialist

Viitanen Kirsi
research assistant

Pension loan interest rate quotations

1 January 2003–4 March 2004

The interest rate applied to pension loans granted by the pension insurance companies is TEL-reference rate, which Garantia has quoted daily since 11 April 1997.



Key Financial Indicators,

million €

	2003	2002	2001	2000	1999
Turnover	18.5	11.3	18.9	23.9	22.6
Operating profit	1.5	-2.4	-0.1	8.2	9.9
Operating profit/turnover, %	8.1 %	-21.5 %	-0.4 %	34.2 %	43.7 %
Profit before extraordinary items, appropriations and taxes	2.9	-5.6	-4.0	4.2	7.6
Percentage of turnover, %	15.9 %	-49.8 %	-21.3 %	17.5 %	33.6 %
Return on equity, % (at current values)	6.9 %	-13.8 %	-13.5 %	-12.7 %	20.7 %
Equity ratio, % (at current values)	51.5 %	51.9 %	49.4 %	55.0 %	57.3 %
Return on investment, % (at current values)	1.9 %	-2.3 %	-1.6 %	-1.0 %	15.6 %
Gross premiums written	6.8	6.6	7.1	6.9	5.8
Loss ratio, %	7.6 %	-73.4 %	-253.6 %	-169.1 %	-307.1 %
Expense ratio, %	46.6 %	45.0 %	39.4 %	43.6 %	54.1 %
Combined ratio, %	54.2 %	-28.4 %	-214.2 %	-125.5 %	-253.0 %
Solvency margin	41.9	41.4	47.6	56.6	66.0
Equalisation provision	29.0	30.4	27.2	23.3	19.3
Solvency capital	70.8	71.8	74.8	79.9	85.3
Degree of solvency, % of technical provisions	1047.1 %	2978.7 %	2514.6 %	2074.1 %	3001.1 %

Principles for calculating key figures

Turnover =	Premiums written before credit reinsurers' share + investment income + other income + revaluations credited to income when realised on disposals.
Operating profit or loss =	Profit or loss before change in equalisation provision, revaluations of investments and adjustments, extraordinary items, appropriations and taxes. ± Profit or loss before extraordinary items, appropriations and taxes ± revaluation/reversal booked to the revaluation fund ± change in valuation differences of investments - taxes ± change in deferred tax liability
Return on equity = in per cent (at market values)	$\frac{\text{Operating profit or loss}}{\text{Capital and reserves} + \text{minority interest} + \text{valuation differences of investments after deferred tax liability}} \times 100$ The divider of the figure is average value at start and end of year
Return on total assets = in per cent (at market values)	$\frac{\text{Profit or loss before the change in the equalisation provision, extraordinary items, appropriations and taxes} + \text{interest and expenses on borrowed capital} + \text{revaluation/reversal booked to the revaluation fund} + \text{change in valuation differences of investments}}{\text{Total assets} + \text{valuation differences of investments}} \times 100$ The divider of the figure is average value at start and end of year
Equity ratio = in per cent (at market values)	$\frac{\text{Capital} + \text{reserves} + \text{minority interest} + \text{valuation differences of investments after deferred tax liability}}{\text{Total assets} + \text{Valuation differences of investments}} \times 100$
Gross premiums written =	Premiums written before reinsurers' share
Loss ratio in per cent =	$\frac{\text{Claims incurred}}{\text{Premiums written}} \times 100$
Operating expense ratio in per cent =	$\frac{\text{Operating expenses}}{\text{Premiums written}} \times 100$
Combined expense ratio = in per cent	Loss ratio + operating expenses ratio
Solvency margin in EUR =	+ Capital and reserves after deduction of proposed dividend + accumulated depreciation difference ± valuation differences of investments + capital loans (with Ministry permission) - intangible assets - capitalised policy acquisition costs ± other statutory items
Equalisation provision in EUR =	The solvency capital and the equalisation provision have been determined by the Insurance Companies Act and in more detail in a decree and provisions given by the Ministry of Health and Social Affairs. The solvency margin for the Group is calculated according to the figures of the consolidated financial statements.
Solvency capital in EUR =	Solvency margin + equalisation provision + minority interest
Degree of solvency = in per cent of technical provisions	$\frac{\text{Solvency capital}}{\text{Provision for unearned premiums} + \text{provision for outstanding claims} - \text{equalisation provision}} \times 100$

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