

ANNUAL REPORT 2004



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 2004 Garantia's gross guaranty exposure was EUR 848 million and solvency capital EUR 79 million.

Garantia has 843 corporate customers and a staff of 26.

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 guaranty is given to the subscriber on behalf of supplier and is suitable for fairly large individual projects.



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Annual Report

2004

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The original signed financial statements are kept at the company's premises at Salomonkatu 17 A, 00100 Helsinki.



Managing director's *review*

The year 2004 was a year of growth in the global economy. The US economy in particular grew fast and the current economic cycle seems to have peaked last year. Growth was essentially slower in Europe and Japan, although even there the growth was stronger in 2004 than in previous years. The growth rate for the economy is expected to slow down everywhere in 2005, but the climate should still be more favourable than in some recent years, especially in Europe. Growth in Finland continued to be faster than in the major Western European economies.

Demand for Garantia's main product, guaranties for pension loans, clearly fell short of expectations, for the second year in succession. The main reason for this was low levels of investment in manufacture. Furthermore, the ability of pension loans to compete when short-term market interest rates continued to be very low resulted in companies raising fewer new pension loans than ever in Garantia's history. Credit risk margins for business also continued to narrow, and are presently lowest worldwide since the start of this decade. The market for the company's insurance products was exceptionally tough last year.

The volume of new underwritings in gross terms in 2004 was approximately one third less than in the previous year. As the existing insurance portfolio diminished over all by at least 10%, owing to early repayment of pension fund loans, the company's earnings from insurance premiums decreased by a little under 5% on the previous year. The result for the technical account for insurance business, before equalisation provision transfers, however, was good, mainly because the amount of net claims paid out remained very low and the success in recovering old claims.

The transition in the investment portfolio benchmark index begun in 2002 was completed by the middle of 2004. A policy of very moderate risk-taking was adhered to in the allocation of investments throughout the year. Investments in stocks and shares did very well indeed, however, and it is largely because of this that the company saw the best return on investment since 1999. Overall, the company's results were the best so far this decade and clearly exceeded expectations.

As a consequence of the company's product portfolio, return on investments is often above average when demand for insurance products is weak during times of low interest rates and narrow risk margins. This in turn reduces annual fluctuations in company results. On the other hand, it is also a conscious aim in the development of risk management and quality control systems practised in the company to keep fluctuations in annual profitability moderate.

Once again I would like to thank our customers, the employees of Garantia, and our other stakeholders for their confidence in us and their excellent cooperation during the year 2004.

Helsinki 4 February 2005

Garantia Insurance Company Ltd
Mikael Englund



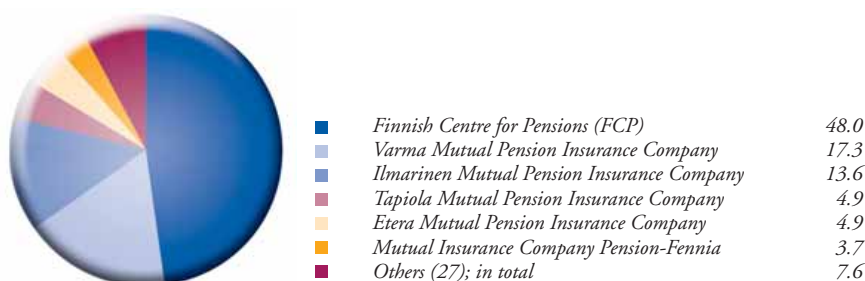


Business

and risk management

Garantia is an insurance company specialising in guaranty insurance for companies and associations. The goal of the company is to achieve good financial results with equitable treatment of its stakeholder groups and in compliance with sustainable ethical principles. Garantia's shareholders are Finnish pension carriers.

Largest shareholders (%)



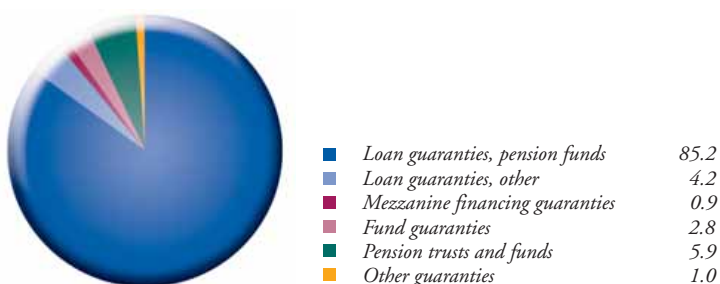
In the company's risk management plan risks are divided into strategic, business, and operational risks. Business risks include insurance and investment risks.

Strategic risks arise principally from the chosen strict niche strategy. Garantia mainly endeavours to manage risks associated with its narrow product portfolio and small market volume, by developing a specialised expertise in the chosen line of insurance business.

INSURANCE BUSINESS

All of Garantia's insurance products are guaranty insurance products classified as insurance class 15. The total insurance exposure as of 31 December 2004, was EUR 848 million, of which the Finnish Centre for Pensions (FCP) was liable for EUR 63 million, under a stop-loss agreement in effect until the end of 2005. Garantia's own insurance exposure was divided among the following products:

Garantia's insurance exposure by product (%)

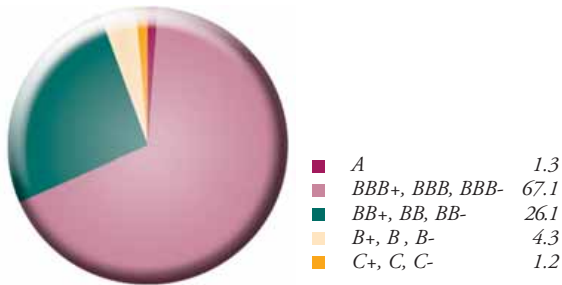


Descriptions of the different products can be found at our website: www.garantia.fi.

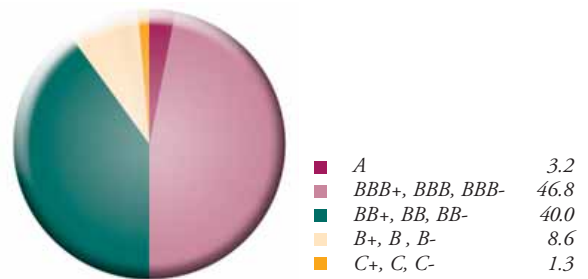
Garantia aims to manage the credit risks arising from its main product, loan guaranty insurance, through various quantitative and qualitative measures. The crucial tool in assessing credit risk is credit rating, which is always based on corporate analysis conducted by the company's own team of experts and/or other reports pertaining to the client's debt servicing ability. Garantia uses a credit rating scale similar to those used by large international rating agencies.

The amount of risk assumed for each customer depends on the customer's credit rating. The amount of risk may also be limited with reinsurance and collateral.

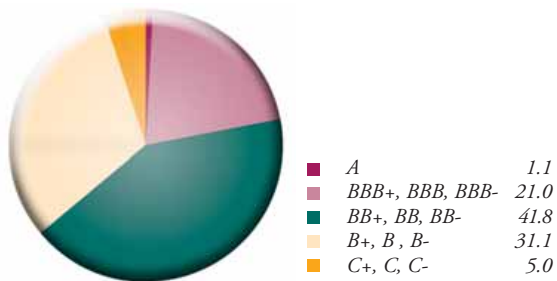
Garantia's gross insurance exposure by credit rating (%)



Garantia's net insurance exposure by credit rating (%)

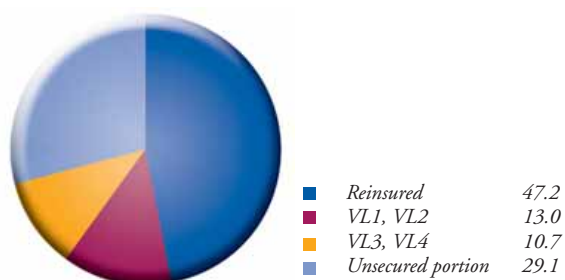


Distribution of Garantia's insurance exposure by credit rating and number of customers (%)



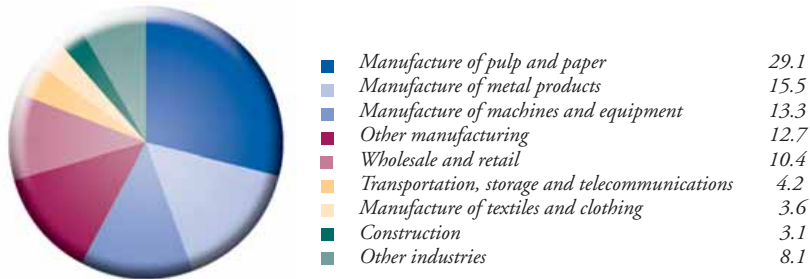
By a decision of the Board of Directors, the amount of credit risk for each customer concern is capped at EUR 7.0 million. Collateral items are divided into four classes, with VL1 denoting the best and VL4 the weakest. Reinsurance contracts can be made with reinsurance companies that have a sufficiently high claims paying ability (counterparty rating at least AA/Aa or equivalent) within separately agreed limits.

Reinsurance and collateral limiting guaranty liability (%)



Garantia endeavours to keep the credit risk moderate for individual industries by maintaining an adequate diversification over different industries in its insurance portfolio.

Guaranty exposure by industry (%)



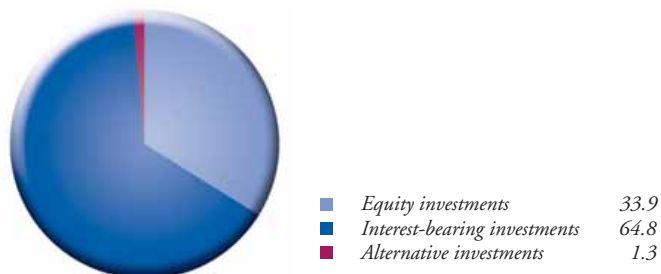
INVESTMENT OPERATIONS

The aim 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. The investment plan is designed in accordance with the regulations in force, and it specifies the main principles underlying Garantia’s investment strategy. Implementation of asset allocation is carried out by direct investments and/or placements in mutual funds.

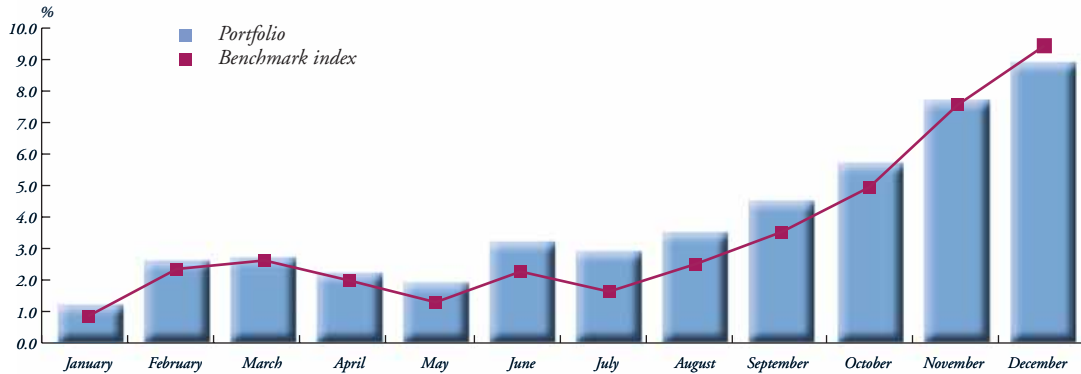
Investment portfolio is diversified into different asset classes. In 2004 the strategic allocation of investment assets was: interest-bearing 60%, equity 35% and alternative investments 5%.

Average allocation in the investment portfolio during the investment year 2004 (%)



In 2004, return on the investment portfolio was 8.9% at market values and that on the benchmark index was 9.7%.

The cumulative return on the investment portfolio and benchmark index in 2004 was:



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 tied to covering risks from the insurance operations until the end of 2009. At the end of 2004, the revaluation risk for the investment portfolio was EUR 10.3 million, of which EUR 8.3 million represented equity investments and EUR 2 million interest-bearing investments.

OPERATIONAL RISKS AND QUALITY CONTROL

The Garantia Board of Directors annually ratifies a risk management plan covering all operations. The plan takes into account the obligations under, and implementation of, the rules and guidelines imposed by law and by the controlling authority.

The organisation is essentially designed so that same person does not formulate proposals, take decisions or implement them with regard to the same issue. Furthermore, risk assessment and sales of insurance products are the responsibility of different individuals.

Company organisation



The quality of operations and viability of the risk management system in particular are systematically and continually being evaluated and improved by means of a quality control process.



Shown in the photograph from the left: Kai Miesmäki, Veikko Savela, Kari Puro, Seppo Sipola, Jukka Rantala ja 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
Finnish Centre for Pensions

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
Finnish Centre for Pensions

DEPUTY ACCOUNTANT

PricewaterhouseCoopers Oy
Tilintarkastajien Oy - Ernst & Young

Report by the *Board of Directors*

MARKET SITUATION

Global economic growth in 2004 was faster than in previous years in the major developed economies. Investment in industry in Finland, however, kept at low levels. While interest rates for pension loans were at the same time mainly higher than market interest rates, the demand for pension loans and guaranties fell short of expectations. Credit margins for business loans narrowed even further in the international markets, which was especially conspicuous in fiercer price competition in respect of large company guaranties.

INSURANCE BUSINESS

Garantia's guaranty insurance exposure stood at EUR 982 million at the beginning of the year. By the end of the year it had fallen to EUR 848 million. The portfolio divides into two: insurance business written by Garantia itself, and the one transferred from the Finnish Centre for Pensions (FCP) on 1 January 1994 and is now managed by Garantia. Garantia's own share of the business accounted for EUR 902 million at the beginning of the year. By the end of the year the figure stood at EUR 785 million. The insurance portfolio transferred from the Finnish Centre for Pensions (FCP) was worth EUR 80 million at the beginning of the year and EUR 63 million by the end of the year. Altogether there were 1,161 policies at the end of the financial year, of which 752 had transferred from the FCP. The corresponding figures for the previous year were 1,339 and 905 respectively.

PREMIUMS

Income from premiums written for guaranty insurance issued by Garantia grossed EUR 5.3 million in 2004, compared to EUR 5.9 million the previous year. Reinsurance premiums accounted for EUR 1.2 million of that. Premiums written in respect of the portfolio transferred from the FCP totalled EUR 0.8 million, compared to EUR 1.0 million the previous year.

CLAIMS

There were three insurance claims in 2004 in respect of loss occurrences under policies written by Garantia in 2004, resulting in pay-outs totalling EUR 3.8 million. Recoveries on paid claims during the financial year or earlier amounted to EUR 3.7 million.

In 2004 there were six new claims in respect of the portfolio transferred from the FCP, and for these a total of EUR 0.4 million was paid out. This was the same figure for the previous year too. Recoveries totalled EUR 0.1 million for the year, compared to EUR 5.8 million the previous year. The majority of the recoveries in 2003 were due to the sale of recourse receivables.

UNDERWRITING RESULTS

The balance on the technical account on insurance business written by Garantia before the change in equalisation provision was EUR 5.1 million and the transfer to the equalisation provision was EUR 6.8 million. The corresponding figures for the previous year were EUR -2.8 and -1.4 million respectively.

A stop-loss arrangement agreed between Garantia and the FCP acts as security against yearly results for the transferred portfolio and corresponds to the number of claims and amount of costs that exceed earnings from the portfolio. The stop-loss agreement expires on 31 December 2005, after which date the insurance portfolio that transferred from the FCP is Garantia's responsibility, and the company's insurance business will no longer be divided into two sections.

The transferred portfolio made a loss of EUR -0.1 million. Mainly as a result of claim recoveries, EUR 3.5 million received in previous years under the stop-loss agreement was refunded to the FCP in 2004. The refund for the previous year was EUR 6.5 million.

INVESTMENTS

Portfolio diversification was continued both across and within asset classes. The net investment income amounted to EUR 5.5 million, compared to EUR 4.7 million the previous year. During the same period the unrealised capital gain for investments rose from EUR 1.4 million to EUR 2.3 million.

RISK MANAGEMENT

Risk management at Garantia is based on a plan relating to internal supervision and management of risks, approved 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 credit risks in the insurance portfolio, reinsurance of large risks, regular updates of corporate clients credit ratings, and early loss prevention measures. The exposure not covered by reinsurance, the stop-loss agreement or by collaterals was EUR 325.4 million at the end of the year.

The revaluation risk of liquid assets as of 31 December 2004 was EUR 10.3 million. Historical volatility is used to estimate the equity exposure 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.

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

The management of operative risks is based on continual assessment of the relevance and updating of operational guidelines, and training related to their implementation. The company continued developing the quality control system which covers all aspects of the business.

ADMINISTRATION

The Annual General Meeting held on 26 April 2004 re-elected CEO Kari Puro and Pension Fund Managing Director Veikko Savela as members of the Board on the expiry of their terms of office, and Senior Vice President and Chief Investment Officer Jorma Leinonen and Chairman of the Board Eero Lehti as their personal deputies.

BOARD'S PROPOSAL FOR PROFIT DISTRIBUTION

Profit for the financial year is EUR 3,347,728.05 and the distributable equity is EUR 3,885,500.11. The Board of Directors proposes that the profit for the financial year be transferred to the profit and loss account for previous years and that a dividend be paid at EUR 55 per share, making a total of EUR 3,300,000.

OUTLOOK FOR 2005

Demand for loans granted by pension insurance companies, for which guaranty insurance is still Garantia's main product, is likely to remain sluggish this year unless much needed reforms are made to the interest rate mechanism or market interest rates rise above base interest rates. Prospects for demand for other products are reasonable. There is no swift increase in credit margins in sight, so price adjustments may well be expected towards the end of the year at the earliest. Prospects for equity investments are considered satisfactory, and the interest risk factor associated in particular with long-term interest-bearing investments is still significant.

Statement of Changes in Financial Position

	2004	2003
CASH FLOW FROM OPERATIONS		
Profit/loss from ordinary operations/ profit/loss before extraordinary items	3 347 728	2 937 772
Adjustments		
Change in technical provisions	3 782 334	2 909 394
Write-downs and revaluations on investments	-3 363 301	-7 311 938
Planned depreciation	110 870	129 636
Other adjustments	-439 602	4 622 390
Cash flow before changes in working capital	3 438 029	3 287 254
Change in working capital		
Short-term non-interest-bearing trade receivables increase (-)/decrease (+)	-52 436	1 175 971
Short-term non-interest-bearing liabilities increase (+)/decrease (-)	48 337	262 024
Cash flow from operations before financing items and taxes	3 433 930	4 725 249
Interest paid and payments for other business financing expenses	-30 424	-112 223
Direct taxes paid	0	0
Cash flow before extraordinary items	3 403 506	4 613 026
Cash flow attributable to extraordinary items (net)	0	0
Cash flow from operations	3 403 506	4 613 026
CASH FLOW FROM INVESTMENTS		
Placements in investments/capital gains on investments (excl. financial assets)	2 061 679	-3 795 464
Investment and capital gains (net) related to intangible and tangible assets and other assets	-31 580	-1 720
Cash flow from investments	2 030 099	-3 797 184
CASH FLOW FROM FINANCING		
Loan withdrawals	0	5 813 785
Loan repayments	-3 579 676	-6 466 760
Dividends paid / interest on guaranty capital and other distribution of profits	-2 400 000	0
Cash flow from financing	-5 979 676	-652 975
CHANGE IN FINANCIAL ASSETS	-546 071	162 867
Financial assets at the start of the financial year	611 103	448 236
Financial assets at the end of financial year	65 032	611 103

The currency used in the Financial Statements is euro.

Profit and Loss Account

TECHNICAL ACCOUNT	2004	2003
Earned premiums		
Premiums written	6 094 485	6 897 498
Reinsurers' share	-1 175 502	-1 387 317
Change to provision for unearned premiums	321 205	-109 284
Reinsurers' share	-84 726	61
	5 155 462	5 400 958
Claims incurred		
Claims paid	15 326	3 835 587
Reinsurers' share	-755 048	0
Change in provision for outstanding claims	2 818 787	-4 245 102
Reinsurers' share	-10 591	8
	2 068 474	-409 507
Operating expenses	-2 616 040	-2 517 046
Stop-loss provisions	52 455	-5 703 245
Balance on technical account before change to equalisation provision	4 660 351	-3 228 840
Change to equalisation provision	-6 827 009	1 444 923
Balance on technical account	-2 166 658	-1 783 917
NON-TECHNICAL ACCOUNT		
Investment income	8 247 302	11 699 892
Investment expenses	-2 738 616	-6 978 443
Other income and expenses	5 700	240
Direct taxes on ordinary operations	0	0
Net profit / loss for the financial year	3 347 728	2 937 772

Balance Sheet

ASSET	31.12.2004	31.12.2003
INTANGIBLE ASSETS		
Intangible rights	22 880	14 617
Other long-term expenditure	50 321	98 477
	73 201	113 094
INVESTMENTS		
Investments in real property		
Real property and shares in property	3 011 822	3 011 822
Investments in companies belonging to the same Group and in affiliated companies		
Shares in affiliated companies	16 819	111 509
Other investments		
Shares and participations	26 193 839	40 701 955
Money market instruments	53 485 421	37 108 116
Mortgage loan receivables	0	2 852
	79 679 260	77 812 923
Total	82 707 901	80 936 254
DEBTORS		
From primary insurance		
From policyholders	575 678	507 021
From reinsurance	39 387	286 621
	615 065	793 642
OTHER ASSETS		
Tangible assets		
Equipment	148 998	185 292
Other tangible assets	36 826	39 929
	185 824	225 221
Cash in hand and at bank	65 032	611 103
Total	250 856	836 324
PREPAYMENTS AND ACCRUED INCOME		
Interests and rents	1 233 353	988 776
Other prepayments and accrued income	281 227	294 791
	1 514 580	1 283 567
ASSETS, TOTAL	85 161 603	83 962 881
LIABILITIES	31.12.2004	31.12.2003
CAPITAL AND RESERVES		
Share capital	10 200 000	10 200 000
Reserve fund	29 825 715	29 825 715
Retained earnings	537 772	0
Net profit/loss for year	3 347 728	2 937 772
Total	43 911 215	42 963 487
TECHNICAL PROVISIONS		
Provision for unearned premiums	2 437 794	2 758 999
Reinsurers' share	-470 201	-554 927
	1 967 593	2 204 072
Provision for outstanding claims	1 810 096	4 628 883
Reinsurers' share	-58 775	-69 366
	1 751 321	4 559 517
Equalisation provision	35 789 703	28 962 694
Total	39 508 617	35 726 283
CREDITORS		
From primary insurance	214 826	242 191
From reinsurance	433 971	500 193
Other creditors	65 462	69 322
	714 258	811 705
ACCRUALS AND PREPAID INCOME		
Debt to the Finnish Centre for Pensions	511 266	4 090 943
Other accruals and prepaid income	516 247	370 463
	1 027 513	4 461 405
LIABILITIES, TOTAL	85 161 603	83 962 881

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.

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 current value of company's own premises is the acquisition cost added with the improvement costs. Other real estate investments are valued at their acquisition cost as well.

The current value of listed shares is the last bid on the continuous trading on the 30th of December or in the absence of this, the last closing price.

The current value of interest-bearing instruments is the last bid on the 31st of December or in the absence of this, the market quotation.

The current value of all other investments is the market price.

Derivative contracts have been valued at their year-end market values.

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 2004.

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 2004 was EUR -5,0 and the shareholders' equity was EUR 20,686.96.

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

GROSS PREMIUMS WRITTEN	2004	2003
Non-life insurance		
Direct insurance		
In Finland	6 094 485	6 897 498
Reinsurance	0	0
Premiums written before reinsurers' share	6 094 485	6 897 498
ITEMS DEDUCTED FROM PREMIUMS WRITTEN		
Credit losses on premium receivables	0	1 765
ITEMISED OPERATING EXPENSES IN THE PROFIT AND LOSS ACCOUNT		
Policy acquisition expenses	1 150 198	1 120 048
Policy management expenses	704 464	685 140
Administrative expenses	761 379	711 858
	2 616 040	2 517 046
TOTAL OPERATING EXPENSES BY FIELD OF BUSINESS		
Claims paid	133 837	144 848
Operating expenses	2 616 040	2 517 046
Investment expenses	119 898	108 610
	2 869 775	2 770 504
DEPRECIATION ACCORDING TO FIELD OF BUSINESS		
Claims paid	6 214	7 149
Operating expenses	103 817	121 369
Investment expenses	838	1 118
	110 870	129 636
PERSONNEL EXPENSES		
Salaries and bonuses	1 675 627	1 545 514
Pension expenses	293 646	288 908
Other social security expenses	111 552	102 692
	2 080 825	1 937 114
Salaries and bonuses paid to the Managing Director and members of the Board of Directors	210 275	196 654
Average number of employees during the financial year	27	27
ITEMISED NET INCOME FROM INVESTMENTS		
Investment income	2004	2003
Income from real property investments		
From other property investments		
Other income	150 016	150 004
	150 016	150 004
Income from other investments		
Dividend income	247 157	300 709
Interest income	1 435 646	1 397 332
Other income	1 177 007	394 723
	2 859 810	2 092 764
Reversals of write-downs	3 364 529	7 483 840
Capital gains	1 872 947	1 973 284
	5 237 477	9 457 124
Total income from investments	8 247 302	11 699 892
Investment expenses		
Expenses of real property investments	-33 926	-57 999
Expenses of other investments	-562 906	-152 869
Interest expenses and other expenses of borrowed capital	-30 424	-112 223
	-627 256	-323 090
Write-downs	-1 229	-171 902
Capital losses	-2 110 132	-6 483 451
	-2 111 361	-6 655 353
Total investment expenses	-2 738 616	-6 978 443
Net income from investments	5 508 686	4 721 449

Gain of 1.099,504 euros is entered under other income from rolling of the foreign exchange hedges in the investment portfolio and the cost of rolling 392,294 euros entered under other expenses.

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

	1	2	3	4	5	6
Direct insurance						
Loan and guaranty						
2004	6 094 485	6 415 690	2 834 113	-2 616 040	-1 973 412	4 660 351
2003	6 897 498	6 788 214	-409 514	-2 517 046	-7 090 493	-3 228 840
2002	6 597 466	6 627 691	5 399 669	-2 417 660	-7 537 101	2 072 598
Reinsurance						
2004	0	0	0	0	0	0
2003	0	0	0	0	0	0
2002	26 822	20 006	-852	0	0	19 154
Total						
2004	6 094 485	6 415 690	2 834 113	-2 616 040	-1 973 412	4 660 351
2003	6 897 498	6 788 214	-409 514	-2 517 046	-7 090 493	-3 228 840
2002	6 624 288	6 647 697	5 398 817	-2 417 660	-7 537 101	2 091 752
Change in equalisation provision						
2004						-6 827 009
2003						1 444 923
2002						-3 200 396
Balance on technical account						
2004						-2 166 658
2003						-1 783 917
2002						-1 108 643

	2004	2003
ITEMISATION OF PREMIUM INCOME		
Share of transferred portfolio	836 983	1 035 413
New business	5 257 502	5 862 085
	6 094 485	6 897 498
CLAIMS PAID		
Share of transferred portfolio	189 092	5 072 894
New business	-173 766	-1 237 306
	15 326	3 835 587

ACCOUNTING PERIOD RESULTS FOR TRANSFERRED AND NEW PORTFOLIO

	Transferred portfolio	New portfolio	Total
Earned premiums			
Premiums written	836 983	5 257 502	6 094 485
Reinsurers' share	0	-1 175 502	-1 175 502
Change in provision for unearned premiums	79 372	241 833	321 205
Reinsurers' share	0	-84 726	-84 726
	916 355	4 239 107	5 155 462
Claims incurred			
Claims paid	189 092	-173 766	15 326
Reinsurers' share	-755 048	0	-755 048
Change in provision for outstanding claims	-611 934	3 430 721	2 818 787
Reinsurers' share	0	-10 591	-10 591
	-1 177 891	3 246 364	2 068 474
Operating expenses	-244 498	-2 371 542	-2 616 040
Stop-loss provisions	52 455	0	52 455
Balance on technical account before change in equalisation provision	-453 578	5 113 930	4 660 351
Change in equalisation provision	-28 990	-6 798 019	-6 827 009
Balance on technical account	-482 569	-1 684 089	-2 166 658
Investments	482 569	5 026 117	5 508 686
Other income and expenses	0	5 700	5 700
Taxes	0	0	0
Net profit for financial year	0	3 347 728	3 347 728

Expense ratio, %, 2004 (equivalent in year 2003)	26,7 (35,4)	55,9 (49,5)	50,7 (46,6)
Loss ratio, %, 2004	128,5 (-406,5)	-76,6 (114,6)	-40,1 (7,6)
Combined ratio, %, 2004	155,2 (-371,1)	-20,6 (164,1)	10,6 (54,2)

Notes to the Financial Statements

MARKET VALUE AND DEPRECIATION DIFFERENCE OF INVESTMENTS

Investments 31.12.2004	Remaining acquisition cost	Book value	Market value
Investments in real property			
Shares in real property in Group companies	17 492	17 492	17 492
Other shares in real property	2 994 330	2 994 330	3 379 047
	<u>3 011 822</u>	<u>3 011 822</u>	<u>3 396 539</u>
Investments in affiliated companies			
Shares and participations	16 819	16 819	16 819
Other investments			
Shares and participations	26 193 839	26 193 839	27 291 147
Financial market instruments	53 485 421	53 485 421	54 299 955
Mortgage loan receivables	0	0	0
	<u>79 679 260</u>	<u>79 679 260</u>	<u>81 591 102</u>
Total	<u><u>82 707 901</u></u>	<u><u>82 707 901</u></u>	<u><u>85 004 459</u></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

-330 385

Valuation difference	<u><u>2 296 558</u></u>
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CHANGES IN INVESTMENTS IN REAL PROPERTY

Acquisition cost 1 Jan.	3 246 612
Increases	0
Decreases	0
Acquisition cost 31 Dec.	<u>3 246 612</u>
Write-downs 1 Jan.	-234 790
Write-downs for the financial year	0
Write-downs 31 Dec.	<u>-234 790</u>
Book value 31 Dec.	<u><u>3 011 822</u></u>

SHARES IN REAL PROPERTY IN THE COMPANY'S USE

Remaining acquisition cost	1 803 734
Book value	1 803 734
Market value	2 154 672

SHARES IN AFFILIATED COMPANIES

Acquisition cost 1 Jan.	111 509
Increases	0
Decreases	-94 690
Acquisition cost 31 Dec.	<u>16 819</u>

CHANGES IN INTANGIBLE AND TANGIBLE ASSETS

	Intangible assets	Tangible assets	Total
Acquisition cost 1 Jan.	428 988	978 449	1 407 437
Depreciated by end of previous year	-46 964	0	-46 964
Increases	19 020	17 171	36 191
Decreases	0	-23 685	-23 685
Acquisition cost 31 Dec.	<u>401 044</u>	<u>971 935</u>	<u>1 372 979</u>
Accumulated depreciation 1 Jan.	-315 894	-753 228	-1 069 122
Depreciated by end of previous year	46 964	0	46 964
Accumulated depreciation on reductions	0	19 074	19 074
Depreciation for the financial year	-58 913	-51 957	-110 870
Accumulated depreciation 31 Dec.	<u>-327 843</u>	<u>-786 111</u>	<u>-1 113 954</u>
Book value 31 Dec. 2004	<u><u>73 201</u></u>	<u><u>185 824</u></u>	<u><u>259 025</u></u>

Notes to the Financial Statements

CHANGES IN CAPITAL AND RESERVES	2004	2003
Restricted		
Share capital 1 Jan.	10 200 000	10 200 000
Reserve fund 1 Jan	29 825 715	31 845 300
Covering of previous years losses	0	-2 019 585
	40 025 715	40 025 715
Non-restricted		
Retained earnings 1 Jan.	2 937 772	-2 019 585
Distribution of dividends	-2 400 000	0
Dividend	0	2 019 585
	537 772	0
Net profit / loss for the financial year	3 347 728	2 937 772
	3 885 500	2 937 772
Capital and reserves, total	43 911 215	42 963 487
DISTRIBUTABLE FUNDS		
Net profit / loss for the financial year	3 347 728	2 937 772
Retained earnings	537 772	0
Distributable funds total	3 885 500	2 937 772
DEBT TO THE FINNISH CENTRE FOR PENSIONS		
	2004	2003
Stop-loss provision liability 1 Jan.	4 090 943	4 743 918
Repayments	-3 553 503	-6 466 760
Interest	27 462	-30 556
	564 902	-1 753 399
Stop-loss provisions	-52 455	5 703 245
Interest	-1 180	141 097
Stop-loss provision liability 31 Dec.	511 266	4 090 943
LIABILITIES		
	2004	2003
Total credit insurance liability	848 011 000	982 290 000
Share of transferred portfolio	62 851 000	80 205 000
New business	785 160 000	902 085 000
Total credit insurance liability less imputed policy values	365 438 000	391 391 000
Share of transferred portfolio	40 059 000	52 097 000
New business	325 379 000	339 294 000
Leasing liability contracts		
Rent in 2005 financial year	38 597	38 597
Rents payable subsequently	69 065	93 971
Derivative contracts, hedging		
Currency derivatives		
Open contracts		
Forward and futures contracts		
Nominal values	11 269 363	6 254 949
Current value	251 698	204 842

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	
Garantia PK-lainarahasto Ky II*	Helsinki	0,30	336 841	25 528
Total			336 841	25 528

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

LISTED COMPANIES

Company name	Home state osuus %	Holding, %	Book value	Market value
Fortum Corporation	Finland	0,00	574 764	574 764
Huhtamäki Oyj	Finland	0,01	152 370	214 760
Kone Corporation B	Finland	0,00	167 374	171 000
Metso Corporation	Finland	0,01	197 339	222 706
Nokia Corporation	Finland	0,00	583 324	583 324
Nordea AB FRD	Sweden	0,01	312 535	360 096
Outokumpu Oyj	Finland	0,00	193 778	193 189
Sampo plc A	Finland	0,00	550 344	560 280
Sanoma-WSOY Corporation B	Finland	0,00	167 885	180 180
Stora-Enso Oyj R	Finland	0,00	498 571	514 125
TeliaSonera AB	Sweden	0,00	447 198	447 198
Tietoanator Corporation	Finland	0,00	156 693	173 160
UPM-Kymmene Corporation	Finland	0,00	633 132	633 132
YIT-Yhtymä Corporation	Finland	0,01	153 120	159 732
Others	Finland		705 796	876 167
Total			5 494 223	5 863 813

MUTUAL FUNDS

	Book value	Market value
Carnegie European Equities	3 022 009	3 022 009
Trigon CEE Fund	500 178	606 626
Gyllenberg European Index B	4 824 097	4 824 097
Mandatum US Small Cap	1 000 000	1 000 969
State St World Index	7 493 368	8 059 045
BGI North America Index Sub Fund	3 858 446	3 913 068
Total	20 698 098	21 425 815

SOLVENCY INDICATORS

	2004	2003
SOLVENCY CAPITAL		
Capital and reserves after proposed reduction in distribution of profit	40 611 215	40 563 487
Valuation difference between assets' market values and balance sheet book values	2 296 558	1 410 503
Intangible assets	-73 201	-113 094
	42 834 572	41 860 896
Minimum solvency margin requirement	3 000 000	1 400 000
Equalisation provision included in technical provisions	35 789 703	28 962 694
Relative to total, %	43	34
Solvency capital and equalisation provision as a ratio of earned premiums net of reinsurance for the previous 12 months, %	2004	1 525
	2003	1 311
	2002	1 335
	2001	1 213
	2000	1 287
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, %	2004	2 114
	2003	1 047
	2002	2 979
	2001	2 515
	2000	2 074

Helsinki, 17 February 2005

Seppo Sipola

Lauri Koivusalo

Kai Miesmäki

Kari Puro

Jukka Rantala

Veikko Savela

Mikael Englund
toimitusjohtaja

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 2004. 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, 8 March 2005

Jyri Heikkinen
KHT

Folke Tegengren
KHT



Garantia's personnel

31 December 2004

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

Korhonen Paula
account manager

Lanki Timo
corporate analyst

Lehikoinen Timo
legal counsel, account manager

Loponen Hannu
manager, insurance production

Mahlmäki Pirjo
executive assistant

Paanala Ossi
corporate analyst

Parmi Ari
account manager

Romppainen Yrjö
actuary

Simenius Soile
policy processor

Stjernberg Gun
policy processor

Tanner Pia
insurance assistant

Tanskanen-Öblom Raija
bookkeeper

Tarkiainen Riitta
CFO

Tarkkonen Jyrki
corporate analyst

Vehviläinen Juha
IT specialist

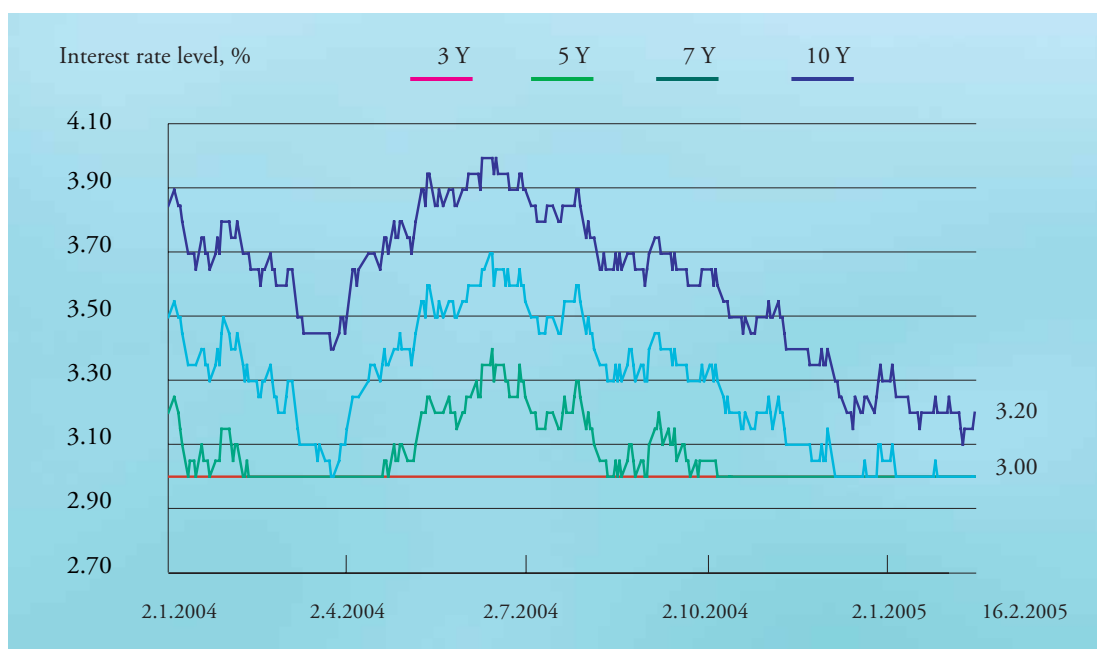
Viitanen Kirsi
research assistant



Pension loan interest rate quotations

1 January 2004–16 February 2005

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 €*

	2004	2003	2002	2001	2000
Turnover, M€	14.5	18.5	11.3	18.9	23.9
Operating profit, M€	10.2	1.5	-2.4	-0.1	8.2
Operating profit/turnover, %	70.0 %	8.1 %	-21.5 %	-0.4 %	34.2 %
Profit before extraordinary items, appropriations and taxes	3.3	2.9	-5.6	-4.0	4.2
Percentage of turnover, %	23.0 %	15.9 %	-49.8 %	-21.3 %	17.5 %
Return on equity, % (at current values)	8.1 %	6.9 %	-12.9 %	-9.4 %	-0.1 %
Return on investment, % (at current values), M€	12.8 %	1.9 %	-3.2 %	-2.3 %	-1.5 %
Equity ratio, % (at current values)	52.1 %	51.5 %	51.9 %	49.4 %	55.0 %
Gross premiums written, M€	6.1	6.8	6.6	7.1	6.9
Loss ratio, %	-40.1 %	7.6 %	-73.4 %	-253.6 %	-169.1 %
Expense ratio, %	50.7 %	46.6 %	45.0 %	39.4 %	43.6 %
Combined ratio, %, M€	10.6 %	54.2 %	-28.4 %	-214.2 %	-125.5 %
Solvency margin, M€	42.8	41.9	41.3	47.6	56.6
Equalisation provision, M€	35.8	28.9	30.4	27.2	23.3
Solvency capital	78.6	70.8	71.7	74.8	79.9
Degree of solvency, % of technical provisions	2114.2 %	1047.1 %	2978.7 %	2514.6 %	2074.1 %
Risk carrying capacity %	1525.1 %	1311.3 %	1335.1 %	1213.5 %	1286.5 %

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)	$\frac{\text{Operating profit or loss}}{\text{Average value at start and end of year}} \times 100$ + Capital and reserves + minority interest ± valuation differences of investments after deferred tax liability The divider of the figure is average value at start and end of year
Return on total assets = in per cent (at market values)	$\frac{\text{Operating profit or loss before the change in the equalisation provision, extraordinary items, appropriations and taxes.} + \text{interest and expenses on borrowed capital} + \text{revaluation/reversal booked to the revaluation fund} + \text{change in valuation differences of investments}}{\text{Average value at start and end of year}} \times 100$ + Total assets ± valuation differences of investments The divider of the figure is average value at start and end of year
Equity ratio = in per cent (at market values)	$\frac{\text{Capital + reserves} + \text{minority interest} + \text{valuation differences of investments after deferred tax liability}}{\text{Total assets} + \text{Valuation differences of investments}} \times 100$
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	$\frac{\text{Solvency capital}}{\text{Provision for unearned premiums + provision for outstanding claims – equalisation provision}} \times 100$

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