

MUNICIPAL GUARANTEE BOARD



1998

A n n u a l r e p o r t

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THE REVIEW OF THE MANAGING DIRECTOR

The year 1998 was an eventful year on the international capital markets. The events in South America, Russia and in Asia caused great volatility to prices on the equity, bond and currency markets. At the same time the mergers between participants on the capital markets continued. This was probably further encouraged by the preparations for birth of the single European currency.

Developments of the Finnish economy were favorable in the middle of this turmoil. There was growth of GDP, unemployment fell, inflation remained low and the markka remained stable. Within the municipal sector there were clear differences in the financial strength of individual municipalities and there were differences in their levels of debt.

The municipal owned funding agencies Municipality Finance Plc. and Municipal Housing Finance Plc. both enjoyed a good year. Both increased their lending and activities were profitable.



Ari Huotari,
Managing Director

Their ratings improved during the year 1998, with Moody's Investors Services giving them the highest rating for both domestic and foreign debt. Standard & Poor's assigned Municipality Finance Plc. a higher rating than that of the Republic of Finland.

The success of the funding agencies was also reflected in the activities of the Guarantee Board for the year under review. The amount of funding guaranteed by the Guarantee Board increased from FIM 4.3 billion to FIM 8 billion. This growth has allowed the payment to the fund of the Municipal Guarantee Board for the first time. The first transfer of FIM 1.1 million was paid into the fund. The Municipal Guarantee Board thus passed a new milestone in its activities.

I would like to thank all of you involved in the work of the funding system. The success of the year under review has been based on the hard work of many different people.

Legislation and member bodies

The Finnish Parliament passed the Act on the Municipal Guarantee Board on 18.6.1996. The Act, number 487, (the "Act"), came into force on 1.7.1996.

According to the Act, the purpose of the Municipal Guarantee Board is to secure and develop the joint funding of the municipal sector. In order to achieve this purpose, the Municipal Guarantee Board may grant guarantees to those credit institutions which are directly or indirectly owned by municipalities, for such funding which is used for lending to municipalities, municipal federations or those bodies which are wholly owned or controlled by them. Municipality Finance Plc. and Municipal Housing Finance Plc. fulfill the conditions set down by the Act.

In its original form, the Act did not permit loans to be given to non-profitable housing corporations. The Association of Finnish Municipalities made the initiative of proposing an amendment to the Act which was enacted in Parliament on 25.4.1997. The amendment came into force on 1.5.1997. According to the amendment, the Municipal Guarantee Board may also grant guarantees for the debt of the above mentioned financial institutions, which is used for lending to corporations designated by government authorities engaged in renting or production and maintenance of housing on social

grounds or corporations controlled by them.

According to the Act, municipalities had the possibility to decline joining the Municipal Guarantee Board as a member by giving notice to the Ministry of the Interior by 30.9.1996. Fifteen municipalities made decisions not to join the Municipal Guarantee Board representing a total population of a little below 60,000 residents. There are 421 member municipalities of the Municipal Guarantee Board which represent approximately 98.3 % of the total population of Finland. The municipalities of the Province of Ahvenanmaa, (the Åland Islands), are not members of the Municipal Guarantee Board.

Administration and staff

According to the provisions of the Act, the Municipal Guarantee Board has an Administrative Council, (the "Council"), of at least 10 members and not more than 15 members, each of whom has a personal deputy. The Ministry of the Interior has appointed the 15 members to the Council, and their personal deputies, on 15.9.1997, for the period 1.10.1997 - 30.9.2001. The Council appointed as Chairman, from amongst its ranks, Mr. Reino Ruuskanen, Financial Director from the City of Vantaa. The Council appointed Mr. Antti Hietaniemi, Managing Director, from the Municipality of Perho and Ms. Raija Rönkä-Nieminen,

Financial Manager from the City of Lohja. The Council met twice during 1998.

According to the provisions of the Act, the Municipal Guarantee Board has a Board which is in charge of the administration of the Municipal Guarantee Board, the granting of guarantees and the preparation of matters for decision by the Council and their implementation. At its meeting of 19.11.1997 the Council appointed the following Board for the period 1.1.1998 – 31.12.1999:

- Ms. Irja Ansalehto-Salmi, Lector from Vantaa
- Mr. Jussi Huttunen, Municipal Manager of Leppävirta
- Ms. Marketta Kokkonen, Mayor of Espoo
- Mr. Erkki Kukkonen, Mayor of Järvenpää
- Mr. Heikki Niemeläinen, Ph.D., the City of Joensuu
- Mr. Markku Pietarila, Director of Town Structure from Kemi
- Ms. Marja-Liisa Vesterinen, Licentiate in Economic Sciences from Lappeenranta

The Board appointed Ms. Marketta Kokkonen, Mayor of the City of Espoo as its Chairman and Mr. Erkki Kukkonen, Mayor of the City of Järvenpää as Deputy Chairman.

The Managing Director of the Municipal Guarantee Board is Mr. Ari Huotari, who also holds the position of Financial Director at the Local Government Pensions Institution. During the accounting

period Ms. Lia Holmström was employed as a guarantee administration officer by the Municipal Guarantee Board.

Auditors and Supervision

The Council of the Municipal Guarantee Board appoints a corporation of authorized accountants approved by the Central Chamber of Commerce or by the Public Administration and Economy Auditor's Board to audit the accounts and the corporate governance for one calendar year at a time. Arthur Andersen Ltd. acted as auditors for 1998 and will continue in such capacity in 1999.

The Guarantee Board Auditor shall supervise the activities of the Municipal Guarantee Board and shall be appointed by the Ministry of the Interior, on a proposal from the Board of the Municipal Guarantee Board. Tuokko Deloitte & Touche Ltd. acted as Guarantee Board Auditors for 1998 and will continue in such capacity in 1999.

Guarantees and Financial Results

Municipality Finance Plc. increased its International Programme for the Issuance of Debt Instruments from FIM 5 billion to FIM 8 billion in the spring of 1998. At the end of 1998 a total of 3,842.4 million of funding was issued under the guarantee

of the Municipal Guarantee Board under the Programme. Municipality Finance Plc. organized its domestic funding under a Domestic Debt Issuance Programme. Under this Programme of FIM 4 billion, FIM 3 billion are available for the issuance of Municipal Bonds and FIM 1 billion for the issuance of Treasury Bills.

A total of FIM 1,237.8 million of Debt Instruments were issued under the Programme by the end of 1998. Municipality Finance Plc. was granted a guarantee limit of other guarantees totaling FIM 2 billion by 31.12.1998. The most important funding

arrangements were the Global Loans signed with the European Investment Bank and the Council of Europe Social Development Fund.

Municipal Housing Finance Plc. borrowed a total of FIM 1,902.6 by 31.12.1998 under its US Dollar 750 million MTN Programme. At the beginning of the year under review the credit company established a FIM 1 billion Domestic Bond Programme under which it issued FIM 79.8 million of debt. The credit company has issued FIM 180.5 million under the Bond issue 1997/II. Other guarantee limits amounting to FIM 2 billion were grant-





ed to Municipal Housing Finance Plc. under which a total of FIM 83 million was issued.

Total guarantees yielded a guarantee premium income of FIM 2,853,900.58 in 1998. Other income amounted to FIM 3,148.99. The administrative costs were FIM 1,733,968.34 which was divided into personnel costs of FIM 838,771.06, other costs FIM 799,202.28 and depreciation FIM 95,995. The difference between premiums and costs is the net income after administrative costs of FIM 1,123,081.23.

No guarantee compensation or other compensation was paid in 1998. Furthermore, no compensation income was claimed from the members, so

that the premium income margin for the year remained at FIM 1,123,081.23. This is a natural result taking into account the nature of the activities of the Municipal Guarantee Board.

The whole net result was paid into the fund. In corresponding manner, the accrued surplus of FIM 1,540.79 from earlier years was transferred to the fund. The fund thus stand at FIM 1.124.622,02 as of 31.12.1998.

The Local Government Pensions Institution and the Municipal Guarantee Board have agreed on a back-up line of credit in order to secure the liquidity position of the Municipal Guarantee Board up to FIM 300 million.

INCOME STATEMENT 1.1. - 31.12.1998

PREMIUMS	1.1. - 31.12.1998	1.1. - 31.12.1997
Guarantees	2,853,900.58	1,601,172.00
Other income	3,148.99	4,832.51
Total premiums	2,857,049.57	1,606,004.51
ADMINISTRATIVE COSTS		
Personnel costs	-838,771.06	-750,652.87
Other costs	-799,202.28	-775,553.65
Depreciation	-95,995.00	-76,325.00
Total administrative costs	-1,733,968.34	-1,602,531.52
NET INCOME AFTER ADMINISTRATIVE COSTS	1,123,081.23	3,472.99
OTHER ITEMS		
Claims on guarantees	0.00	0.00
Other claims	0.00	0.00
Recoveries	0.00	0.00
Total other items	0.00	0.00
PREMIUM INCOME MARGIN	1,123,081.23	3,472.99
TRANSFER TO FUND	-1,123,081.23	0.00
RESULT	0.00	3,472.99

BALANCE SHEET 31.12.1998

ASSETS	1998	1997
Liquid assets	424,465.28	271,033.11
Investments	0.00	0.00
Other assets	262,796.33	168,789.13
Accruals	919,646.88	183,077.00
Total assets	1,606,908.49	622,899.24
LIABILITIES		
Provisions for liabilities	224,043.16	201,871.20
Accruals	58,243.31	119,487.25
Other liabilities	200,000.00	300,000.00
Fund	1,124,622.02	-
Surplus, previous year	-	1,540.79
Total liabilities	1,606,908.49	622,899.24

Helsinki, 25th February 1999

MUNICIPAL GUARANTEE BOARD

Ms. Marketta Kokkonen, Chairman of the Board
 Ms. Irja Ansalehto-Salmi, Member of the Board
 Mr. Heikki Niemeläinen, Member of the Board
 Ms. Marja-Liisa Vesterinen, Member of the Board

Mr. Erkki Kukkonen, Deputy Chairman of the Board
 Mr. Jussi Huttunen, Member of the Board
 Mr. Markku Pietarila, Member of the Board
 Mr. Ari Huotari, Managing Director

GUARANTEES 31.12.1998

	Guarantees	Funding
MUNICIPALITY FINANCE PLC.		
Domestic Debt Issuance Programme	4,000,000,000.00	1,237,830,000.00
EMTN	8,000,000,000.00	3,842,444,262.00
Other guarantees	2,000,000,000.00	720,192,500.00
Total	14,000,000,000.00	5,800,466,762.00
MUNICIPAL HOUSING FINANCE PLC.		
Bond 1997/II	1,000,000,000.00	180,500,000.00
Domestic Bond Programme	1,000,000,000.00	79,810,000.00
EMTN	3,885,375,000.00	1,902,628,908.00
Other guarantees	2,000,000,000.00	83,000,000.00
Total	7,885,375,000.00	2,245,938,908.00

AUDITOR'S REPORT

To the Council of the Municipal Guarantee Board

We have audited the accounts, the financial statements and the corporate governance of the Municipal Guarantee Board for the accounting period of 1.1. - 31.12.1998. The financial statements prepared by the Board and the Managing Director include the report of activities, the income statement, the balance sheet, and the notes to the financial statements. Based on our audit, we hereby give our report on the financial statements and on corporate governance.

The audit has been conducted in accordance with normal accounting practices. The accounts and the principles of calculating the financial statements, their substance and their method of

presentation has been sufficiently examined to state that the financial statements are free of material misstatements or errors. The purpose of the audit on corporate governance is to examine that the members of the Board and the Managing Director have legally complied with the rules of the Act on the Municipal Guarantee.

It is our opinion that the financial statements have been prepared in accordance with the Accounting Act. The financial statements give a true and fair view of the results of activities, as well as of the financial position. The financial statements can be adopted and the members of the Board and the Managing Director can be discharged from liability for the period audited by us.

Helsinki, 6th March, 1999

Arthur Andersen Ltd.
Authorized Public Accountants

Erkki Mitro
Authorized Public Accountant

MANAGEMENT OF THE MUNICIPAL GUARANTEE BOARD

CHAIRMAN



*Ms. Marketta Kokkonen
Mayor of the City of Espoo,
Espoo*

OTHER MEMBERS



*Mr. Erkki Kukkonen
Deputy Chairman
Mayor of the City of Järvenpää,
Järvenpää*



*Ms. Irja Ansalehto-Salmi
Lector, Vantaa*



*Mr. Jussi Huttunen
Municipal Manager, Leppävirta*



*Mr. Heikki Niemeläinen
Ph.D., Joensuu*



*Mr. Markku Pietarila
Director of Town Structure, Kemi*



*Ms. Marja-Liisa Vesterinen
Licentiate in Economic Sciences,
Lappeenranta*

COUNCIL



*Mr. Reino Ruuskanen
Chairman*



*Mr. Antti Hietaniemi
Deputy Chairman*



*Ms. Raija Rönkä-Nieminen
Deputy Chairman*

Chairman:

- Mr. Reino Ruuskanen, Vantaa

Deputy Chairmen:

- Mr. Antti Hietaniemi, Perho
- Ms. Raija Rönkä-Nieminen, Lohja

Other members:

- Mr. Heino Avikainen, Lahti
- Mr. Risto Ervelä, Sauvo
- Ms. Maija-Liisa Havia, Jyväskylä
- Ms. Anita Joenpalo, Forssa
- Mr. Raimo Korjus, Kotka
- Mr. Torsten Widén, Kauniainen
- Ms. Sole Molander, Helsinki
- Ms. Tellervo Mäkelä, Rajamäki
- Mr. Pekka Sauri, Helsinki
- Ms. Asta Tolonen, Suomussalmi
- Ms. Päivi Yli-Kauhaluoma-Nurmi, Pori
- Mr. Jorma Yypänaho, Oulu

Personal deputy member:

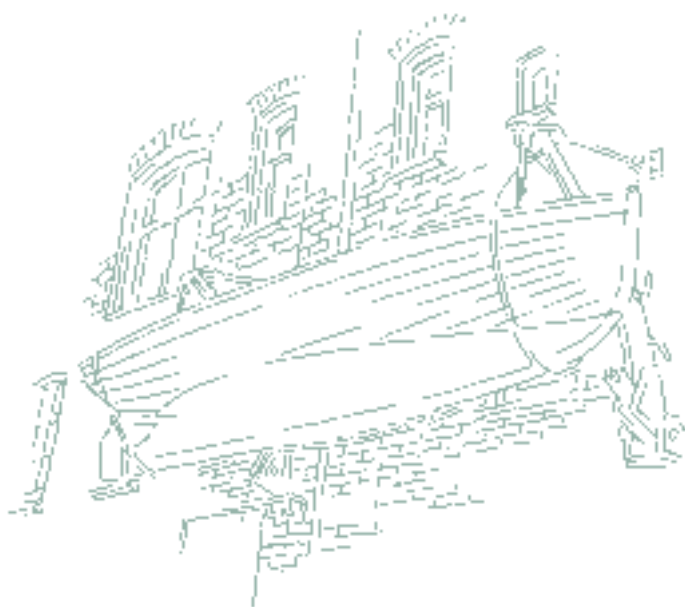
- Ms. Tuovi Allén, Helsinki

Personal deputy members:

- Ms. Helmi Pihlainen, Iisalmi
- Mr. Pekka Heikkinen, Tuusula

Personal deputy members:

- Mr. Martti Pennanen, Rovaniemi
- Ms. Eeva Karttunen, Polvijärvi
- Ms. Pirkko-Liisa Piironen, Kuopio
- Mr. Markku Rahikkala, Nokia
- Ms. Ritva Aheinen, Kemi
- Ms. Gun Kapténs, Luoto
- Mr. Antti Rantakangas, Pulkila
- Ms. Sirkka Rintala, Peräseinäjoki
- Ms. Maire Kolimaa, Mikkeli
- Mr. Pauli Laurila, Pelkosenniemi
- Mr. Risto Laalo, Kaarina
- Mr. Pauli Hirviniemi, Lammi



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