

**MUNICIPAL
GUARANTEE BOARD**



1999

A N N U A L R E P O R T

Act

on the Municipal Guarantee Board

28.6.1996/487

Section 1 Municipal Guarantee Board

The purpose of the institution under public law called the Municipal Guarantee Board, hereinafter the Guarantee Board, is to safeguard and develop the joint funding of municipalities. In order to fulfil the purpose, the Guarantee Board can grant guarantees for such funding of credit institutions directly or indirectly owned or controlled by municipalities which will be used for lending to municipalities and municipal federations, and to institutions which are wholly owned by municipalities or under their control. In order to fulfil its purpose, the Guarantee Board can grant guarantees for credit institution funding as referred to in paragraph 2 which will be used for lending to corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds or corporations controlled by them. (25.4.1997/377)

Section 2 Member organizations

Member organizations of the Guarantee Board consist of municipalities. A municipality may fail to join as a member organization by informing in writing the Ministry concerned thereof within three months from the date of entry into force of the Act.

Section 3 Supervision

The Guarantee Board Auditor shall control the observation of this Act and the provisions issued by virtue thereof. The Guarantee Board Auditor shall be appointed by the Ministry concerned once every calendar year by a proposal of the Board of Directors of the Guarantee Board.

Section 4 Legal capacity

The Guarantee Board can acquire rights and make commitments and be heard in courts and at other authorities.

Section 5 Council

The right to make decisions of the Guarantee Board shall be used by the Council, unless otherwise laid down in this Act, or unless the right to make decisions rests with another organ or employee of the Guarantee Board pursuant to the Guarantee Board's Regulations. The Council shall have not less than 10 and not more than 15 members and a personal deputy for each of them. The Ministry concerned shall appoint the members and deputy members for four calendar years at a time starting on October 1 of the year following municipal elections. They shall be appointed among the persons suggested by the central municipal organization. When appointing the members, account shall be taken of the relative political powers prevailing in member organizations and of regional and other impartiality aspects. (25.4.1997/377) The Council shall elect among themselves a Chairman and at most two Deputy Chairmen.

Section 6 Board of Directors and the Managing Director

The Guarantee Board shall have a Board of Directors, which shall be responsible for the administration of the Guarantee Board and the preparation and execution of the decisions of the Council. The right to be heard of the Guarantee Board shall be used by the Board of Directors. The Guarantee Board shall have a Managing Director, who shall be appointed by the Board of Directors.

Section 7 Regulations

The necessary provisions governing the composition and term of office, duties and other activities of the organs of the Guarantee Board shall be issued in the Regulations, which shall be approved by the Council and ratified by the Ministry concerned.

Section 8 Granting of guarantees

The granting of guarantees shall be decided by the Board of Directors of the Guarantee Board or, by virtue of the Regulations, the Managing Director. When granting guarantees, sound and cautious business principles shall be followed. The Guarantee Board can grant guarantees only against a sufficient security. In special cases, guarantees can be granted without a security, if the Ministry concerned grants an authorization. Guarantee premium shall be collected on the guarantees.

Section 9 Financial strategies

The Guarantee Board's expenses must be covered with income from its activities in the long term. In order to safeguard the liquidity of the Guarantee Board, the Guarantee Board shall have a fund the accrual and utilization of which shall be determined in the Regulations, and necessary stand-by credit facilities.

Section 10 Responsibility of member organizations

Member organizations shall be jointly responsible for the funding of such expenses and commitments which cannot be otherwise covered, in proportion to their population figures at the preceding year-end as referred to in section 18 of the Population Data Act (507/93).

Section 11 Responsibility arrangements related to guarantees

The financial obligations arising on the basis of guarantees granted by the Guarantee Board shall be primarily covered from the Guarantee Board's fund. Should the assets of the fund not suffice to cover the obligations, the Guarantee Board shall be entitled to cover the obligations with contributions to be collected from member organizations. The rates of contributions, which shall be determined in the way laid down in section 10, shall be confirmed by the Board of Directors. The contributions paid by the member organizations referred to in paragraph 1 should be reimbursed to them, together with interest accrued pursuant to section 3, paragraph 2, and section 4 of the Interest Act (633/82), as soon as possible after the Guarantee Board can afford it. The reimbursement shall take place at the latest after the audited financial statements of the Guarantee Board show that the Guarantee Board has sufficient assets.

Section 12 Audit and financial statements

The financial accounts and administration of the Guarantee Board shall be audited by a corporation of authorized accountants approved by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors which has been appointed by the Guarantee Board's Council for one calendar year at a time. Auditing will observe the appropriate provisions of the Accounting Act (936/94). The Guarantee Board shall compile accounts each calendar year. Accounting will observe the Accounting Act [(655/73)] as applicable. The Guarantee Board's Council will approve the Guarantee Board's financial accounts.

Section 13 The Guarantee Board Auditor

The Guarantee Board Auditor shall be a corporation of authorized accountants approved by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors. The person in the corporation of authorized accountants responsible for the activities of the Guarantee Board Auditor shall be an auditor authorized by the Central Chamber of Commerce (an Authorized Public Accountant) or by the Board of Chartered Public Finance Auditors (a Chartered Public Finance Auditor). The corporation of authorized accountants chosen as the auditors of the Guarantee Board under section 12 cannot act as the Guarantee Board Auditor. The Guarantee Board Auditor must give notice, without delay, to the Board of Directors of the Guarantee Board and to the Ministry concerned of any matters or decisions, which have come to the notice of the Guarantee Board Auditor in the execution of his duties and which could be seen as:

- 1) being, in a material manner, in breach of the laws, decrees or administrative regulations concerning the Guarantee Board or its activities;
- 2) endangering the continuance of the activities of the Guarantee Board;
- 3) leading to a critical note in the auditors' report or to a negative statement concerning adoption of the financial accounts.

Section 14 Collection of payments

The guarantee premiums to be collected on the guarantees granted by the Guarantee Board and the contributions of member organizations can be collected without court decision sentence and an execution decision in the same order as laid down in the Act on the Collection of Taxes and Charges through Execution (367/61).

Section 15 Claims of appeal (25.4.1997/377)

Member organizations may appeal to the Council against the decisions of the Board of Directors concerning member organizations' contributions. Claims of appeal shall be made within 14 days from the date of receiving notification of the contribution decisions. A Council decision concerning an appeal related to a contribution can be appealed to the Uusimaa Provincial Administrative Court within 30 days of having been informed of the decision. The provisions of the Act on the Application of Administrative Law (586/1996) shall apply to the appeal. The Municipal Guarantee Board can also appeal a decision issued pursuant to an appeal. (25.4.1997/377)

Section 16 Disqualification and official responsibility

What is prescribed on the disqualification of civil servants in the Administrative Procedure Act (598/82) shall apply to the disqualification of fiduciary persons and employees of the Guarantee Board. When carrying out the duties referred to in this Act, the Guarantee Board's fiduciary persons and employees are subject to official responsibility.

Section 17 Secrecy obligation

Section 17 has been repealed by Act 21.5.1999/623.

Section 18 Application of other acts

What is prescribed on the employment relationships and pension security of local government officeholders and employees shall apply, as far as applicable, to the employment relationships and pension security of the employees of the Guarantee Board. The Act on Credit Institutions (1607/93) shall not be applied to the Guarantee Board.

Section 19 Entry into force

This Act comes into force on July 1, 1996. At the first time, the Council shall be appointed for the term of office ending on September 30, 1997. Measures needed to enforce this Act can be taken before it comes into effect.



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REVIEW OF THE MANAGING DIRECTOR

Eleven countries started to use the single European currency, the Euro, from the beginning of 1999. The previous years had been times of rigorous preparations, so that the introduction of the Euro went rather smoothly without significant problems. Instead, the currency sought its place in the international capital markets. The Euro weakened considerably during the first year against the other most important currencies, the US Dollar and the Japanese Yen.

The year under review saw faster economic growth in the United States, the countries in the Euro area recovered and most of the Asian countries saw accelerating growth after their economic crisis. In the capital markets interest rates went up in both the United States and Europe. Share prices also went higher and there was an extremely fast rise in share prices in the technological sector at the end of the year.

Developments in the Finnish economy continued positively. GNP grew, unemployment fell and inflation remained low. There were clear differences in the economies and levels of debt between individual municipalities.

The two Finnish municipal-owned credit institutions, Municipality Finance Plc. and Municipality Housing Finance Plc. both enjoyed a year of fast growth. Both credit institutions saw an increase in their balance sheets and their activities were profitable. The rating of the two credit institutions remained extremely high.

The growth in the activities of the two municipal credit institutions was reflected in the activities of the Municipal Guarantee Board during the year under review. The size of debt guaranteed by the Municipal Guarantee Board grew by FIM 4.9 billion to FIM 12.9 billion. This growth permitted FIM 2.9 million, a larger amount than the previous year, to be paid into the fund of the Municipal Guarantee Board. At the end of the financial year there was FIM 4.0 million held in the fund.

In conclusion I would like to thank all those working in the joint municipal funding system for their co-operation in achieving these successful results.



ANNUAL REPORT OF THE ACTIVITIES OF 1999

Legislation and member organizations

The Finnish Parliament passed the Act on the Municipal Guarantee Board on 18.6.1996. The Act, number 487/1996, (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 Local and Regional Authorities 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 organization 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 a 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 as Deputy Chairmen 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 1999.

According to the provisions of the Act, the Municipal Guarantee Board has a Board of Directors (the "Board"), that 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, Lecturer 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. At its meeting of 23.11.1999 the Council reappointed the same members from the previous term of office of the Board for the term of 1.1.2000-31.12.2001.

Mr. Ari Huotari acted as Managing Director of the Municipal Guarantee Board until 30.11.1999. He also holds the position of Financial Director at the Local Government Pensions Institution. Ms. Marja Kauppila was appointed the Managing Director from 1.12.1999. She concurrently holds the post of Fund Lawyer 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 Board of Chartered Public Finance Auditors to audit the accounts and the corporate governance for one calendar year at a time. Arthur Andersen Ltd. acted as auditors for 1999 and will continue in such capacity in 2000.

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 Auditor for 1999 and will continue in such capacity in 2000.

Guarantees and Financial Results

Municipality Finance Plc. increased its International Programme for the Issuance of Debt Instruments from FIM 8.0 billion to Euro 1.5 billion





(FIM 8,918.6 million) in the spring of 1999. At the end of 1999 a total of FIM 5,624.5 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 Euro 800 million (FIM 4,756.6 million), Euro 500 million (FIM 2,972.9 million) are available for the issuance of Municipal Bonds and Euro 300 million (FIM 1,783.7 million) for the issuance of Treasury Bills. A total of FIM 1,367.1 million of Debt Instruments were issued under the Domestic Programme by the end of 1999. Municipality Finance Plc. was granted a guarantee limit of other guarantees totaling Euro 500 million (FIM 2,972.9 million) by 31.12.1999. 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. increased the size of its International Programme for the Issuance of Debt Instruments from USD 750 million (FIM 3,842.4 million) to Euro 1.5 million (FIM 8,918.6 million). Under the Programme a total of FIM 4,171.1 million was borrowed by 31.12.1999. Under the Domestic Debt Issuance Programme of one billion marks a total of FIM 79.8 million was borrowed by the end of the year. Under the Bond Issue 1997/II the company had borrowed a total FIM 180.5 million. At the end of the year under review Municipal Housing Finance Plc. was granted a guarantee for Euro 100 million (FIM 594.6 million) back up facility. Municipal Housing Finance Plc. was granted other guarantee limits amounting to Euro 400 million (FIM 2,378.3 million) by the end of the year, under which a total of FIM 252.5 million was borrowed by the end of the year.

Total guarantees yielded a guarantee premium income of FIM 4,833,553.45 in 1999. Other income amounted to FIM 28,776.14. The administrative costs were FIM 1,992,036.86, which was divided into personnel costs of FIM 1,005,971.39, other costs FIM 898,495.47 and depreciation FIM 87,570. The difference between premiums and administrative costs is the net income after administrative costs of FIM 2,870,292.73.

No guarantee compensation or other compensation was paid in 1999. Furthermore, no compensation income was claimed from the members, so that the premium income margin for the year remained at FIM 2,870,292.73. 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. The total of the fund thus stands at FIM 3,994,914.75 as of 31.12.1999.

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.–31.12.1999

PREMIUMS	1.1.–31.12.1999	1.1.–31.12.1998
Guarantees	4,833,553.45	2,853,900.58
Other income	28,776.14	3,148.99
Total premiums	4,862,329.59	2,857,049.57
ADMINISTRATIVE COSTS		
Personnel costs	-1,005,971.39	-838,771.06
Other costs	-898,495.47	-799,202.28
Depreciation	-87,570.00	-95,995.00
Total administrative costs	-1,992,036.86	-1,733,968.34
NET INCOME AFTER ADMINISTRATIVE COSTS	2,870,292.73	1,123,081.23
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	2,870,292.73	1,123,081.23
TRANSFER TO FUND	-2,870,292.73	-1,123,081.23
RESULT	0.00	0.00

BALANCE SHEET

31.12.1999

ASSETS	31.12.1999	31.12.1998
Liquid Assets	541,050.78	424,465.28
Investments	2,958,145.34	0.00
Other assets	173,176.33	262,796.33
Accruals	652,995.73	919,646.88
Total assets	4,325,368.18	1,606,908.49

LIABILITIES	31.12.1999	31.12.1998
Provisions for liabilities	283,129.80	224,043.16
Accruals	47,323.63	58,243.31
Other liabilities	0.00	200,000.00
Fund	3,994,914.75	1,124,622.02
Total liabilities	4,325,368.18	1,606,908.49

Helsinki 10th February 2000

MUNICIPAL GUARANTEE BOARD

Ms. Marketta Kokkonen, Chairman of the Board

Mr. Erkki Kukkonen, Deputy Chairman of the Board

Ms. Irja Ansalehto-Salmi, Member of the Board

Mr. Jussi Huttunen, Member of the Board

Mr. Heikki Niemeläinen, Member of the Board

Mr. Markku Pietarila, Member of the Board

Ms. Marja-Liisa Vesterinen, Member of the Board

Ms. Marja Kauppila, Managing Director

The financial statements have been prepared in accordance with normal bookkeeping practices. We have today given the Auditors' Report.

Helsinki, 29th February, 2000

Arthur Andersen Ltd.

Authorized Public Accountants

Erkki Mitro

Authorized Public Accountant

GUARANTEES

31.12.1999

Million mark **GUARANTEES** **FUNDING**
31.12.1999

MUNICIPALITY FINANCE PLC.

Domestic Debt Issuance

Programme	4,756.6	1,367.1
EMTN	8,918.6	5,624.5
Other guarantees	2,972.9	1,237.4
Total	16,648.0	8,229.1

MUNICIPAL HOUSING FINANCE PLC.

Bond 1997/II	1,000.0	180.5
Domestic Bond Programme	1,000.0	79.8
EMTN	8,918.6	4,171.1
Back up facility	594.6	0.00
Other guarantees	2,378.3	252.5
Total	13,891.5	4,684.0

Total	30,539.5	12,913.0
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AUDITORS' 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.-31.12.1999. The financial statements prepared by the Board of Directors and the Managing Director include the annual 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 of Directors and the Managing Director have legally complied with the rules of the Act on the Municipal Guarantee Board.

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 of Directors and the Managing Director can be discharged from liability for the period audited by us.

Helsinki, 29th February, 2000

Arthur Andersen Ltd.
Authorized Public Accountants

Erkki Mitro
Authorized Public Accountant

BOARD OF DIRECTORS
OF THE MUNICIPAL GUARANTEE BOARD



Chairman

Ms. Marketta Kokkonen 1
Mayor of the City of Espoo,
Espoo

Other members

Mr. Erkki Kukkonen..... 2
Deputy Chairman
Mayor of the City of Järvenpää,
Järvenpää

Ms. Irja Ansalehto-Salmi..... 3
Lector,Vantaa

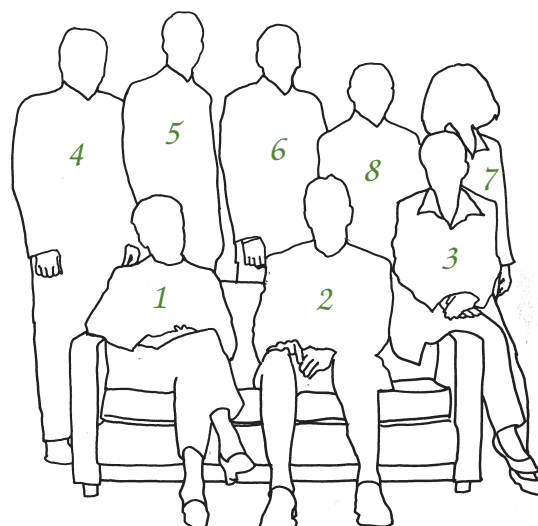
Mr. Jussi Huttunen..... 4
Municipal Manager, Leppävirta

Mr. Heikki Niemeläinen..... 5
Ph.D., Joensuu

Mr. Markku Pietarila..... 6
Director of town Structure, Kemi

Ms. Marja-Liisa Vesterinen..... 7
Licentiate in Economic Sciences,
Lappeenranta

Chairman of the Council 8
Mr. Reino Ruuskanen, Vantaa



COUNCIL

Chairman:

- Mr. Reino Ruuskanen, Vantaa

Personal deputy member:

- Ms. Tuovi Allén, Helsinki

Deputy Chairmen:

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

Personal deputy members:

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

Other members:

- Mr. Heino Avikainen, Lahti
- Mr. Risto Ervelä, Sauvo
- Ms. Majja-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 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, Pulkkila
- Ms. Sirkka Rintala, Peräseinäjoki
- Ms. Maire Kolimaa, Mikkeli
- Mr. Pauli Laurila, Pelkosenniemi
- Mr. Risto Laalo, Kaarina
- Mr. Pauli Hirviniemi, Lammi





**MUNICIPAL
GUARANTEE BOARD**

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