



MUNICIPAL GUARANTEE BOARD
ANNUAL REPORT 2003



Managing Director's Review

During the year under review, the joint municipal funding system continued to focus on structured loan issues where the comparative advantage of the system remained good. The pricing of the benchmark loan issued in the secondary market during the year showed that the creditworthiness of the system is almost on a par with that of the state.

Demand for loans in the domestic market remained similar to that in 2002 and the joint funding system's market share remained stable.

Operations during the year under review were marked by a review of the system's function. Development appraisal discussions simulated different circumstances and examined the ability of the system to identify and react to any market disruptions.

During the course of the development appraisal discussions, it was noted that the system is able to react adequately. This in turn is reflected in the highest possible credit rating of Municipal Finance Plc's funding guaranteed by the Municipal Guarantee Board. However, systematic identification of possible disturbance situations in the municipal field needs to be further improved, drawing on the wealth of statistical material already in existence.

As in previous years, there were no defaults on payments in the system and no claims on guarantees were paid by the Board during the year. One milestone worthy of note during the year under review is that the Municipal Guarantee Board reported net income in excess of EUR 1 million.

The Municipal Guarantee Board would like to thank its partners for their contribution to the further development of the joint municipal funding system and looks forward to continued progress on this front during 2004.

Helsinki, 25 March 2004

Heikki Niemeläinen





ANNUAL REPORT OF THE ACTIVITIES OF 2003



Although the year under review saw interest rate levels remain at an all-time low, this had no major impact on the municipal sector's funding requirements which were primarily affected by the overall needs of financing. The conversion for cost reasons of loans granted by government authorities for the production of social housing into loans guaranteed by municipalities continued.

As during 2002, funding through the joint municipal funding system focused on structured issues where the comparative advantage of the system remained good. Compared with 2002, the comparative advantage even improved when Municipality Finance Plc was accorded the highest possible rating and, at the same time there were fewer highly-rated fundraisers than in previous years.



Discussion on development



The Municipal Guarantee Board's function is to safeguard and develop the joint funding of municipalities. During the year under review a discussion on development held by the Board of Directors of the Municipal Guarantee Board concluded with the view that the cornerstones of the development of the funding system are the creditworthiness of the joint municipal funding system, the nature of guarantee activities and status in respect to competition law.



Development actions



In autumn 2003, the role of the Municipal Guarantee Board was reviewed in a credit rating study in respect to the operations of the joint municipal funding system, with respect to the system's business potential and also to the support the system receives from its member municipalities. The Municipal Guarantee Board's success in the process was largely attributable to the unreserved support given by member municipalities.

Motioned by the Municipal Guarantee Board's Board of Directors, the Council decided to amend Section 24 of the Regulations in a bid to ensure the Regulations are in compliance with EC provisions on state aid. The Ministry of the Interior is dealing with the amendment.



Legislation and member organizations



The Act on the Municipal Guarantee Board (487/1996) -hereinafter 'the Act' - was adopted by Parliament on 18 June 1996 and came into force on 1 July 1996. According to the Act, the purpose of the Municipal Guarantee Board is to safeguard and develop the joint funding of municipalities. In order to fulfil its purpose, the Municipal 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 corporations which are wholly owned by, or under the control of, municipalities.

During the 2003 financial year, the only credit institution to meet the requirements set out by the Act was Municipality Finance Plc.

Parliament amended the Act on 25 April 1997, and the amended Act came into force on 1 May 1997. Following the amendment, the Municipal Guarantee Board may also grant guarantees for such funding of the credit institutions that will be used for lending to corporations designated by government authorities and which are engaged in the renting or production and maintenance of housing on social grounds or to corporations controlled by them.

The Act granted municipalities the option of not becoming member organizations of the Municipal Guarantee Board by notification to the Ministry of the Interior of their decision by 30 September 1996. Fifteen municipalities, with a total population of slightly under 60,000, opted out. During the year under review, the member organizations of the Municipal Guarantee Board comprised 415 municipalities, representing around 98.4 per cent of the total Finnish population. The municipalities of the Åland Islands are not member organizations of the Municipal Guarantee Board.



Administration and personnel

Under the Act, the Municipal Guarantee Board has a Council of no less than 10 and no more than 15 members, each of whom has a personal deputy. On 27 September 2001, the Ministry of the Interior appointed the Council to the Municipal Guarantee Board for a term of office lasting from 1 October 2001 to 30 September 2005. From among its members, the Council elected Mr **Jari Blom**, Executive Director (Jyväskylä), as chairperson and Mr **Jussi Huttunen**, Municipal Manager (Leppävirta) and Ms **Raija Rönkä-Nieminen**, Finance Manager (Lohja), as deputy chairs. The Council convened three times during the year under review.

Under the Act, the Municipal Guarantee Board has a Board of Directors which shall be responsible for the administration of the Municipal Guarantee Board, for the granting of guarantees and for the preparation and execution of the decisions of the Council. At its meeting on 22 November 2001, the Council appointed the Municipal Guarantee Board's Board of Directors for the following two-year term of office. The members of the Board of Directors in 2003 were as follows:

Ms **Irja Ansalehto-Salmi**, Rector, Vantaa
Ms **Maija-Liisa Havia**, Deputy City Manager, Jyväskylä
Ms **Pirkko Janhunen**, Finance Manager Varkaus
Mr **Asko Koskinen**, Managing Director, Tampere
Mr **Raimo Liikkanen**, Municipal Manager, Luumäki
Mr **Markku Pietarila**, Director of Town Structure, Kemi
Mr **Jorma Seppänen**, City Counsellor (Hon), Nurmijärvi

Mr **Jorma Seppänen** served as chairperson of the Board of Directors and Mr **Asko Koskinen** as deputy chair for 2003. Managing Director of the Municipal Guarantee Board was **Heikki Niemeläinen**, who held a post at the University of Joensuu at the same time. During the accounting period, the Municipal Guarantee Board also had a full-time Office Manager, Mr **Tuukka Salminen**.



Auditing activities and supervision



The Council appoints a corporation of authorized accountants approved by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors for a term of office of one calendar year to audit the financial accounts and administration of the Municipal Guarantee Board. In 2003, the corporation of authorized accountants for the Municipal Guarantee Board was KPMG Wideri Oy Ab, who were also re-appointed to continue in 2004.

The activities of the Municipal Guarantee Board are supervised by the Guarantee Board Auditor, appointed by the Ministry of the Interior by the proposal of the Board of Directors of the Municipal Guarantee Board. In 2003, the Guarantee Board Auditor was Deloitte & Touche Oy, who the Ministry of the Interior also re-appointed to continue in 2004.



Guarantee activities and risk management



At year-end 2003, Municipality Finance Plc had EUR 4,321 million in funding arranged through guarantees granted by the Municipal Guarantee Board; EUR 1,265 million of this sum was acquired in 2003. The Municipal Guarantee Board likewise granted guarantees so that Municipality Finance Plc could raise its international debt instrument programme from EUR 1,500 million to EUR 2,250 million, increase from EUR 300 million to EUR 500 million the Treasury Bill Programme (KVS) and establish a new EUR 100 million back up facility. Additionally, the guarantee limit for funding outside the debt programmes under separate loan documentation was raised to EUR 600 million.

EUR 1,535 million from the international debt instrument programme, EUR 248 million from the Treasury Bill Programme, EUR 231 million from the unchanged EUR 500 million Domestic Debt Issuance Programme and EUR 120 million from the guarantee limit for separate loan documentation were in use at year-end 2003. Additionally, funding of EUR 186 million under separate guarantee decisions made by the Municipal Guarantee Board's Board of Directors, was in use at the end of the financial year. There was EUR 2,002 million remaining of Municipal Housing Finance Plc and the old Municipal Finance Plc's undue funding at the end of the financial year.

At year-end 2003, the Municipal Guarantee Board had loans and investments totalling EUR 3,424 million pledged as security for guarantees granted. Unsecured items as referred to in the Act and a decision by the Ministry of the Interior totalled EUR 1,191 million. The most significant of these items, a total of EUR 944 million, comprised interest subsidised loans for the production of social housing, which Municipality Finance Plc retains on behalf of the State Treasury. Theoretical excess security at year-end 2003 amounted to EUR 307 million.

Of the funding guaranteed by the Municipal Guarantee Board in 2003, 57.90 % was in euro, 32.66 % in yen and 9.44 % in other currencies. The security was in euro. The equivalence of guarantees and securities is ensured by Municipality Finance Plc's hedging agreements related to its funding.

The Municipal Guarantee Board has an investment policy approved by the Board of Directors to guide investment activities. Under this policy, the Municipal Guarantee Board allocates 70 % of its investments in normal debt instruments issued by governments and banks and no more than 30 % in capital secured debt instruments issued by banks and corporates and in shares in condominiums. The minimum requirement in respect of credit rated investments is that they are investment grade.

The Municipal Guarantee Board's operational risks are dealt with in the Regulations and in a Guarantee and Operations Policy approved by the Board of Directors in which the authorisations and rights of different Municipal Guarantee Board organs are defined. As per the regulation, guarantee activities are arranged so that the Municipal Guarantee Board's Board of Directors grants guarantees for funding programmes, of which the EMTN programme is the most important. The managing director of the Municipal Guarantee Board approves the individual issues within the funding programme.

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Finances of the Municipal Guarantee Board



A total of EUR 1,628,398.00 in guarantee premiums for guarantees granted was entered as income in 2003. Other income amounted to EUR 85,138.30. The Municipal Guarantee Board's administrative costs totalled EUR 563,468.63, comprising personnel costs of EUR 213,986.15, other costs of EUR 338,777.96 and depreciation of EUR 10,704.52. The difference between income and administrative costs is the net income after costs, which in the financial year was EUR 1,150,067.67.

No claims on guarantees or other compensation amounts were paid in 2003. Likewise, there was no recovery claim income so that the net income after costs and the premium income margin for the financial year were equal, at EUR 1,150,067.67. Considering the nature of the activities of the Municipal Guarantee Board, it is likely that the net income after costs and the premium income margin will also remain equal in the future.

The entire premium income margin was transferred to the fund which, at 31 December 2003, stood at EUR 4,224,465.43.

The Local Government Pensions Institution and the Municipal Guarantee Board have an ongoing agreement to safeguard the cash position of the Municipal Guarantee Board. The agreement was renewed in autumn 2003. Under the agreement, the Local Government Pensions Institution safeguards the liquidity of the Municipal Guarantee Board up to EUR 50 million.



Outlook for the future



The joint municipal funding system's viability was further strengthened during the year under review, by among other things, Municipality Finance Plc's enhanced credit rating. Since there was a fall in the number of funding organisations with the highest credit ratings on the international capital and finance markets, the outlook for the joint municipal funding system is encouraging. However, it is obvious that new funding structures and those complementing traditional types of funding will become increasingly widespread in the municipal sector and will result in the joint municipal funding system being subjected to new expectations. The joint municipal funding system will be better placed to meet those expectations and work is already underway on developing new ways of operating and on diversifying our suite of services, a situation that will continue vigorously throughout 2004.



INCOME STATEMENT 1.1.-31.12.2003

	1.1.-31.12.2003	1.1.-31.12.2002
Premiums		
Guarantees	1 628 398,00	1 401 673,99
Interest income	85 138,30	78 618,88
Total premiums	1 713 536,30	1 480 292,87
Costs		
Personnel costs	-213 986,15	-205 418,20
Other costs	-338 777,96	-290 543,48
Depreciation	-10 704,52	-6 869,80
Total costs	-563 468,63	-502 831,48
Net income after costs	1 150 067,67	977 461,39
Other items		
Claims on guarantees	0,00	0,00
Recoveries	0,00	0,00
Total other items	0,00	0,00
Premium income margin	1 150 067,67	977 461,39
Transfer to fund	-1 150 067,67	-977 461,39
Result	0,00	0,00



BALANCE SHEET 31.12.2003

	31.12.2003	31.12.2002
Assets		
Current assets		
Cash and bank accounts	91 184,71	98 030,46
Receivables	431 488,83	381 750,29
Investments	3 675 914,92	2 619 507,44
Tangible assets	87 359,26	28 901,03
Total assets	4 285 947,72	3 128 189,22
Liabilities		
Current liabilities		
Payables	35 570,33	5 496,05
Accruals	25 911,96	48 295,41
Fund	4 224 465,43	3 074 397,76
Total liabilities	4 285 947,72	3 128 189,22

Guarantee limits were granted for EUR 9,500.00 million in 31 December 2003.
Funding under the guarantee limits totalled EUR 4,321.24 million in 31 December 2003.

Helsinki, 29th January 2004

MUNICIPAL GUARANTEE BOARD

Jorma Seppänen
Chairman of the Board
Irja Ansalehto-Salmi
Member of the Board
Pirkko Janhunen
Member of the Board
Markku Pietarila
Member of the Board

Asko Koskinen
Deputy Chairman of the Board
Maija-Liisa Havia
Member of the Board
Raimo Liikkanen
Member of the Board
Heikki Niemeläinen
Managing Director

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

Helsinki, 29th January 2004

KPMG WIDERI OY AB
Authorized Public Accountants

Mikael Leskinen
Authorized Public Accountant



GUARANTEES 31.12.2003

Million euro

Municipality Finance Plc

	Guarantees	Funding
		31.12.2003

Municipality Finance Plc (-30.4.2001)

Domestic Debt Issuance Programme	800,00	102,71
EMTN	2 000,00	839,91
Other Guarantees	750,00	225,07
Total	3 550,00	1 167,70

Municipal Housing Finance Plc (-30.4.2001)

EMTN	1 500,00	817,99
Other Guarantees	400,00	16,10
Total	1 900,00	834,09

Total	5 450,00	2 001,79
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Municipality Finance Plc (1.5.2001-)

EMTN	2 250,00	1 534,72
Treasury Bill Programme	500,00	247,97
Domestic Debt Issuance Programme	500,00	230,60
Other foreign funding	600,00	120,00
Separate Decisions		186,17
Back up facility	200,00	0,00
Total	4 050,00	2 319,45

Total	9 500,00	4 321,24
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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.-31.12.2003. 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 of 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 auditing practices. The accounts and the principles of calculating the financial statements, their substance and their method of presentation have 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 whether 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 as applicable. The financial statements give a true and fair view of the results of activities, as well as of the financial position of the institution. 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 accounting period audited by us.

Helsinki, 29th January 2004

KPMG WIDERI OY AB
Authorized Public Accountants

Mikael Leskinen
Authorized Public Accountant



MUNICIPAL GUARANTEE BOARD

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Board of Directors

Chairperson

Mr. Jorma Seppänen
City Counsellor
Nurmijärvi

Deputy Chairperson

Mr. Asko Koskinen
Managing Director
Tampere

Ms. Irja Ansalehto-Salmi
Rector
Vantaa

Mr. Raimo Liikkanen
Municipal Manager
Luumäki

Ms. Pirkko Janhunen
Finance Manager
Varkaus

Ms. Maija-Liisa Havia
Deputy City Manager
Jyväskylä

Mr. Markku Pietarila
Director of Town Structure
Kemi



MUNICIPAL GUARANTEE BOARD

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Council

Chairperson

Mr. Jari Blom
Jyväskylä

Deputy

Chairperson:
Mr. Jussi Huttunen
Leppävirta

Deputy

Chairperson:
Ms. Raija Rönkä-Nieminen
Lohja

Personal deputy member:

Ms. Marja-Leena Korpimäki
Kauhava

Personal deputy member:

Ms. Asta Tolonen
Suomussalmi

Personal deputy member:

Mr. Pekka Heikkinen
Tuusula

Other members:

Ms. Aulikki Heinonen
Muonio

Ms. Leena Koponen
Muurame

Mr. Jouko Sallisalmi
Orivesi

Mr. Rainer Berg
Lapua

Ms. Pirkko Miikkulainen
Helsinki

Ms. Päivi Yli-Kauhaluoma-Nurmi
Pori

Mr. Aimo Ahti
Kouvola

Mr. Pentti Kivinen
Helsinki

Sinikka Poskiparta
Imatra

Personal deputy members:

Mr. Alpo Puusaari
Himanka

Mr. Asko Meski
Orimattila

Ms. Hannele Tanner-Penttilä
Aura

Ms. Annina Lehtiö-Vainio
Turku

Mr. Raimo Korjus
Kotka

Mr. Markku Harju
Kemijärvi

Ms. Tuula Rasimus
Savonlinna

Ms. Miia Sillanpää
Hattula

Mr. Tuomo Tegelsten
Masku

Mr. Seppo A. Soini
Mäntsälä

Ms. Leena Kuha
Oulu

Mr. Torsten Widén
Kauniainen

Mr. Jukka Vilén
Kemi

Ms. Hannele Luukkainen
Helsinki

Ms. Gun Kapténs
Luoto

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Information about the Annual Report

Funding guaranteed by the Municipal Guarantee Board is channelled in the form of loans for upgrading the operations and infrastructure of municipalities and for housing production on social grounds.

An example of this is an upper secondary school in Järvenpää the financing of which the Municipal Guarantee Board has indirectly taken part in. The images in this annual report are based on photos of that school.

Municipal Guarantee Board

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