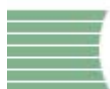

MUNICIPAL GUARANTEE BOARD

ANNUAL REPORT 2004





Managing Director's Review

In terms of operations, 2004 was the busiest ever for the Municipal Guarantee Board. A decision was finally made on the complaint lodged with the European Commission on the Act on the Municipal Guarantee Board and the legality of the Act was secured. The Municipal Guarantee Board acquired a credit rating from Moody's, which gave the Guarantee Board the best possible rating. The joint municipal funding system is now better able to meet the financing requirements of its member municipalities and to serve social housing production. Total funding guaranteed by the Guarantee Board increased by some EUR 700 million, to pass the milestone of EUR 5 billion.



The low interest rate level on the money and capital markets resulted in a record low in the cost of funding in the local government sector, as the private sector placed its surplus financing in loans to the risk-free municipal sector. In these circumstances, too, the joint municipal funding system maintained its profitability and competitive edge. In line with previous years, the system's relative competitiveness remained excellent in structured long-term funding, where the high credit rating of the public sector carries a lot of weight. No development factors are anticipated to evolve on the finance and capital markets that might endanger the current profitability level of the joint municipal funding system as the financing requirements of municipalities grow.

I would also like to take this opportunity to thank all those who have contributed to advancing the joint municipal funding system and I look forward to our proactive cooperation continuing.

Heikki Niemeläinen
Managing Director



Annual Report on the Activities of 2004

Interest rates remained at a record low in 2004. The surplus supply of financing on the market was reflected in increased competition in local government sector financing, as private banks directed their surplus financing to risk-free local government credit. Increased competition reduced the market share of the joint municipal funding system, despite continued volume growth. Funding guaranteed by the Municipal Guarantee Board (MGB) exceeded EUR 5 billion at the turn of the year.

Following on from 2003, structured issues continued to play a major role in joint municipal funding. The relative competitive edge of the funding system continues to rely on long-term arrangements where a good credit rating and public corporation status are important.

Developments



The past year was characterised by the completion of many development projects concerning the Municipal Guarantee Board. Highlights included closing a legality complaint process and making related amendments to the Regulations, being awarded a Moody's credit rating, substantial improvements in MGB's security position and reorganization of the monitoring of the financial state of municipalities in collaboration with the Ministry of the Interior and other participants in the local government sector.

EU Complaint



In 1996, the Finnish Bankers' Association lodged a complaint with EU authorities against the Finnish government, arguing that the Act on the Municipal Guarantee Board (the Act) was not in line with competition law. A similar, wider-ranging complaint concerning public sector funding arrangements was also lodged in Germany.

The Finnish matter was resolved in June 2004 on the basis of the EU decision in the German case and negotiations held between the EU competition authorities and representatives of the Ministry of the Interior, the Ministry of Trade and Industry, Municipality Finance Plc and the Municipal Guarantee Board.

As a result of the negotiations, MGB amended its Regulations, and following confirmation by the Ministry of the Interior, the amendment came into force on 15 April 2004. The amended Regulations clearly state that funding created with MGB's guarantee is forwarded to participants in the local government sector and social housing production in line with EU competition rules.

Following the amendment to the Regulations, the EU made a decision declaring that the guarantees granted by the Municipal Guarantee Board complied with its competition rules and closed the case.

Credit Rating



MGB's Board of Directors decided to obtain a credit rating from the international credit rating agency, Moody's. The Aaa rating subsequently awarded was the highest possible and is based on the ability of the Guarantee Board's member municipalities to manage their finances, the joint responsibility of the municipalities as defined in the Act and the quality of the loans held by MGB as security.

The credit rating will enhance MGB's ability to carry out its basic duties in safeguarding and developing joint municipal funding. It has helped MGB and the Finnish local government sector further improve their transparency in international funding.

Change in Security Position



The Municipal Guarantee Board can grant guarantees against sufficient security. In special cases, the security requirement can be waived with permission from the relevant ministry. With the Ministry of the Interior's approval, Municipality Finance Plc has retained interest-subsidised loans for social housing production on behalf of the State Treasury with a deficiency guarantee from the government. The debt instruments of these loans were pledged to the Municipal Guarantee Board in 2004, which caused a strengthening of approximately one million euro in the security position of the Guarantee Board.

Monitoring the Financial Status of Municipalities



Lending within the joint municipal funding system requires either a government or municipal guarantee or a deficiency guarantee. The system may be disrupted if a municipality is unable to meet its commitments, so MGB monitors the economic trend in the municipal sector. In 2004, MGB intensified its monitoring activities and participated in developing risk reporting in the local government sector in cooperation with the Ministry of the Interior, the Association of Finnish Local and Regional Authorities and Municipality Finance Plc.

Legislation and Member Organizations



The Act on the Municipal Guarantee Board (487/1996) was passed by Parliament on 18 June 1996 and entered into force on 1 July 1996. The Act states that the purpose of the Guarantee Board is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this 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 corporations which are wholly owned by municipalities or under their control.

In 2004, the only credit institution to meet the criteria set out in the Act was Municipality Finance Plc.

An amendment to the Act, passed by the Finnish Parliament on 25 April 1997 entered into force on 1 May 1997. As a result of that amendment, the Guarantee Board was able to grant guarantees for such funding of a credit institution as will be used for lending to corporations designated by government authorities and engaged in renting or producing and maintaining housing on social grounds or corporations controlled by them.

The Act gave municipalities the option of not becoming member organizations of MGB by notification of their decision to the Ministry of the Interior by 30 September 1996. Fifteen municipalities, with a total population of less than 60,000, chose to opt out of the system. During the year under review, the membership of the Guarantee Board comprised 413 municipalities, representing around 98.4 per cent of the Finnish population. The municipalities of the semi-autonomous Åland Islands are not member organizations of the Guarantee Board.

Administration and Personnel



Under the Act, MGB has a Council of no fewer 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 a Council of 15 members 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**, Administration Manager (Lohja), as deputy chairs. The Council convened twice during the year under review.

Similarly, MGB has a Board of Directors responsible for its administration, the granting of guarantees, and the preparation and execution of the decisions of the Council. At its meeting on 13 November 2003, the Council appointed the Municipal Guarantee Board's Board of Directors for a two-year term of office. The members of the Board of Directors in 2004 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, Director, Tampere
Mr Raimo Liikkanen, Kunnallisneuvos (Hon), Luumäki
Mr Markku Pietarila, Director of Town Structure, Kemi
Mr Jorma Seppänen, Kaupunkineuvos (Hon), Nurmijärvi

Mr Jorma Seppänen served as chairperson of the Guarantee Board's Board of Directors and **Mr Raimo Liikkanen** as deputy chair. The Managing Director was **Mr Heikki Niemeläinen**, who held a post at the University of Joensuu at the same time. The Guarantee board had **Mr Tuukka Salminen** as Office Manager.



Auditing and Supervision



The Council appoints a corporation of accountants authorized 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 Guarantee Board. In 2004, the authorized accountants were KPMG Wideri Oy Ab (currently KPMG Oy Ab), who were also re-appointed to continue in 2005.

The activities of the Guarantee Board are supervised by the Guarantee Board Auditor, appointed by the Ministry of the Interior on the proposal of the Board of Directors of the Guarantee Board. In 2004, the Guarantee Board Auditor was Deloitte & Touche Oy, whom the Ministry of the Interior also re-appointed to continue in 2005.

Guarantee Activities and Risk Management



At the end of 2004, Municipality Finance Plc had EUR 5,053 million in funding arranged through guarantees granted by the Municipal Guarantee Board; EUR 1,200 million of this sum was acquired in 2004. MGB granted guarantees so that Municipality Finance Plc could raise its international debt instrument programme from EUR 2,250 million to EUR 3,000 million. In addition, the guarantee limit for funding outside the debt programmes under separate loan documentation was raised to EUR 900 million.

EUR 2,076 million from the international debt instrument programme, EUR 275 million from the Treasury Bill Programme, EUR 332 million from the unchanged EUR 500 million Domestic Debt Issuance Programme and EUR 316 million from the guarantee limit for separate loan documentation funding were in use at year-end 2004. A further EUR 190 million under separate decisions made by MGB's Board of Directors was in use at the end of the financial year. EUR 1,865 million remained of Municipal Housing Finance Plc's and the now defunct Municipal Finance Plc's undue funding at the end of the financial year.

At year-end 2004, MGB had loans and investments totalling EUR 4,958 million pledged as security for guarantees granted. Unsecured items as referred to in the Act came to EUR 275 million. MGB's security position improved significantly on the previous year, when the debt instruments of the interest-subsidised loans for social housing production, a total of EUR 1,038 million at the end of 2004, were pledged to it. Nominal excess security amounted to EUR 204 million at the end of the year.

Of the funding guaranteed by MGB in 2004, 28% was in euro, 28% in yen and 44% in other currencies. The security was predominantly in euro with a small proportion in US dollars. The equivalence of guarantees and securities was ensured by Municipality Finance Plc's hedging agreements related to its funding.

MGB has an investment policy approved by the Board of Directors to guide investment activities. Under this policy, the 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, corporates and in shares in condominiums. The minimum requirement in respect of credit rated investments is that they are investment grade.

MGB's operational risks are dealt with in the Regulations and in the Guarantee and Operations Policy approved by the Board of Directors in which the authority and rights of different Municipal Guarantee Board organs are defined. In the main, guarantee activities are arranged so that the Board of Directors grants guarantees for funding programmes, of which the EMTN programme is the most important.

The managing director of the Guarantee Board approves the individual issues within the funding programme.

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Finances

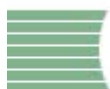


In the year under review, the Guarantee Board revised its income statement and balance sheet to better illustrate its operations. Income from regular operations consisted of guarantees granted, which produced a total guarantee premium sum of EUR 1,736,514.00. Operating costs came to a total of EUR 511,146.58, comprising personnel costs of EUR 218,284.89, depreciation of EUR 12,948.97 and other costs of EUR 278,342.02. The difference between operating income and costs is the net income, i.e. EUR 1,226,938.12, for the financial year. No claims on guarantees were paid in 2004 nor were there any recoveries, and the nature of MGB's activities makes it unlikely that any claims on guarantees will need to be paid, nor recoveries made in the foreseeable future.

Income from investments totalled EUR 113,116.19 and costs EUR 1,570.70, so net income was EUR 131,545.49, approximately 3.0% on the invested capital with over/under par rates spread over full maturity. MGB introduced valuation of investments at fair value on its 2004 balance sheet. Value adjustments for investments came to EUR 147,068.00. Net income from investments and value adjustments showed a return on investment of approximately 5.9%. The surplus for the financial year, i.e. the total net income from operations and investments, came to EUR 1,358,483.61 before transfer to the fund.

The surplus for the financial year was transferred to the fund in total. The fund thus totalled EUR 5,582,949.04 on 31 December 2004.

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



Outlook



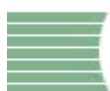
The joint municipal funding system's operating ability continued to improve in 2004 as a result of the resolution of the EU complaint case, the award of the credit rating, the pledging of the interest subsidy loans, and the intensified monitoring of the financial status of the municipalities.

The Act on the Municipal Guarantee Board came into force in 1996 and the EU outlined its competition law principles on public sector funding systems at the beginning of the new millennium. It is clear that the Act should be revised to correspond with the competition law trend in the EU, and be updated in terms of national trends. This is a challenge that will undoubtedly welcome the participation of various cooperation parties.



Income Statement 1.1.-31.12.2004

	1.1.-31.12.2004	1.1.-31.12.2003
Ordinary operations		
Income		
Guarantee premiums	1 736 514,00	1 628 398,00
Recoveries	0,00	0,00
Expenses		
Claims on guarantees	0,00	0,00
Staff expenses	-218 284,89	-213 986,15
Depreciation	-12 948,97	-10 704,52
Other expenses	-278 342,02	-330 945,89
Surplus from ordinary activities	1 226 938,12	1 072 761,44
Investment activities		
Income		
	133 116,19	85 138,30
Expenses		
	-1 570,70	-7 832,07
Surplus from investment activities	131 545,49	77 306,23
Surplus before transfer to fund	1 358 483,61	1 150 067,67
Transfer to fund	-1 358 483,61	-1 150 067,67
Surplus for the financial year	0,00	0,00



Balance Sheet 31.12.2004

Assets

	31.12.2004	31.12.2003
Non-current assets		
Intangible assets	1 221,10	1 744,42
Tangible assets	52 523,32	63 901,29
Other shares and similar rights of ownership	21 713,55	21 713,55
Investments		
Other investments		
Shares and similar rights of ownership	119 380,00	0,00
Certificates of deposit	743 587,97	1 990 160,13
Debt securities	3 587 150,00	1 188 304,79
Other investments	619 670,00	497 450,00
Current assets		
Debtors		
Guarantee receivables	465 169,00	402 336,00
Receivables	86 877,83	29 152,83
Cash and bank accounts	90 921,37	91 184,71
Total assets	5 788 214,14	4 285 947,72

Equity and liabilities

Capital and reserves		
Fund	5 582 949,04	4 224 465,43
Fair value reserve	147 067,54	0,00
Creditors		
Current liabilities		
Trade creditors	27 798,65	35 570,33
Accruals and deferred income	23 185,09	16 958,27
Other current liabilities	7 213,82	8 953,69
Total equity and liabilities	5 788 214,14	4 285 947,72

Guarantee limits were granted for EUR 10,550.00 million in 31. December 2004
Funding under the guarantee limits totalled EUR 5,053.2 million in
31. December 2004

Helsinki, 3rd February 2005

MUNICIPAL GUARANTEE BOARD

Jorma Seppänen
Chairman of the Board

Asko Koskinen
Deputy Chairman of the Board

Raimo Liikkanen
Member of the Board

Irja Ansalehto-Salmi
Member of the Board

Riitta Janhunen
Member of the Board

Maija-Liisa Havia
Member of the Board

Markku Pietarila
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 Auditor's Report.

Helsinki, 3rd February 2005

KPMG OY AB
Riitta Pyykkö
Authorized Public Accountant



Guarantees 31.12.2004

Million euro

Municipality Finance Plc

	Guarantees 31.12.2004	Funding 31.12.2004
Municipality Finance Plc (-30.4.2001)		
Domestic Debt Issuance Programme	800,0	53,1
EMTN	2 000,0	782,3
Other Guarantees	750,0	199,2
Total	3 550,0	1 034,7
Municipal Housing Finance Plc (-30.4.2001)		
EMTN	1 500,0	814,3
Other guarantees	400,0	16,1
Total	1 900,0	830,4
Total	5 450,0	1 865,1
Municipality Finance Plc (1.5.2001-)		
EMTN	3 000,0	2 076,1
Treasury Bill Programme	500,0	274,6
Domestic Debt Issuance Programme	500,0	332,0
Other foreign funding	900,0	315,9
Separate Decisions		189,6
Back up facility	200,0	0,0
Total	5 100,0	3 188,1
Total	10 550,0	5 053,2



Auditor's Report

To the Council of the Municipal Guarantee Board

We have audited the accounting, the financial statements and the administration of the Municipal Guarantee Board for the period 1.1.-31.12.2004. The financial statements, which include the annual report of activities, income statement, balance sheet and notes to the financial statements have been prepared by the Board of Directors and the Managing Director. Based on our audit, we express an opinion on these financial statements and on administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration 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.

In our opinion the financial statements have been prepared in accordance with the Accounting Act applicable. The financial statements give a true and fair view of the result 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 period audited by us.

Helsinki, 3rd February 2005

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant



Board of Directors

Chairperson

Mr. Jorma Seppänen
Kaupunkineuvos (Hon)
Nurmijärvi

Ms. Irja Ansalehto-Salmi
Rector
Vantaa

Ms. Pirkko Janhunen
Finance Manager
Varkaus

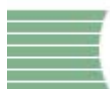
Mr. Markku Pietarila
Director of Town Structure
Kemi

Deputy Chairperson

Mr. Raimo Liikkanen
Kunnallisneuvos (Hon)
Luumäki

Mr. Asko Koskinen
Managing Director
Tampere

Ms. Maija-Liisa Havia
Deputy City Manager
Jyväskylä



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

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

Sinikka Poskiparta
Imatra

Mr. Seppo A. Soini
Mäntsälä

Ms. Leena Kuha
Oulu

Mr. Torsten Widén
Kauniainen

Mr. Tuomo Tegelsten
Masku

Mr. Jukka Vilén
Kemi

Ms. Hannele Luukkainen
Helsinki

Ms. Gun Kapténs
Luoto

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MUNICIPAL GUARANTEE BOARD

ANNUAL REPORT 2004



Information About the Annual Report

One example is the City of Suonenjoki, where the Municipal Guarantee Board has indirectly participated in financing the implementation of the city's industrial policy. The illustrations in this annual report are based on photographs taken at enterprises operating in Suonenjoki.

Municipal Guarantee Board

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