



MUNICIPAL GUARANTEE BOARD ANNUAL REPORT 2008

ANNUAL REPORT 2008

3	Managing Director's Review
4	Report of the Board of Directors
6	Municipal Guarantee Board Legislation
7	Administration and Personnel
8	Auditing and Supervision
9	Risk Management
10	Finances
11	Outlook
12	Income Statement
13	Balance Sheet
14	Cash Flow Statement
15	Notes to the Financial Statements
16	Signs
17	Auditors' Report
19	Guarantees
20	Board of Directors
21	Council
22	Information About the Annual Report

Managing Director's Review

The guarantor is needed in exceptional circumstances. For this reason, the year 2008 will remain as an extraordinary year of activities in the history of the Municipal Guarantee Board.

In line with other credit institutions, Municipality Finance Plc ended up increasing its equity by a share issue. The Parliament's Economic Committee also participated in dealing with this matter in the autumn of 2008.

The committee's endorsing stand on the share issue is significant, as the committee's opinion on the Act related to the Municipal Guarantee Board of 1996 clarifies the nature of guarantee operations in relation to capitalisation. According to the committee, the guarantee is used to avoid forcing the municipalities to unnecessarily invest their own capital in a credit institute owned by the municipalities.

Due to the strong growth of Municipality Finance Plc, the Parliament's Economic Committee again commented on the capitalisation of Municipality Finance Plc, proposing additional capitalisation to the company. In accordance with that contention, the Government decided to participate in the capitalisation of Municipality Finance by at most €20 million.

However, that capitalisation does not make up for the guarantee operations; rather, it supplements them. Nonetheless, capitalisation is important, because it measures the significance of Municipal Finance Plc among its shareholders and users.

The value of the guarantees granted by the Municipal Guarantee Board is based on the right of the Finnish municipalities to levy taxes and on well-managed municipal economies. These are the cornerstones for the municipalities' well-managed common credit institutions and guarantee operations. They form the nucleus for Finland's reliability and trustworthiness in the area of economy.

The Municipal Guarantee Board's successful operations during the past year were based on the activities of a broad professional network among our stakeholders. Many thanks for this!

With the support of that network, the Municipal Guarantee Board can also successfully meet any future challenges.



Heikki Niemeläinen
Managing Director

Report of the Board of Directors

The year 2008 was a challenging one for the joint municipal funding system. The general task of the Municipal Guarantee Board (MGB) is to safeguard and develop the joint funding of the municipalities. During the past year, the focus of the Municipal Guarantee Board's operations shifted compared with earlier years from development to safeguarding of funding activities.

During the year under review, the responsibility for financing municipal and social housing production fell almost entirely to Municipality Finance Plc and the Local Government Pensions Institution, other players having left the field when their funding ran out. The Municipal Guarantee Board and Municipality Finance Plc's have the highest possible credit ratings, and this, combined with the excellent financial status of the Finnish municipalities, created good opportunities for Municipality Finance Plc to bring additional capital into Finland. The capital could then be used to finance social housing and housing production by municipalities and municipal federations. The Local Government Pensions Institution further consolidated the municipalities' financial resources through its re-lending activities.

During 2008, funding guaranteed by the MGB increased by some EUR 2.9 billion. This was a result of growth stemming from the rapid increase in Municipality Finance Plc's new lending, the acquisition of loans for existing municipal and social housing production and measures taken to safeguard against a possible deterioration of liquidity.

These measures led to strong growth of Municipality Finance Plc's balance sheet and business operations. In 2008, in order to strengthen Municipality Finance Plc's permanent equity capital to match growth, the Finnish Parliament passed a resolution to supplement the company's capitalisation by contributing capital amounting to EUR 20 million. This resolution advanced MGB's aim of strengthening Municipality Finance Plc's permanent equity capital to match its growth.

In preparation for the increase in guarantee liabilities and the possible interim capitalisation of Municipality Finance Plc, the MGB agreed with Nordea Bank Finland Plc on a new liquidity arrangement amounting to EUR 100 million. To prepare for possible immediate implementation of the interim capitalisation, the MGB made an amendment to the Standing Orders, authorising the Board of Directors to make a decision on the use of the interim capitalisation. The Board also cooperated with Municipality Finance Plc on developing the procedures and documentation necessary for the capitalisation.

In addition to the above-mentioned safeguards, the MGB implemented a long-planned development project by taking a derivative counterparty guarantee in favour of Municipality Finance Plc. This was in accordance with the amendment to the Act on the Municipal Guarantee Board passed in 2006.

At the beginning of 2008, the number of municipalities that were not member organisations of the MGB fell to five. In the year under review, the member organisations of the MGB numbered 394, and their combined population accounted for 99.8 per cent of the population of Finland excluding the Åland Islands. The municipalities of the Åland Islands can not be members of the MGB for constitutional reasons.

The success of the joint municipal funding system is based on motivated personnel, advanced business methods and stable, long-term partnerships, both in Finland and abroad. In the coming year the system has excellent prospects for carrying out the task set for it by the Act on the Municipal Guarantee Board, i.e. the safeguarding and development of municipal funding.

Municipal Guarantee Board legislation

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 by credit institutions directly or indirectly owned or controlled by municipalities that will be used for lending to municipalities and municipal federations, and to corporations wholly owned by municipalities or under their control. In 2008, one credit institution to meet the criteria set out in the Act, 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 the amendment, MGB has been 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.

Parliament made further considerable changes to the Act on the Municipal Guarantee Board with another Amendment to the Act passed by Parliament on 18 October 2006. The amendment specified the range of receivables for which a guarantee granted by the MGB can be used as security. The Amendment opened up an opportunity for remaining non-member municipalities to join the Board. With the Amendment, the Regulations controlling the operations of the MGB and confirmed by the Ministry of Finance were abandoned. At the same time some of the legal provisions included in the Regulations were transferred to the Act, for instance the requirements for granting of guarantees in accordance with European Community State Aid rules, the investment and use of the MGB's fund, and the powers of the Guarantee Board Auditor.

Since the amendment, the MGB's fund can also be used for interim arrangements in order to prevent a directly imminent liability to pay incurred by the MGB. Municipalities that are not at present members may become member organisations of the MGB. The auditing corporation appointed for the auditing of the MGB's administration and accounts and the Guarantee Board Auditor responsible for its supervision can be appointed for a minimum of one year and for a maximum of four years. The amendment to the Act also defines in more detail the right of a municipality that is a member organisation of the MGB to appeal for amendment of the contribution to be paid by the municipality for covering the guarantee liability.

Administration and Personnel

Under the Act, the Municipal Guarantee Board has a Council of 15 members, each of whom has a personal deputy. On 30 August 2005, the Ministry of the Interior appointed a Council for the MGB for a term of office lasting from 1 October 2005 to 30 September 2009. Mr Jari Blom, Executive Director (Jyväskylä) acted as Chairperson, and Mr Mika Munkki, Agrologist (Vehmaa) and Ms Raija Rönkä-Nieminen, Administration Manager (Lohja), as Deputy Chairpersons. The Council convened three times during the year under review.

Under the Act the MGB has a Board of Directors of 5-7 members, who are responsible for the MGB's administration, the granting of guarantees and the preparation and execution of the decisions of the Council. The members of the Board of Directors in 2008 were as follows:

Mr Pekka Alanen, Director, Helsinki

Ms Maija-Liisa Havia, Director of Administration, Jyväskylä

Ms Sari Innonen, Lecturer, Kokkola

Ms Pirkko Janhunen, Finance Manager, Varkaus

Mr Janne Laine, City Manager, Savonlinna

Mr Markku Pietarila, Director of Town Structure, Kemi

Mr Markku Rahikkala, City Manager, Nokia

Mr Pekka Alanen served as Chairperson of the MGB's Board of Directors and Mr Janne Laine served as Deputy Chairperson. The Board convened eleven times during the year under review.

Mr Heikki Niemeläinen was the Guarantee Board's Managing Director and Mr Tuukka Salminen, Office Manager, acted as deputy to the Managing Director. The number of employees during the year was two.

Auditing and Supervision

The Council appoints an auditing corporation authorised by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors for a term of office of one calendar year at a time, to audit the financial accounts and administration of the MGB. In 2008, the authorised auditing corporation was KPMG Oy Ab, who was also re-appointed by the MGB's Council for 2009.

The activities of the MGB are supervised by the Guarantee Board Auditor, who is appointed by the Ministry of Finance on the proposal of the Board of Directors of the Guarantee Board. In 2008, the Guarantee Board Auditors were Deloitte & Touche Oy, whom the Ministry of Finance also re-appointed for 2009.

Risk Management

Risks in guarantee operations

According to the Act on the Municipal Guarantee Board, the MGB may grant guarantees against sufficient security. The amount of security during the past year was sufficient. Guarantee activities are arranged in such a way that the MGB's Board of Directors grants guarantees for funding programmes, the most important of which is the EMTN programme. Within the programme, the MGB's Managing Director decides on guarantees for individual debt issues. Of the guarantees granted by the MGB, EUR 224.3 million were for use by the former Municipality Finance Plc, EUR 683.9 million for Municipal Housing Finance Plc and EUR 9,718.5 million for the current Municipality Finance Plc.

According to the Act on the Municipal Guarantee Board, guarantees granted as security for Municipality Finance Plc's receivables may at the time of granting the guarantee amount to a maximum of four per cent of the total amount of the MGB's guarantee liabilities. The total amount of these guarantee liabilities on 31 December 2008 was approximately EUR 11.0 million, altogether 0.246 per cent of the total amount of guarantee liabilities.

On 31 December 2008, funding guaranteed by the MGB was divided among the following currencies: euro 26%, Japanese Yen 30%, US Dollar 16%, Swiss Franc 9%, Australian Dollar 5% and other currencies 14%. Security items were denominated in euros.

Risks in investment operations

The MGB has an investment policy approved by the Board of Directors. Under this policy the MGB allocates 50% of its investments to regular debt instruments issued by governments and banks (credit rating requirement S&P BBB / Moody's Baa3) and 50% to capital-secured debt instruments issued by banks, corporates, and shares of listed companies, equity investment funds and housing and real estate companies.

Operational risks

MGB's operative risks are dealt with in the Standing Orders and in the Guarantee and Operations Policy approved by the Board of Directors, in which the authority and rights within the MGB are stipulated. Operational risks have been mitigated by outsourcing activities and by nominating deputies.

Finances

Income from regular operations consisted of guarantees granted, which produced in 2008 a total guarantee premium sum of EUR 1,500,000.00. Operating costs came to a total of EUR 913,412.45, comprising personnel costs of EUR 323,375.92, depreciation amounting to EUR 5,565.16 and other costs of EUR 584,471.37. The result from ordinary activities in the financial year was EUR 586,587.55.

In 2008 no claims on guarantees were made or paid, nor were there any recoveries. The nature of MGB's activities makes it unlikely that any claims on guarantees will be made or paid, or that recoveries will be made in the foreseeable future.

Income from investments came to EUR 462,819.99 and costs to EUR 23,916.30, giving a result from investment activities of EUR 438,903.69, or a return of about 5.08% on invested capital. The MGB values its investments at fair value in the balance sheet. The fair value fund stood at EUR -544,711.23. The result of investment activities and valuation changes of the fair value fund gave a total return of -0.6% on invested capital. The result for the financial year, i.e. the total from ordinary activities and investment was EUR 1,025,491.24 before transfer to the fund.

A proposal will be made for transferring the result for the financial year in total to the fund. The fund will thus total EUR 10,549,378.96 on 31 December 2008, and the total amount of the equity, counting the fair value fund, will be EUR 10,004,667.73.

The MGB has ongoing stand-by credit facilities for safeguarding the Guarantee Board's cash position up to EUR 150 million.

Outlook

The market share and profitability of the municipalities' joint funding systems made significant advances in 2008. The growth is based on the fact that other funding providers withdrew from the market. It is intended to increase the equity of Municipality Finance Plc to match growth at the beginning of 2009. It is likely that the withdrawal of other funding providers will highlight the advantages of the services offered by Municipality Finance Plc for the four remaining municipalities that are non-members of the MGB. This will make it possible to achieve 100 per cent membership of the MGB among the municipalities of mainland Finland.

The Municipal Guarantee Board has emphasised its ability to offer versatile and competitive services in providing funding for the municipalities. With the rapid growth of market shares for Municipality Finance Plc and the Local Government Pensions Institution, one of the biggest challenges for the coming years will be to ensure that the different players involved take active responsibility for the funding of the municipalities.

Income Statement

	1.1.-31.12.2008	1.1.-31.12.2007
Ordinary operations		
Income		
Guarantee premiums	1 500 000,00	1 750 000,00
Expenses		
Staff expenses	-323 375,92	-361 094,85
Depreciation	-5 565,16	-4 825,78
Other expenses	-584 471,37	-578 731,93
Result from ordinary operations	586 587,55	805 347,44
Investment activities		
Income		
	462 819,99	385 676,81
Expenses		
	-23 916,30	-22 227,24
Result from investment activities	438 903,69	363 449,57
Result before transfer to fund	1 025 491,24	1 168 797,01
Transfer to fund	-1 025 491,24	-1 168 797,01
Result for the financial year	0,00	0,00

Balance Sheet

Assets		
	31.12.2008	31.12.2007
Non-current assets		
Tangible assets	32 752,61	38 317,77
Other shares and similar rights of ownership	525 956,65	525 956,65
Investments		
Other investments		
Shares and similar rights of ownership	2 570 290,33	2 064 455,65
Certificates of deposit	800 000,00	3 449 812,88
Bonds	5 182 174,90	2 206 620,00
Other investments	343 500,00	659 680,00
Current assets		
Debtors		
Guarantee receivables	375 000,00	437 500,00
Receivables	137 588,55	85 847,92
Cash and bank accounts	99 064,29	102 728,91
Total assets	10 066 327,33	9 570 919,78
Equity and liabilities		
Equity		
Fund	10 549 378,96	9 523 887,72
Fair value reserve	-544 711,23	-53 020,00
Liabilities		
Current liabilities		
Trade creditors	23 847,69	34 919,26
Accruals and deferred income	36 026,90	64 243,63
Other current liabilities	1 785,01	889,17
Total equity and liabilities	10 066 327,33	9 570 919,78

Cash Flow Statement

	1.1.-31.12.2008	1.1.-31.12.2007
Cash flow from ordinary operations		
-operating income	1 562 500,00	1 750 000,00
-operating costs	951 252,79	898 489,84
Cash flow from ordinary operations	611 247,21	851 510,16
Cash flow from non-current assets	0,00	17 272,69
Cash flow from investments	614 911,83	818 869,26
Change in cash funds	-3 664,62	15 368,21
Cash funds at the beginning of financial period	102 728,91	87 360,70
Cash funds at the end of financial period	99 064,29	102 728,91

Notes to the Financial Statements

The Municipal Guarantee Board observes, where applicable, the Accounting Act and Decree in force.

Investments are valued in the balance sheet at fair value, so the unrealized differences between their book value and fair value have been recognized in the fair value reserve under capital and reserves. Investments are adhered to by using the FIFO-principle.

Non-current assets have been valued at acquisition cost, on which planned depreciation is calculated.

Depreciation method:

- IT hardware and software, annual reducing balance, 30%
- machinery and equipment, annual reducing balance, 25%

Staff expenses

1.1.-31.12.2008	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	64 196,75	6 623,48	1 147,02
Managing Director and Deputy MD	164 376,91	31 284,21	6 380,73
Others	44 463,92	4 143,17	759,73
Total	273 037,58	42 050,86	8 287,48

Non-current assets

	2008	2007
Carrying value 1.1.	564 274,42	551 827,51
Increase	0,00	17 272,69
Depreciation	-5 565,16	-4 825,78
Carrying value 31.12.	558 709,26	564 274,42

Tangible assets

IT hardware	6 138,96	8 769,96
Machinery and equipment	8 802,55	11 736,71
Other assets	17 811,10	17 811,10

Other shares and similar rights of ownership

Nurmijärvi Golf Club 1 share	21 713,55	21 713,55
As. Oy Topeliuksenkatu 15	504 243,10	504 243,10

Changes to equity

Fund 31.12.2007	9 523 887,72
Fund Transfer 31.12.2008	1 025 491,24
Fund 31.12.2008	10 549 378,96
Fair value reserve 31.12.2007	-53 020,00
Change in financial year	-491 691,23
Fair value reserve 31.12.2008	-544 711,23

Guarantees and collateral

	31.12.2008	31.12.2007
Guarantee limits granted	17 683 242 576,70	16 486 765 530,82
Guarantees in use	10 626 741 864,42	7 719 083 283,75
Collateral received and items affecting collateral situation	11 087 652 410,21	8 138 589 618,41
Balance of collateral and guarantees	460 910 545,79	419 506 334,66

Signs

SIGNATURES OF THE REPORT OF THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS

Helsinki, 6th February 2009

MUNICIPAL GUARANTEE BOARD

Mr Pekka Alanen
Chairman of the Board

Ms Maija-Liisa Havia
Member of the Board

Ms Pirkko Janhunen
Member of the Board

Mr Markku Rahikkala
Member of the Board

Mr Janne Laine
Deputy Chairman of the Board

Ms Sari Innanen
Member of the Board

Mr Markku Pietarila
Member of the Board

Mr Heikki Niemeläinen
Managing Director

Our auditors' report has been issued today.

Helsinki, 6th February 2009

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant

This document is an English translation of the Finnish auditors' report. Only the Finnish version of the report is legally binding.

AUDITORS' REPORT

To the Council of the Municipal Guarantee Board

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of the Municipal Guarantee Board for the year ended on 31 December, 2008. The financial statements comprise the balance sheet, the income statement, the cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements and the report of the Board of Directors in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on these financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the rules of the Act on the Municipal Guarantee Board.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 6 February 2009

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant

Guarantees

Million euro

Municipality Finance Plc

	Guarantees	Funding
		31.12.2008
Municipality Finance Plc (-30.4.2001)		
EMTN	2 000,0	174,8
Other Guarantees	750,0	49,5
Total	2 750,0	224,3
Municipal Housing Finance Plc (-30.4.2001)		
EMTN	1 500,0	667,8
Other guarantees	400,0	16,1
Total	1 900,0	683,9
Total	4 650,0	908,2
Municipality Finance Plc (1.5.2001-)		
EMTN	9 000,0	7 275,1
AUD 1000 Programme	493,2	365,1
Treasury Bill Programme	800,0	514,6
Domestic Debt Issuance Programme	800,0	392,0
Other foreign funding	1 800,0	1 091,7
Separate Decisions		80,0
Back up facility	140,0	0,0
Total	13 033,2	9 718,5
Total	17 683,2	10 626,7

Board of Directors



Chairperson

Mr. Pekka Alanen
Director
Helsinki

Deputy Chairperson

Mr. Janne Laine
City Manager
Ikaalinen

Other Members

Mr. Markku Pietarila
Director of Town Structure
Kemi

Ms. Maija-Liisa Havia
Director of Administration
Jyväskylä

Ms. Sari Innanen
Lecturer
Kokkola

Ms. Pirkko Janhunen
Finance Manager
Varkaus

Mr. Markku Rahikkala
City Manager
Nokia

Council



Jari Blom
Chairperson
Jyväskylä

Personal Deputy Member:
Liisa Ruokoselkä
Pieksänmaa



Mika Munkki
Deputy Chairperson
Vehmaa

Personal Deputy Member:
Leena Koponen
Muurame



Raija Rönkä-Nieminen
Deputy Chairperson
Lohja

Personal Deputy Member:
Pekka Heikkinen
Tuusula

Other members:

Pirkko Miikkulainen,
Helsinki

Markku Pohjonen,
Kokkola

Päivi Yli-Kauhaluoma-Nurmi,
Pori

Hilkka Hiltunen,
Ilomantsi

Asko Meski,
Orimattila

Mirja Okkonen,
Sotkamo

Aimo Ahti,
Kouvola

Kimmo Behm,
Nurmijärvi

Sari Hyytiäinen,
Hollola

Marjo Matikainen-Kallström,
Espoo

Leena Kuha,
Oulu

Torsten Widén,
Kauniainen

Personal deputy members:

Raimo Korjus,
Kotka

Annina Lehtiö-Vainio,
Turku

Markku Harju,
Kemijärvi

Kari Heikkilä,
Miehikkälä

Jouko Luukkonen,
Haapavesi

Sinikka Kangas,
Salla

Olli Viitasaari,
Lempäälä

Jukka Vilén,
Kemi

Päivi Norhio,
Kotka

Armi Salo-Oksa,
Mikkeli

Flemming Bergh,
Kirkkonummi

Gun Kapténs,
Luoto

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.

One example is the City of Riihimäki, where the Municipal Guarantee Board has indirectly participated in financing investments of the City. The illustrations in this annual report are based on photographs taken at day-care centre of Uunilintu.

Municipal Guarantee Board

Kanavaranta 7 C

FIN-00160 HELSINKI, FINLAND

Tel. +358 9 6227 2880

Fax. +358 9 6227 2882

<http://www.muniguarantee.fi>