

ANNUAL REPORT 2009



MUNICIPAL GUARANTEE BOARD

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Managing Director's Review

The year 2009 was a period of strong growth for the municipalities' joint funding system. The system's basic structures and security arrangements had already been developed at an early stage during the years 2001-2007, before the financial crisis, so that it was capable of dealing with various problems on the money and capital markets. Even though the financial crisis came as a surprise, we had prepared for its impacts in advance by focusing the work of developing the system on core problems affecting its activities as a credit institution.

In the last resort, the impact of money and capital market crises on a credit institution or bank affects its equity. For this reason the Municipal Guarantee Board legislation had, in 2007, created a system that allowed the Board to increase the equity of Municipality Finance Plc should this be required to ensure the system's trouble-free operation. This highly developed capacity to increase equity combined with a successful share issue by Municipal Finance Plc created the conditions that would guarantee sound and secure growth for Municipal Finance and allow it to take increasing responsibility for Finland's financial security and economic recovery. As a result of the growth of its financing operations, Municipal Finance Plc's performance also improved, thus giving it the possibility to increase its own funds, either by refraining from distributing dividends or by using a credible dividend policy to prepare the way for further share issues.

During the past year, more than half of the institutions guaranteeing Finland's financial security were controlled by foreign operators. When the new, tighter regulations on the financing sector come into force, it is to be expected these credit institutions will not be able to maintain the current volume of credit granting, and thus they will also have to cut down their operations in Finland. In this potential situation, increasing expectations will be placed on Finnish banks and credit institutions.

The Finnish municipalities' joint funding system is taking steps to prepare for these challenges. The system allows for financing operations to increase within the scope of established activities. In addition to these operations, the municipalities' joint funding system has the capacity to finance new public sector operations, should Parliament enable this by passing an amendment to the Act on the Municipal Guarantee Board.

The past financial crisis has shown the need for a joint municipal funding system in order to safeguard Finland's financial security. The crisis has also shown the strength of the system's basic structures. On these foundations, the Municipal Guarantee Board can look forward with confidence to the future.

Heikki Niemeläinen
Managing Director

ANNUAL REPORT 2009



Chairperson of the Board Jari Blom and CEO, Managing Director Heikki Niemeläinen

The year 2009 was a time of growth 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. In the financing of municipal and social housing production, more than 90% of the market share of new loans was accounted for by Municipality Finance Plc.

The fact that the MGB and Municipality Finance Plc have the best possible credit ratings and that the financial status of Finnish municipalities is still good by international standards has created good conditions for fund raising by Municipality Finance Plc. This has enabled the company to attract capital to Finland, which could then be used to finance municipalities, municipal federations and social housing production.

The rapid increase in Municipality Finance Plc's new lending, the acquisition of new loans for existing municipal and social housing production and measures taken to safeguard Municipal Finance Plc's liquidity led to an increase of EUR 2.58 billion in funding guaranteed by the MGB in 2009.

As in the previous year these measures led to strong growth of Municipality Finance Plc's balance sheet and business operations. The action initiated in 2008 to strengthen Municipality Finance Plc's permanent equity capital to match growth was implemented in 2009, amounting to some EUR 40.7 million, with the municipal sector as well as the State subscribing extensively to a share issue by Municipality Finance Plc. The company's stronger capital position and successful business operations allowed Municipality Finance Plc to respond to regulation of the finance sector, which is undergoing reforms emphasising the quality as well as the quantity of capital.

It also proved necessary to define and extend the sector in which the municipalities' joint funding system operates as the system takes increasing responsibility for Finland's financial security. According to a statement drafted by the MGB's Board of Directors, the MGB considers the constraints defining its

operations to be the following: the loans given should be in the zero risk class as municipal loans are or as municipal or state guarantees are granted on a loan-specific basis; whether loans are within the remit of the public sector will be decided by a competent authority independent of the MGB, separately for each specific loan; the tasks of public authorities falling within the scope of the MGB's funding activities are defined by Parliament under the Act on the Municipal Guarantee Board. Applying this policy, the MGB stipulated that the Student Unions belonging to the Finnish university institution are among the corporations whose social housing activities can be financed with funding guaranteed by MGB.

The MGB moved into its own premises from previous rented premises. The new premises are better suited to the MGB's operations and they enable MGB to work more actively with various stakeholder groups.

At the end of the year under review, the MGB had a membership of 329 when the municipality of Rääkkylä became a member. The total number of residents in the member municipalities constitutes about 99.9 per cent of Finland's population, excluding the municipalities of the Åland Islands. For constitutional reasons the Åland Islands' municipalities are not members of the joint funding system. The number of non-member municipalities thus fell to three.

The success of the joint municipal funding system and its ability to react swiftly to changes in its operating environment are 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 in the Act on the Municipal Guarantee Board, i.e. the safeguarding and development of municipal funding.

Legislation on the Municipal Guarantee Board

The Act on the Municipal Guarantee Board (487/1996) was passed by Parliament on 18 June 1996 and it entered into force on 1 July 1996. The Act states that the purpose of the Municipal 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 2009, one credit institution met 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 which 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 on 18 October 2006, which entered into force on 1 January 2007. 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 on the Municipal Guarantee Board, 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 payment obligation. 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 once during the year under review.

Ministry of the Finance appointed a Council for the MGB for a term of office lasting from 1 October 2009 to 30 September 2013. Mr **Mika Munkki**, Agrologist (Vehmaa) acted as Chairperson, and Mr **Reijo Vuorento**, Planning Manager (Helsinki) and Mr **Matti Kankare**, Project Director (Espoo), as Deputy Chairpersons. The new Council convened once 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 2009 were as follows:

Mr **Pekka Alanen**, Director, Helsinki, until 13 march 2009
Ms **Maija-Liisa Havia**, Permanent Undersecretary, Jyväskylä
Ms **Sari Innanen**, 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 **Juha Yli-Rajala**, Director, Tampere, as from 13 March 2009

Mr **Pekka Alanen** served as Chairperson of the MGB's Board of Directors until 13 March 2009, and from 1 April 2009 Ms **Maija-Liisa Havia** took over the position. Mr **Janne Laine** served as Deputy Chairperson. The Board convened eight times during the year under review.

The Council elected the following to the Board of Directors, which will start its term on 1 January 2010:

Mr **Jari Blom**, Executive Director, Jyväskylä
Ms **Maija-Liisa Havia**, Permanent Undersecretary, Jyväskylä
Ms **Sari Innanen**, Lecturer, Kokkola
Ms **Jaana Karrimaa**, City Manager, Harjavalta
Ms **Leena Kuha**, Oulu
Mr **Janne Laine**, City Manager, Savonlinna
Mr **Juha Yli-Rajala**, Director, Tampere

Mr **Heikki Niemeläinen** was the Guarantee Board's Managing Director and Mr **Tuukka Salminen**, Office Manager, acted as deputy for 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 maximum period corresponding to the Council's term of office, to audit the financial accounts and administration of the MGB. In 2009, the authorised auditing corporation was KPMG Oy Ab, which was also re-appointed by the MGB's Council for 2010.

The activities of the MGB are supervised by the Guarantee Board Auditor, who is appointed by the Ministry of the Interior on the proposal of the Board of Directors of the Guarantee Board. In 2009, the Guarantee Board auditors were Deloitte & Touche Oy, whom the Ministry of the Interior also re-appointed for 2010.

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 MTN programme. Within the programme, the MGB's Managing Director decides on guarantees for individual debt issues. Of the guarantees granted by the MGB to Municipality Finance Plc, EUR 13,199,588,971.26 was in use at the end of 2009.

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 2009 was approximately EUR 86.0 million, altogether 0.634 per cent of the total amount of guarantee liabilities.

As a result of fund raising in 2009, funding guaranteed by the MGB on 31 December 2009 was divided among the following currencies: euro 20.9%, Japanese yen 20.7%, US dollar 29.0%, Swiss franc 11.9%, Australian dollar 3.5% and other currencies 14.1%. Security items were denominated in euros. The currency position thus formed is closed by the Municipality Finance Plc's hedging operations.

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 conventional debt instruments issued by governments and banks (credit rating requirement S&P BBB / Moody's Baa3) and 50% to debt instruments issued by banks, corporates, and shares of companies listed on the Helsinki stock exchange, equity investment funds and housing and real estate companies.

Operative 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, which stipulates the authority and rights within the MGB. Operational risks have been mitigated by outsourcing activities and by nominating deputies.

Finances

Income from ordinary operations consisted of guarantees granted, which produced in 2009 a total guarantee premium sum of EUR 1,500,000.00 and other income amounting to EUR 1,900.00. Operating costs came to a total of EUR 996,798.23, comprising personnel costs of EUR 394,527.26, depreciation amounting to EUR 9,449.55 and other costs of EUR 592,821.42. The result from ordinary activities in the financial year was EUR 505,101.77.

In 2009 no claims on guarantees were made or paid, nor were there any recovery claims. The nature of MGB's activities makes it unlikely that any claims on guarantees will be made or paid, or that recoveries will be claimed in the foreseeable future.

Income from investments came to EUR 407,981.07 and costs to EUR 174,678.94, giving a result from investment activities of EUR 233,302.13, or a return of about 2.64% on invested capital. The MGB values its investments at fair value in the balance sheet. The fair value fund stood at EUR 261,839.67, and the revaluation on the previous year was EUR 806,550.90.

The result of investment activities and revaluations of the fair value fund gave a total return of 11.47% on invested capital. The result for the financial year, i.e. the total from ordinary activities and investment was EUR 738,403.90 before transfer to the fund.

The result for the financial year is proposed to be transferred in total to the fund. The fund will thus total EUR 11,287,782.86 on 31 December 2009, and the total amount of the equity, counting the fair value fund, will be EUR 11,549,623.53.

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

Outlook

In 2009 the market share of the municipalities' joint funding system remained at the high level it had reached in the previous year. Growth due to the increase in Municipality Finance Plc's equity combined with the credit institution's capitalisation capacity based on profit will ensure that the system can continue to finance the municipal sector and social housing in coming years.

The MGB's successful role in the joint funding system is based ultimately on well-functioning municipal economies. Due to the tighter economic conditions, active monitoring of the municipal sector's economic situation, providing information for the various actors involved and active work with stakeholder groups will be an increasingly important focus of the MGB's activities compared with previous years.

INCOME STATEMENT

	1.1.-31.12.2009	1.1.-31.12.2008
Ordinary operations		
Income		
Guarantee premiums	1 500 000,00	1 500 000,00
Other income	1 900,00	0,00
Expenses		
Staff expenses	-394 527,26	-323 375,92
Depreciation	-9 449,55	-5 565,16
Other expenses	-592 821,42	-584 471,37
Result from ordinary activities	505 101,77	586 587,55
Investment activities		
Income	407 981,07	462 819,99
Expenses	-174 678,94	-23 916,30
Result from investment activities	233 302,13	438 903,69
Result before transfer to fund	738 403,90	1 025 491,24
Transfer to fund	-738 403,90	-1 025 491,24
Result for the financial year	0,00	0,00

BALANCE SHEET

Assets		
	31.12.2009	31.12.2008
Non-current assets		
Tangible assets	184 757,95	32 752,61
Other shares and similar rights of ownership	2 002 909,78	525 956,65
Investments		
Other investments		
Shares and similar rights of ownership	2 553 335,39	2 570 290,33
Certificates of deposit	0,00	800 000,00
Debt securities	6 297 415,60	5 182 174,90
Other investments	0,00	343 500,00
Current assets		
Debtors		
Guarantee receivables	375 000,00	375 000,00
Receivables	143 828,22	137 588,55
Cash and bank accounts	50 352,88	99 064,29
Total assets	11 607 599,82	10 066 327,33
Equity and liabilities		
Equity		
Fund	11 287 782,86	10 549 378,96
Fair value reserve	261 839,67	-544 711,23
Liabilities		
Current liabilities		
Trade creditors	3 284,48	23 847,69
Accruals and deferred income	41 004,17	36 026,90
Other current liabilities	13 688,64	1 785,01
Total equity and liabilities	11 607 599,82	10 066 327,33

CASH FLOW STATEMENT

	1.1.-31.12.2008	1.1.-31.12.2008
Cash flow from ordinary operations		
-operating income	1 501 900,00	1 562 500,00
-operating costs	986 975,05	951 252,79
Cash flow from ordinary operations	514 924,95	611 247,21
Cash flow from non-current assets	1 638 408,02	0,00
Cash flow from investments	-1 074 771,58	614 911,83
Change in cash funds	-48 711,49	-3 664,62
Cash funds at the beginning of financial period	99 064,29	102 728,91
Cash funds at the end of financial period	50 352,88	99 064,29

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:

- Machinery and equipment, equal depreciation	3 years
- Before 1.1.2009 purchased machinery and equipment, equal depreciation	3 years
- Equipment	5 years
- Equipment of the MGB premises	10 years

Staff Expenses

1.1.-31.12.2009	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	76 394,44	11 929,88	1 164,27
Managing Director and Deputy MD	210 191,44	35 892,49	7 621,43
Others	44 949,86	5 696,68	686,77
Total	331 535,74	53 519,05	9 472,47

Non-current assets

Tangible assets	2009
Acquisition cost 1.1. (*)	32 752,61
Increase	161 454,89
Acquisition cost 31.12.	194 207,50
Accrued depreciation 1.1.	0,00
Accounting period depreciation	-9 449,55
Accrued depreciation 31.12.	-9 449,55
Book value 31.12.	184 757,95

(*) = accounting value 31.12.2008

Other shares and similar rights of ownership	2009	2008
Nurmijärven Golf Club one share	21 713,55	21 713,55
As. Oy Topeliuksenkatu 15	504 243,10	504 243,10
Koy Yrjönkatu 11	1 476 953,13	0,00
Total	2 002 909,78	525 956,65

Changes to capital and reserves

	2009	2008
Fund 1.1.	10 549 378,96	9 523 887,72
Fund transfer 31.12.	738 403,90	1 025 491,24
Fund 31.12.	11 287 782,86	10 549 378,96
Fair value reserve 1.1.	-544 711,23	-53 020,00
Change in financial year	806 550,90	-491 691,23
Fair value reserve 31.12.	261 839,67	-544 711,23

Guarantees and collateral

	31.12.2009	31.12.2008
Guarantee limits granted	24 814 687 656,17	17 683 242 576,70
Guarantees in use	13 199 588 971,26	10 626 741 864,42
Collateral received and items affecting collateral situation	13 470 527 648,60	11 087 652 410,21
Balance of collateral and guarantees	270 938 677,34	460 910 545,79

Signatures

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

Helsinki, 4th February 2010

MUNICIPAL GUARANTEE BOARD

Jari Blom
Chairperson of the Board

Sari Innanen
Deputy Chairman of the Board

Maija-Liisa Havia
Member of the Board

Jaana Karrimaa
Member of the Board

Leena Kuha
Member of the Board

Janne Laine
Member of the Board

Juha Yli-Rajala
Member of the Board

Heikki Niemeläinen
Managing Director

AUDITORS SIGN

Our auditors' report has been issued today.

Helsinki 4th February 2010

KPMG OY AB

Riitta Pyykkö, KHT
Authorized Public Accountant

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

AUDITOR'S 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, 2009. 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 or of the report of the Board of Directors, 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 and the report of the Board of Directors 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, 4 February 2010

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant

Guarantees

Million euro

Municipality Finance Plc

	Guarantees	Funding
		31.12.2009
Municipality Finance Plc (-30.4.2001)		
EMTN Programme	2 000,00 €	149,77 €
Other Guarantees	750,00 €	6,93 €
Total	2 750,00 €	156,70 €
Municipal Housing Finance Plc (-30.4.2001)		
EMTN Programme	1 500,00 €	111,75 €
Total	1 500,00 €	111,75 €
Total	4 250,00 €	268,45 €
Municipality Finance Plc (1.5.2001-)		
EMTN Programme	15 000,00 €	9 981,24 €
AUD 1 billion Programme (Kangaroo)	624,69 €	365,13 €
Treasury Bill Programme	2 000,00 €	509,10 €
Domestic Debt Issuance Programme	800,00 €	289,33 €
Other foreign funding	2 000,00 €	1 716,34 €
Separate Decisions		70,00 €
Back up facility	140,00 €	0,00 €
Total	20 564,69 €	12 931,14 €
Total	24 814,69 €	13 199,59 €

Administration



From left to right:

Juha Yli-Rajala (Member of the Board),
Mika Munkki (Chairperson of the Council),
Heikki Niemeläinen (CEO and Managing Director),
Jaana Karrimaa (Member of the Board),
Jari Blom (Chairperson of the Board),
Sari Innanen (Deputy Chairperson of the Board)
Reijo Vuorento (Deputy Chairperson of the Council),
Leena Kuha (Member of the Board),
Tuukka Salminen (Executive Director, Deputy CEO),
Maija-Liisa Havia (Member of the Board) and
Matti Kankare (Deputy Chairperson of the Council).

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 Kiljava Hospital, where the Municipal Guarantee Board has indirectly participated in financing investments of the renovation. The illustrations in this annual report are based on photographs taken at Kiljava Hospital.

Municipal Guarantee Board

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