




ANNUAL REPORT 2011

| KUNTIEN TAKAUSKESKUS | KOMMUNERNAS GARANTICENTRAL | MUNICIPAL GUARANTEE BOARD |

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Managing Director's Review



For the Finnish municipalities' joint funding system, the year 2011 was operationally similar to previous years. Municipality Finance Plc (Munifin) achieved its best result to date and the Municipal Guarantee Board's (MGB) result enabled MGB to increase its fund capital according to plan. Munifin's successful efforts secured affordable and sufficient funding for municipalities and social housing production.

The Finnish municipalities' joint funding system's market share remained high in the financing of municipalities and social housing. The increased market share clarified the division of labour within credit institutions financing the Finnish public sector and the Finnish private sector.

During the year under review, the municipalities' joint funding system prepared for the planned new capital adequacy requirements for credit institutions. The new regulation, if implemented, will require more equity to be allocated also for the funding of municipalities. As unnecessary equity accumulation

is not cost-efficient, alternative and internationally applicable cost-efficient methods meeting the future requirements were contemplated. The new regulation is being discussed in various EU organs.

The municipalities' joint funding system also prepared for changes in capital markets by enabling the ESCB funding for the system and by preparing the implementation of tri-party repo transactions.

During the year under review, the municipalities' joint funding system has solidified its position as an essential instrument for financing the Finnish welfare society. The system's recognised position as a public financier and sound social relationships continue to be essential when developing the system further.

HEIKKI NIEMELÄINEN
Managing Director



Annual report 2011

The year 2011 was a time of further development for the joint Finnish municipal funding system - Municipal Guarantee Board (MGB) and Municipality Finance Plc (Munifin). The general task of MGB is to safeguard and develop the joint funding of municipalities.

During the year Munifin became a counterparty to the European System of Central Banks (ESCB). Hence Munifin became eligible to receive funding from the ESCB thus safeguarding its liquidity position. For its part, MGB contributed in the practicalities related to the necessary operational arrangements related to the procedure.

Munifin acquires its funding with guarantees provided by the Municipal Guarantee Board. An essential element related to the financing activities of the joint municipal funding system is the temporary investment of the acquired funds. Before lending the funds to municipalities, municipal federations and to social housing production the funds are invested in money market instruments. This is also necessary for funds received by Munifin as CSA collateral.

As an ESCB counterparty Munifin is also authorised to deposit funds in the central bank system. This deposit option creates more security for investments in possible crisis situations, in which the creditworthiness of other counterparties such as private banks has possibly weakened.

In addition to activities related to ESCB, the operations of the joint municipal funding system were improved with preparing the implementation of Munifin's repo operations. Repo operations are transactions secured by the transfer of collateral provided by the counterparty. The transfer of collateral gives additional security to repo activities in possible crisis situations, and offers benefits related TO liquidity management.

In addition to the aforementioned operations MGB created for its part new foundations for amending the joint municipal funding system in the future in accordance with the forthcoming financial legislation and its requirements. The foundations were laid by participating in a task force created by the Minister

of Public Administration and Local Government Mr Tapani Tölli and headed by Legislative Adviser Mr Erkki Sarsa.

During the year under review MGB continued its publication activities of previous years by producing a publication related to institutional factors of credit rating criteria and by organising a press conference related to credit rating methods.

Standard & Poor's affirmed MGB the highest possible credit rating Aaa, but as with the Republic of Finland's credit rating with a negative outlook. According to Standard & Poor's, the state's credit rating is a limit also for local government's credit ratings, and thus a limit for MGB's credit rating. Moody's maintained the highest possible rating AAA for MGB with a stable outlook.

The joint municipal funding system's ability to secure and develop funding for the municipal sector and social housing production remained excellent, as it has been during the previous years. Munifin's customer lending increased to approximately 13.41 billion euros, up by approximately 1.85 billion euros from the previous year.

At the end of the year under review, MGB's membership toll stood at 319 municipal members. The total number of residents in member municipalities constitutes about 99.95 per cent of Finland's population, excluding the municipalities of the Åland Islands. For constitutional reasons, the municipalities of the Åland Islands cannot be members of MGB. The number of non-member municipalities thus remained the same.

The success of the joint municipal funding system and its ability to react swiftly to changes in its operating environment are based on its motivated personnel, advanced business methods and stable, long-term partnerships, both in Finland and abroad. In the coming years the system has excellent prospects for carrying out the task set out 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, “the Act”) was passed by the Finnish Parliament on 18 June 1996 and entered into force on 1 July 1996. The Act states that the purpose of the MGB is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this purpose, the MGB can grant guarantees for such funding by credit institutions directly or indirectly owned or controlled by municipalities where this funding is used for lending to municipalities and municipal federations, and to corporations wholly owned by municipalities or under their control. In 2011, one credit institution, Munifin, met the criteria set out in the Act.

The first 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 also been able to grant guarantees for funding by a credit institution that is 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 Parliament made further considerable changes to the Act 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 MGB can be used as security. With the amendment, the former Regulations controlling the operations of MGB and approved by the Ministry of Finance were abandoned and parts of the legal provisions included in the Regulations were transferred to the Act. These include the requirements for the granting of guarantees in accordance with European Community State Aid rules and their relationship with the said rules, the investment and use of monies transferred to MGB's fund, and the powers of the Guarantee Board Auditor.

Since the adoption of the amendment, it has also been possible to use MGB's fund for interim arrangements in order to prevent a directly imminent MGB's payment obligation. Municipalities that are not members may also join MGB. The auditing corporation appointed for the auditing of MGB's administration and accounts and the Guarantee Board Auditor responsible for MGB's supervision can be appointed for a term of between one and four years. The amendment to the Act also defines in more detail the right of a municipality, which is a member organisation of MGB, to appeal for an amendment of the contribution to be paid by the municipality to cover MGB's guarantee liabilities.

Administration and Personnel

Under the Act, MGB has a Council of 15 members, each of whom has a personal deputy. The Ministry of Finance has appointed a Council for MGB for a term of office to run from 1 October 2009 to 30 September 2013. Mr Mika Munkki, Agrologist (Vehmaa), acts as Chairperson, and Mr Reijo Vuorento, Assistant Manager (Helsinki) and Mr Matti Kankare, Project Director (Espoo), as Deputy Chairpersons. The Council convened twice during the year under review.

Under the Act, MGB has a Board of Directors of 5-7 members, which is responsible for MGB's administration, the granting of guarantees and the preparation and execution of the decisions of the Council.

The Council chose the following persons as members of the Board of Directors starting its term of office 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 Kuba, Secretary, Oulu

Mr Janne Laine, City Manager, Savonlinna

Mr Juha Yli-Rajala, Director, Tampere

The Board chose Jari Blom as its Chairperson and Sari Innanen as Deputy Chairperson. On 11 March 2011, the Council accepted Juha Yli-Rajala's resignation from the Board and chose Pekka Alanen as a member of the Board.

Mr Heikki Niemeläinen was MGB's Managing Director and Mr Tuukka Salminen, Executive Director, 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 maximum period corresponding to its term of office, to audit the financial accounts and administration of MGB. In 2011, the authorised auditing corporation was KPMG Oy Ab, which was, after competitive tendering, reappointed by MGB's Council for the period 2012-2013.

The activities of 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 MGB. In 2010, the Guarantee Board auditors were Deloitte & Touche Oy, which the Ministry of Finance also reappointed for 2012.



Risk Management

RISKS RELATED TO GUARANTEE OPERATIONS

Under the Act, MGB may grant guarantees against sufficient security. The level of security during the year under review was sufficient. Guarantee activities are mostly arranged in such a way that MGB's Board of Directors grants guarantees for Munifin's funding programmes, the most important of which is the MTN programme. Of the guarantees granted by MGB to Munifin, EUR 17,459,460,423.62 was in use at the end of 2011.

Under the Act, guarantees granted as security for Munifin's receivables may at the time of granting the guarantee amount to a maximum of four per cent of the total amount of MGB's guarantee liabilities. On 31 December 2011, these guarantee liabilities totalled EUR 361,625,700, or 2.0 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 17,821,086,123.62.

As a result of Munifin's fundraising in 2011, funding guaranteed by MGB on 31 December 2011 was divided among the following currencies: Japanese yen 33%, US dollar 28%, euro 8%, Swiss franc 7%, Turkish lira 6%, Norwegian krone 5% and other currencies 13%. Collateral received by MGB from

Munifin was denominated in euros. The currency position thus formed is closed by Munifin's hedging operations.

RISKS RELATED TO INVESTMENT OPERATIONS

MGB has an investment policy approved by its Board of Directors. Under this policy, MGB allocates 50% of its investments to plain vanilla debt instruments issued by governments and banks (credit rating requirement S&P BBB / Moody's Baa3) and 50% to capital protected debt instruments issued by banks and debt instruments issued by corporations, shares of companies listed on the Helsinki stock exchange, equity investment funds and housing and real estate companies. The range is +/- 10 percentage points. Any greater deviation must be specifically justified.

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 operating authorisations and rights within MGB. Operative risks have been mitigated by outsourcing activities and by nominating deputies.



Finances

Income from regular operations consisted of fees related to guarantees granted, which produced a total guarantee premium sum of EUR 2,000,000.00. Operating costs totalled EUR 1,199,778.56, comprising personnel costs of EUR 467,534.33, depreciation amounting to EUR 25,032.38 and other costs of EUR 707,211.85. Prime factors in the increase in other costs were the credit-rating costs resulting from the joint municipal funding system's substantial fund-raising. The result from MGB's ordinary activities was EUR 800,221.44.

In 2011 no claims on MGB's 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 made in the future.

Income from investments came to EUR 360,112.19 and costs to EUR 13,441.48, giving a result from investment activities of EUR 346,670.71. MGB values its investments at fair value in its balance sheet. The fair value fund stood at EUR -179,248.76, and the revaluation on the previous year was EUR -828,573.58. The result of investment activities and revaluations of the fair value fund gave a total return of -4.9% on invested capital.

The result for the financial year, i.e. the total from ordinary activities and investment, was EUR 1,146,892.15 before transfer to MGB's fund. The result for the financial year is proposed to be transferred to the fund in its entirety. The fund will thus total EUR 13,104,957.97 on 31 December 2011, and the total amount of the equity will be EUR 12,925,709.21.

MGB has on-going credit facilities for safeguarding its cash position up to EUR 150 million.



Outlook

The outlook for the joint municipal funding system is very positive as far as fundraising, the creditworthiness of Finnish municipalities and municipal finances are concerned. Uncertainties may arise depending on how the new Basel III financial regulatory framework is applied to public sector's internal financing arrangements. This is also the sector in which the joint Finnish funding system consisting of MGB and Munifin operates.

The solid support given by all players of the Finnish society, resulting from the strong performance of the joint municipal funding system, will provide a sound basis for operations in changing circumstances.



Income statement

	1.1.-31.12.2011	1.1.-31.12.2010
Ordinary operations		
Income		
Guarantee premiums	2 000 000,00	1 500 000,00
Other income	0,00	0,00
Expenses		
Staff expenses	-467 534,33	-446 401,72
Depreciation	-25 032,38	-21 042,21
Other expenses	-707 211,85	-735 234,00
Result from ordinary operations	800 221,44	297 322,07
Investment activities		
Income	360 112,19	388 065,28
Expenses	-13 441,48	-15 104,39
Result of investment activities	346 670,71	372 960,89
Result before transfer to fund	1 146 892,15	670 282,96
Transfer to fund	-1 146 892,15	-670 282,96
Result for the financial year	0,00	0,00

Balance sheet

	1.1.-31.12.2011	1.1.-31.12.2010
Assets		
Non-current assets		
Tangible assets	169 728,18	165 015,04
Other shares and similar rights of ownership	2 143 562,88	2 048 629,78
Investments		
Other investments		
Shares and similar rights of ownership	3 650 630,76	3 713 973,50
Debt securities		
Other investments	6 416 804,50	6 170 755,45
Current assets		
Debtors		
Guarantee debtors	500 000,00	375 000,00
Receivables	109 211,88	155 377,62
Cash and bank accounts	93 640,92	114 032,73
Total assets	13 083 579,12	12 742 784,12
Equity and liabilities		
Equity		
Fund	13 104 957,97	11 958 065,82
Fair value reserve	-179 248,76	649 324,82
Liabilities		
Current liabilities		
Trade creditors	29 175,70	22 057,90
Accruals and deferred income	128 664,21	113 084,38
Other current liabilities	30,00	251,20
Total equity and liabilities	13 083 579,12	12 742 784,12

Cash flow statement

	1.1.-31.12.2011	1.1.-31.12.2010
Cash flow from ordinary operations		
-operating income	1 875 000,00	1 500 000,00
-operating costs	-1 153 139,33	-1 105 257,25
Cash flow from ordinary operations	721 860,67	394 742,75
Cash flow from non-current assets	-124 678,62	-47 019,30
Cash flow from investments	-617 573,86	-284 043,60
Change in cash funds	-20 391,81	63 679,85
Cash funds at the beginning of financial period	114 032,73	50 352,88
Cash funds at the end of financial period	93 640,92	114 032,76



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
- Equipment of the MGB premises

Staff expenses			Other personnel-related expenses
1.1.-31.12.2011	Salaries and fees	Pension expenses	
Board of Directors	62 320,65	10 549,53	1 246,35
Managing Director and Deputy MD	248 202,55	45 931,91	11 008,74
Others	62 104,16	8 697,94	1 458,23
Total	372 627,36	65 179,38	13 713,32

Non-current assets	2011	2010
Tangible assets		
Acquisition cost 1.1.	195 506,80	194 207,50
Increase	29 745,52	1 299,30
Acquisition cost 31.12.	225 252,32	195 506,80
Accrued depreciation 1.1.	-30 491,76	-9 449,55
Accounting period depreciation	-25 032,38	-21 042,21
Accrued depreciation 31.12.	-55 524,14	-30 491,76
Book value 31.12.	169 728,18	165 015,04
Other shares and similar rights of ownership		
Nurmijärven Golf Club one share	21 713,55	21 713,55
As Oy Topeliuksenkatu 15	599 176,20	504 243,10
Koy Yrjönkatu 11	1 476 953,13	1 476 953,13
As Oy Helsingin Eino Leinon katu 7	45 720,00	45 720,00
Total	2 143 562,88	2 048 629,78

Changes to capital and reserves	2011	2010
Fund 1.1.	11 958 065,82	11 287 782,86
Fund transfer 31.12.	1 146 892,15	670 282,96
Fund 31.12.	13 104 957,97	11 958 065,82
Fair value reserve 1.1.	649 324,82	261 839,67
Change in financial year	-828 573,58	387 485,15
Fair value reserve 31.12.	-179 248,76	649 324,82
Guarantees and collateral	31.12.2011	31.12.2010
Guarantee limits granted	34 583 912 599,23	29 969 168 896,70
Guarantees in use	17 459 460 423,62	15 478 450 730,90
Collateral received and items	18 919 899 154,37	16 723 342 684,95
Affecting collateral and guarantees		
Balance of collateral and guarantees	1 460 438 730,75	1 244 891 954,05
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	351 625 700,00	130 166 329,00

Signs

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

Helsinki, 8th February 2012

MUNICIPAL GUARANTEE BOARD

Jari Blom
Chairperson of the Board

Sari Innanen
Deputy Chairperson of the Board

Pekka Alanen
Member 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

Heikki Niemeläinen
Managing Director

AUDITOR'S NOTE

Our auditors' report has been issued today.

Helsinki 8th February 2012

KPMG OY AB

Marcus Tötterman
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 31 December, 2011. The financial statements comprise the balance sheet, the income statement, the cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view 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 Guarantee Board's accounts and finances, and the Managing Director shall see to it that the accounts of the Guarantee Board 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 express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about 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 are guilty of an act or negligence which may result in liability in damages towards the Guarantee Board or have violated 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, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Guarantee Board's internal control. 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.

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 Guarantee Board 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, 8 February 2012

KPMG OY AB

Marcus Tötterman

Authorized Public Accountant in Finland

Guarantees

Million euro

Municipality Finance Plc	Guarantees	Funding 31.12.2011
Municipal Housing Finance Plc (-30.4.2001)		
EMTN Programme	1 500,0	98,6
Total	1 500,0	98,6
Kuntarahoitus Oyj (1.5.2001-)		
EMTN Programme	22 000,0	14 357,1
AUD 1 billion Programme (Kangaroo)	3 143,9	43,7
Treasury Bill Programme	2 000,0	262,0
Domestic Debt Issuance Programme	800,0	154,5
Other domestic and foreign funding	5 000,0	2 518,6
Separate Decisions		25,0
Back up facilities	140,0	0,0
Total	33 083,9	17 360,9
Total	34 583,9	17 459,5
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	Max 4 %	361,6 2,0 %
Total		17 821,09

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 Pori, 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 public swimming pool of Pori.



KUNTIEN TAKAUSKESKUS | KOMMUNERNAS GARANTICENTRAL | MUNICIPAL GUARANTEE BOARD

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