



## Annual Report 2016

KUNTIEN TAKAUSKESKUS | KOMMUNERNAS GARANTICENTRAL | MUNICIPAL GUARANTEE BOARD





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Layout: Leea Wasenius

Photos:

Pudasjärvi school campus: Town of Pudasjärvi, Juha Nyman and Tuomi-Tuulia Ervasti

MGB 20 year celebration: Tomi Nuotsalo

## Managing Director's review



■ In 2016, the development activities of the Municipal Guarantee Board were characterised —as in the previous year—by preparations for the regional government reform. MGB also created new procedures for its guarantee activities. The need for the development of guarantee activities was due to regulatory changes in the EU related to credit institutions .

In connection to the regional government reform, MGB emphasised the significance of the effective supply of capital in controlling costs. MGB particularly highlighted the importance of the constitutional protection of the municipal right to levy and collect taxes. This constitutional protection means the municipal right to levy and collect taxes is equal to that of the State. Having a qualitatively corresponding right to levy and collect taxes means that the supply of capital for which municipalities are responsible has the same attributes concerning risk ratings as the State, as well as a correspondingly affordable supply of capital. It is important to ensure continuity in conjunction with the regional government reform. MGB has found it necessary to emphasise that the constitutional protection of the municipal right to levy and collect taxes also applies to municipal assets formed from tax revenue.

The link between municipal self-government and own assets has become clear during Finland's 100 years of independence. As this protection has been taken for granted in many ways, there are minimal related Constitutional Law Committee statements available to guide the legislative drafting process. In connection with the regional government reform, it would be appropriate to comprehensively deal with the matter of asset protection to ensure that the missing body of Constitutional Law Committee statements would be firmly established to support not only the current legislative project, but also future ones.

In 2016, MGB celebrated 20 years of operations and marked the occasion by publishing a review of the history of municipal funding titled "The Idea of a Shared Loan" written by D. Soc. Sc. Johanna Hietalahti.

The book reflects the need for long-term work: it often takes decades of development efforts to turn ideas into reality. Even the best ideas can only be put into action through people. MGB invited the key contributors behind the Act on the Municipal Guarantee Board of 1996 to attend a special event to celebrate its 20th anniversary, with Anu Vehviläinen, Minister of Local Government and Public Reforms, as the guest of honour, to take a look back at what was achieved two decades ago and also to look to the future.

The future outlook of the joint municipal funding system is dichotomous. Internally, the system has a stronger operating capacity than ever before but, at the same time, its operating environment is internationally ambiguous and also foggy in the domestic arena due to the regional government reform.

The joint municipal funding system has the capacity to adapt to changes in its external circumstances thanks to the highly competent local administrators and financial experts of municipalities and joint municipal authorities, as well as the State administration and other organisations in the political system, which all support the development of the joint municipal funding system.

HEIKKI NIEMELÄINEN  
Managing Director

## Report of activities 2016

■ The purpose of the Municipal Guarantee Board (MGB) is to safeguard and develop the joint funding of Finnish municipalities. The total loan stock for municipalities and state-subsidised housing production that the joint municipal funding system consisting of MGB and Municipality Finance Plc (MuniFin) can finance to achieve the aforementioned purpose amounted to nearly EUR 37 billion at the end of 2016. The joint municipal funding system accounted for nearly EUR 20 billion of this total, giving it a market share of almost 54 per cent.

The operations of MGB in 2016 were characterised by active preparation for the legislative developments associated with the Sipilä government's regional government reform. In its statements, MGB emphasised that the regional government reform must be implemented in accordance with the established interpretations of the self-government of residents and the European Charter of Local Self-Government.

MGB also noted that ensuring a sufficient debt coverage ratio for municipalities is essential for safeguarding the position of the existing creditors of municipalities and joint municipal authorities and the affordable future funding acquisition of municipal operators. The asset arrangements related to the regional government reform must be made with respect to the constitutional protection of the self-government of residents and they must comply with the legal principles established in asset arrangements between municipalities and the State.

In connection with the preparatory work, MGB found it necessary to submit a statement on the risk that will be created if the preparations do not sufficiently take into account the conditions for the effective supply of capital.

In 2016, MGB completed the process of creating a professorship in constitutional law jointly financed by municipal operators. Constitutional law is closely linked to the legal basic structures of the supply of capital, such as the municipal right to levy and collect

taxes. In a separate development project, MGB also commissioned an assessment of the extent to which the depreciation practices applied by municipalities have corresponded with accounting recommendations.

Municipality Finance Plc is considered a systemically important financial institution, which means it is under the supervision of the European Central Bank. Due to regulatory changes in the EU related to credit institutions, MGB released from pledging activities those investments that MuniFin makes to maintain its liquidity. In conjunction with this, the investments associated with the fulfilment of obligations stipulated by the Act on the Municipal Guarantee Board were shifted from pledging activities to a framework agreement between MuniFin and MGB.

In late 2016, MGB had its annual meetings with credit rating agencies and the statements pertaining to the draft proposal for the Sipilä government's regional government reform were completed. Based on the feedback received by the draft proposal, MGB considered it necessary to supplement its statements with observations pertaining to the credit rating procedure. In its statement, MGB points out that maintaining and developing the assessment of the creditworthiness of municipalities requires that the institutional framework of municipalities is predictable, that changes to it are implemented gradually and in a proactive manner, and that municipalities can influence—and, if necessary, prevent—legislative changes that would have a negative impact on them.

MGB's statement noted that the conditions for maintaining creditworthiness can be best realised if regions are implemented under the framework of the municipal tax base. The process must strengthen the view of municipalities and joint municipal authorities as legal entities capable of independent action that also have the capacity to influence changes in their operating environment.

In summer 2016, Moody's downgraded its rating for MGB to 'Aa1' following a similar change in the rating



of the Finnish State. Standard & Poor's revised MGB's rating to 'AA+' with the outlook 'stable' in autumn 2016, again following a similar change in the rating of the Finnish State.

The ability of the joint municipal funding system to secure and develop the necessary funding for municipalities and social housing production remained excellent, as in previous years.

MGB's membership stood at 297 municipalities at the end of the year under review, i.e. all Finnish municipalities, excluding the municipalities of the Åland Islands. Åland's municipalities are excluded from MGB for constitutional reasons.

MGB's social responsibility is a vital part of its purpose. The joint funding system, comprised of MuniFin and MGB, is an integral part of the funding system of the Finnish municipal sector and state-subsidised housing

production, and it has served its basic purpose without problems under all market conditions throughout its history. The joint fundraising system includes creating financial benefits based on municipalities' operations with joint responsibility, connecting the benefit with diverse fundraising and financing products and forwarding it to borrowers in accordance with the requirements of the Act on the Municipal Guarantee Board.

The success of the joint municipal funding system and its ability to react swiftly to changes in the 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 good prospects for carrying out the task set for it in the Act on the Municipal Guarantee Board, i.e. safeguarding and developing 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 MGB is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this purpose, 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 2016, 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 was 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 assets 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.

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 10–15 members, each of whom has a personal deputy. The Council of MGB, appointed by the Ministry of Finance, determines the key objectives of the Guarantee Board's operations and finances, appoints the Board of Directors, approves the annual accounts, and discharges annually the Board members and the Managing Director from liability for the financial year. The four-year term of the current Council started on 1 October 2013 and extends until 30 September 2017. The Council appointed Mr *Mika Munkki*, Agrologist (Vehmaa), acts as its Chairman, and Mr *Reijo Vuorento*, Deputy Director (Helsinki) and Mr *Matti Kankare*, Project Director (Espoo), act as Deputy Chairmen. The Council convened twice during the year under review.

Under the Act on the Municipal Guarantee Board, MGB has a Board of Directors of 5–7 members. The Board is responsible for MGB's administration, the granting of guarantees and the preparation and execution of the decisions of the Council. The Board of Directors has the right to represent MGB. The Chairman of the Board of Directors that started its two-year term on 1 January 2016 is Mr *Jari Blom*, Executive Director (Jyväskylä) and the Deputy Chairman is Mr *Janne Laine*, Mayor (Savonlinna). The other members are Ms *Paula Aikio-Tallgren* from Tornio, Mr *Pekka Alanen* from Tampere, Ms *Sari Innanen* from Kokkola, Ms *Jaana Kärri* from Harjavalta and Mr *Jaakko Niinistö* from Vantaa.

Mr *Heikki Niemeläinen* was MGB's Managing Director and Mr *Tuukka Salminen*, Executive Director, acted as a deputy to the Managing Director. The total number of employees during the year was three.

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## Auditing and supervision

■ The Council selects an audit firm to audit the annual accounts and administration for a period not exceeding its term of office. In 2016, the authorised auditing corporation was KPMG Oy Ab, which was reappointed by MGB's Council for the year 2017.

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. For the years 2014–2017 the Ministry of Finance appointed DHS Oy Audit Partners as a Guarantee Board Auditor.



## Risk management

### RISKS IN GUARANTEE OPERATIONS

■ Under the Act, MGB may grant guarantees against sufficient collateral. 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. Within the programmes, MGB's Managing Director or the Deputy Managing Director is authorized to grant guarantees for individual debt issues. Of the guarantees granted by MGB to MuniFin's funding, EUR 26.319.920.391,71 was in use at the end of 2016.

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 2016, these guarantee liabilities totalled EUR 3.221.745,00, or 0.012 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 26.323.142.136,71.

Funding guaranteed by MGB on 31 December 2016 was divided amongst the following currencies: Euro 33%, Japanese Yen 25%, US Dollar 24%, Pound Sterling 6%, and other currencies 12%. Collateral received by MGB from MuniFin was denominated in euros. The currency risk is removed as a result of MuniFin's hedging operations.

### OPERATIVE RISKS

■ MGB's operative risks are dealt within the Standing Orders approved by the Council and in the Guarantee and Operations Policy approved by the Board of Directors, which stipulates the authorisations within MGB. MGB has a continuity plan, preparing for exceptional conditions so that MGB is able to continue its operations and prevent damages and losses in different disruptive circumstances.

Operative risks have been mitigated by outsourcing activities, developing information systems, and by nominating deputies.

### RISKS RELATED TO INVESTMENT OPERATIONS

■ MGB's liquidity is ensured through its fund and sufficient standby credit facilities. According to the strategy decided by the Council, increasing the fund must be based primarily on the evaluation of risks related to counterparty guarantees in hedging operations or the interest and administration fees of temporary capitalisation.

The Board of Directors has decided on the investment of assets in its Guarantee and Operations Policy. According to the Policy, investments are allocated so that they support the operations of the municipal funding system. The aim of the investment activity is to obtain the maximum yield on the fund's assets while investing the assets safely; MGB invests only in liquid instruments that can be swiftly converted to cash based on MGB's liquidity needs. Derivative contracts have not been concluded in investment activities, but they can be used for hedging risks under special circumstances.

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 other capital protected debt instruments issued by banks and debt instruments issued by corporations, shares of companies listed on the Helsinki Stock Exchange, investment funds and housing and real estate companies. The range is +/- 10 percentage points. Any greater deviation must be specifically justified on a case by case basis.

## Finances

■ Income from operations consisted of fees related to guarantees granted, which produced a total guarantee premium of EUR 2.300.000,00. Operating costs totalled EUR 1.864.422,21, comprising of personnel costs of EUR 615.752,43, depreciation amounting to EUR 30.813,77 and other costs of EUR 1.217.856,01. Prime factors in the increase in other costs were the credit rating costs resulting from MuniFin's substantial funding acquisition. The result from MGB's operations was EUR 435.577,79.

In 2016 no claims on MGB's guarantees were made or paid, nor were there any recovery claims. Taking into consideration the nature of the municipal funding system's and MGB's activities it is unlikely that any claims on guarantees will be made, or that recovery claims will be made in the future.

Income from investments came to EUR 405.845,65 and costs to EUR 90.621,35, giving a result from investment activities of EUR 315.224,30. MGB values its investments at fair value on its balance sheet. The fair value reserve stood at EUR 1.544.430,41 and the increase in fair value compared to the previous year was EUR 398.633,64. The financial result of investment activities and the change of the fair value reserve gave a total return of 4,5% on invested capital.

The result for the financial year, i.e. the total from MGB's activities and investments, was EUR 750.802,09 before the 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 18.101.643,98 on 31 December 2016, and the total amount of the equity will be EUR 19.646.074,39. MGB had on-going credit facilities for safeguarding its cash position up to EUR 150 million.

<sup>1</sup> Return on investments =  
 (Result of investment activities + change in fair value reserve) /  
 Investments (average of beginning and end of year) \* 100







## Outlook

■ The outlook for MGB is stable as far as its own current operations are concerned. Operations can be further developed by enhancing participation by the State and the new regions to be established in MGB's guarantee operations of funding directed at activities of the State and the newly established regions. This development would transform the joint municipal funding system into a general funding source for the public sector in Finland. Following such developments, the system would enable not only the municipal funding needs but also those of the State and, possibly, of the regions, depending on the way in which they will be established.

In the next few years, MGB will emphasise the importance of incorporating the new regions into the joint municipal funding system in its development efforts. Although this change is clear-cut on the principal level, its practical implementation will require a considerable work contribution from the administration. In connection with the changes, it is important to ensure that the established interpretations of the municipal right to levy and collect taxes and the protection of assets are preserved or strengthened.

## Income statement

	1.1.–31.12.2016	1.1.–31.12.2015
<b>ORDINARY OPERATIONS</b>		
Income		
Guarantee premiums	2 300 000,00	2 300 000,00
Expenses		
Staff expenses	-615 752,43	-599 558,18
Depreciation	-30 813,77	-26 799,45
Other expenses	-1 217 856,01	-1 043 945,74
Result from ordinary operations	435 577,79	629 696,63
<b>INVESTMENT ACTIVITIES</b>		
Income	405 845,65	532 951,39
Expenses	-90 621,35	-108 142,86
Result from investment activities	315 224,30	424 808,53
<b>RESULT BEFORE TRANSFER TO FUND</b>	750 802,09	1 054 505,16
<b>TRANSFER TO FUND</b>	-750 802,09	-1 054 505,16
<b>Result for the financial year</b>	<b>0,00</b>	<b>0,00</b>

## Balance sheet

	1.1.–31.12.2016	1.1.–31.12.2015
<b>ASSETS</b>		
Non-current assets		
Tangible assets	212 043,26	226 407,01
Other shares and similar rights of ownership	2 276 896,60	2 265 974,03
Investments		
Other investments		
Shares and similar rights of ownership	9 145 437,24	8 285 812,47
Certificates of deposits and savings	669 907,31	0,00
Debt securities	6 655 260,08	7 022 256,08
Current assets		
Debtors		
Guarantee receivables	575 000,00	575 000,00
Receivables	199 403,06	106 174,36
Cash and bank accounts	90 967,06	137 356,87
<b>Total assets</b>	<b>19 824 914,61</b>	<b>18 618 980,82</b>
<b>EQUITY AND LIABILITIES</b>		
Equity		
Fund	18 101 643,98	17 350 841,89
Fair value reserve	1 544 430,41	1 145 796,77
Liabilities		
Current liabilities		
Trade creditors	12 798,56	40 634,68
Accruals and deferred income	166 041,66	81 707,48
Other current liabilities	0,00	0,00
<b>Total equity and liabilities</b>	<b>19 824 914,61</b>	<b>18 618 980,82</b>





## Cash flow statement

	1.1.–31.12.2016	1.1.–31.12.2015
<b>CASH FLOW FROM ORDINARY OPERATIONS</b>		
-operating income	2 300 000,00	2 300 000,00
-operating costs	-1 852 158,03	-1 628 891,15
Cash flow from ordinary operations	447 841,97	671 108,85
Cash flow from non-current assets	-27 372,59	-4 593,07
Cash flow from investments	-466 859,19	-607 058,89
<b>CHANGE IN CASH FUNDS</b>	-46 389,81	59 456,89
Cash funds at the beginning of financial period	137 356,87	77 899,98
Cash funds at the end of financial period	90 967,06	137 356,87

## 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 since 1.1.2009:

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

### STAFF EXPENSES

1.1.–31.12.2016	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	136 896,08	9 314,85	1 920,18
Managing Director and Deputy MD	271 141,62	54 315,57	9 483,52
Others	122 691,40	17 233,61	3 532,50
Total	530 729,10	80 864,03	14 936,20

### NON-CURRENT ASSETS

	2016	2015
Tangible assets		
Acquisition cost 1.1.	324 957,96	359 858,65
Disposals	-32 331,54	-39 493,76
Increase	16 450,02	4 593,07
Acquisition cost 31.12.	309 076,44	324 957,96
Accrued depreciation 1.1.	-98 550,95	-111 245,26
Accrued depreciation on disposals	32 331,54	39 493,76
Accounting period depreciation	-30 813,77	-26 799,45
Accrued depreciation 31.12.	-97 033,18	-98 550,95
Book value 31.12.	212 043,26	226 407,01
Other shares and similar rights of ownership	2016	2015
Koy Yrjönkatu 11	1 487 875,70	1 476 953,13
Nurmijärvi Golf Club, one share	21 713,55	21 713,55
As Oy Helsingin Eino Leinon katu 7	45 720,00	45 720,00
As Oy Topeliuksenkatu 15	721 587,35	721 587,35
Total	2 276 896,60	2 265 974,03



CHANGES TO CAPITAL AND RESERVES	2016	2015
Fund 1.1.	17 350 841,89	16 296 336,73
Fund transfer 31.12.	750 802,09	1 054 505,16
Fund 31.12.	18 101 643,98	17 350 841,89
Fair value reserve 1.1.	1 145 796,77	811 731,65
Change in financial year	398 633,64	334 065,12
Fair value reserve 31.12.	1 544 430,41	1 145 796,77
<b>GUARANTEES AND COLLATERAL</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Guarantee limits granted	39 170 238 421,49	39 141 021 858,66
Guarantees in use	26 319 920 391,71	25 956 341 279,86
Collateral received and items affecting collateral situation	29 407 483 829,05	27 998 694 388,43
Balance of collateral and guarantees	3 087 563 437,34	2 042 353 108,57
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	3 221 745,00	28 221 372,00

## Signatures

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

In Helsinki on 8 February 2017

THE MUNICIPAL GUARANTEE BOARD

*Jari Blom*  
Chairman of the Board

*Janne Laine*  
Deputy Chairman of the Board

*Paula Aikio-Tallgren*  
Member of the Board

*Pekka Alanen*  
Member of the Board

*Sari Innanen*  
Member of the Board

*Jaana Karrimaa*  
Member of the Board

*Jaakko Niinistö*  
Member of the Board

*Heikki Niemeläinen*  
Managing Director

### AUDITOR 'S NOTE

Our auditors' report has been issued today.

Helsinki, 8th February 2017

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 (Kuntien takauskeskus)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

We have audited the financial statements of the Municipal Guarantee Board (business identity code 1075583-7) for the year ended 31 December, 2016. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the Guarantee Board's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

#### BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the Guarantee Board in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Guarantee Board's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the Guarantee Board or cease operations, or there is no realistic alternative but to do so.

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Guarantee Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## OTHER REPORTING REQUIREMENTS

### OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations. In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 8 February 2017

KPMG OY AB  
 Marcus Tötterman  
 Authorised Public Accountant, KHT

## Guarantees

Million euro

MUNICIPALITY FINANCE PLC	Guarantees	Funding 31.12.2016
Municipal Housing Finance Plc (-30.4.2001)		
EMTN Programme	1 500,0	22,6
Total	1 500,0	22,6
Municipality Finance Plc (1.5.2001-)		
EMTN Programme	25 000,0	19 934,6
AUD 2 billion Programme (Kangaroo)	1 370,2	560,9
Euro Commercial Paper Programme	4 000,0	1 141,3
Domestic Debt Issuance Programme	800,0	7,3
Other domestic and foreign funding	6 500,0	3 289,8
Separate Decisions		1 363,4
Total	37 670,2	26 297,3
Total	39 170,2	26 319,9
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	Max. 4 %	3,2 0,012 %
Total		26 323,1



## Board of Directors and Council

### BOARD OF DIRECTORS 1.1.2016-31.12.2017

*Jari Blom, Chairman*

*Janne Laine, Deputy Chairman*

*Paula Aikio-Tallgren*

*Pekka Alanen*

*Sari Innanen*

*Jaana Karrimaa*

*Jaakko Niinistö*

### COUNCIL 1.10.2013-30.9.2017

Members of the council

*Mika Munkki, Chairman*

*Reijo Vuorento, Deputy Chairman*

*Matti Kankare, Deputy Chairman*

*Kimmo Behm*

*Markku Forss*

*Pekka Heikkinen*

*Hilkka Hiltunen*

*Erkki Kukkonen*

*Anni Laihanen*

*Maarita Mannelin*

*Terhi Päivärinta*

*Ossi Sandvik*

*Riikka Slunga-Poutsalo*

*Jaakko Stenhäll*

*Virpi Ylitalo*

Personal Deputy

*Sinikka Kangas*

*Aarno Järvinen*

*Laura Manninen*

*Tero Rantanen*

*Marjo Heikkilä*

*Eila Viljakainen*

*Pertti Uusi-Erkkilä*

*Markku Harju*

*Jorma Hyökyvaara*

*Pirkko Valtola*

*Ninni Taavitsainen*

*Juhani Pilpola*

*Irma Kemppainen*

*Pasi Orava*

*Annina Lehtiö-Vainio*

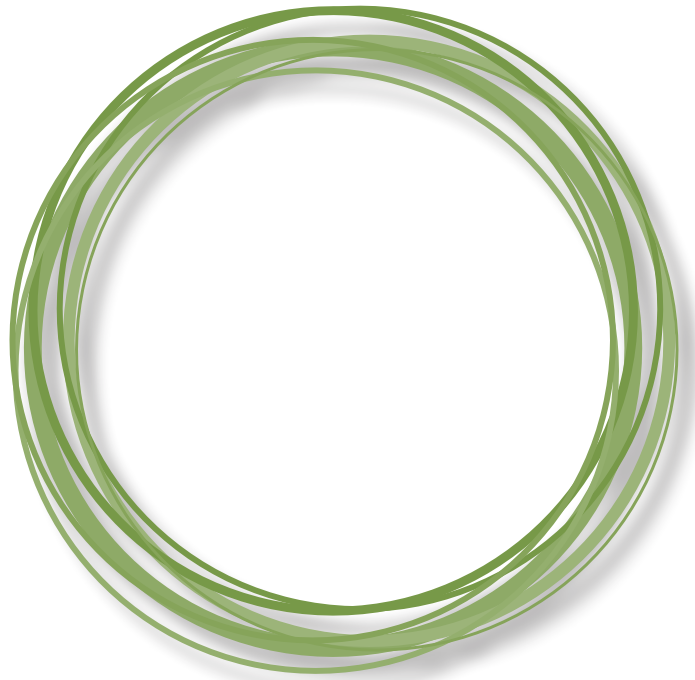


KUNTIEN TAKAUSKESKUS

KOMMUNERNAS GARANTICENTRAL MUNICIPAL GUARANTEE BOARD



*The Municipal Guarantee Board celebrated its 20 years of operation at Pörssitalo, Helsinki.*



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## INFORMATION ABOUT THE ANNUAL REPORT

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

One example is the town of Pudasjärvi, where the Municipal Guarantee Board has in the above manner indirectly participated in financing investments for the town.

The illustrations in this annual report are based on photographs taken at Pudasjärvi school campus constructed completely out of log timber. The 10,000 square metre school complex is the world's largest log-built school building.