



ANNUAL REPORT 2017

| KUNTIEN TAKAUSKESKUS | KOMMUNERNAS GARANTICENTRAL | MUNICIPAL GUARANTEE BOARD |



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MANAGING DIRECTOR'S REVIEW



The operations of the Municipal Guarantee Board (MGB) focused on changes due to regulations concerning the financial sector during the year. Underlying the changes was the growth of Municipality Finance Plc (MuniFin) into a credit institution supervised by the European Central Bank together with the Finnish Financial Supervisory Authority as well as changed legislation on credit institutions. This resulted in changes to the pledging activities between MuniFin and MGB. The changes were implemented in the Act on the Municipal Guarantee Board, approved by Parliament towards the end of 2017.

Other development activities concerned the county and social and healthcare reform. The reform will have a significant effect on the position of municipalities and municipal entities in Finland. MGB reviewed the impacts of the reform in relation to the position of municipalities in the regulation of credit institutions. The review concerned the status of the municipalities' property rights and their right to levy taxes in the Finnish constitutional law.

MGB delivered its opinion on the legislation package to the Constitutional Law, Administration and Finance Committees of the Parliament. Direct interaction with politicians is necessary so that MGB can successfully carry out the task delegated to it by Parliament also when the sector and nature of the task change.

At this point, it remains open as to what role municipalities' joint funding system comprising MGB and MuniFin will have in the future related to funding county entities. The current view is that the system would not fund counties and county entities except with regard to transferred debts and financing agreements in conjunction with the proposed reform. If counties are granted the right to levy taxes, the inclusion of counties as members of the joint funding system comprising MGB and MuniFin would apparently be reconsidered.

In the county reform, municipalities' tasks will change and focus on municipalities' remaining basic duties. The role of the joint funding system of municipalities will remain significant in social housing construction and financing municipalities in tasks not related to the social and healthcare tasks. As a whole, the system will continue to have a strong market share in financing the Finnish public sector.

The operations of municipalities' joint funding system were successful during the past year. In addition to our skilled employees, specialists providing services to the system in this changing situation deserve thanks. In connection with the county and social and healthcare reform, such experts have especially been experts and actors in constitutional law.

HEIKKI NIEMELÄINEN

Managing Director



REPORT OF ACTIVITIES 2017

M. Wirman

The purpose of the Municipal Guarantee Board (MGB) is to safeguard and develop the joint funding of Finnish municipalities. This also includes guarantees to the funding for social housing. These activities are regulated by the Act on the Municipal Guarantee Board.

In the course of the year, the Act on MGB was changed with two amendments, which entered into force on 8 November 2017. With these amendments the term of the Council was changed to correspond to the revised time schedule of the municipal elections. In addition to this, the definition of the concept of "sufficient security" in the said Act was specified in more detail.

These changes were driven by tighter capital adequacy requirements for credit institutions, the transfer of Municipality Finance (MuniFin) under the direct supervision of the European Central Bank (ECB), as well as the resulting need to release part of the loan portfolio pledged by MuniFin and to replace it with covenants without a separate counter security. These amendments are described in more detail in the section on "Legislation on the Municipal Guarantee Board".

A significant part of the activities of MGB in 2017 focused on the government's proposal to implement a reform related to the Finnish social and healthcare system. In MGB's opinion, there are some features of the reform, linked in particular to the tax ceiling and property rights of municipalities that might give rise to a regulatory risk. The materialisation of the regulatory risk could lead to an unnecessary increase in public sector's funding costs if municipalities and municipal federations lost their zero-risk weight.

In its opinion delivered to the Constitutional Law Committee, MGB emphasised that property arrangements linked to the regional government reform must be undertaken in accordance with established principles of municipalities' property rights and their constitutional right of taxation. The Constitutional Law Committee, on its behalf, stated it as a condition for approval of the law proposal that there must be a compensation regulation protecting the self-governance of municipalities.

In its statements delivered to the Chancellor of Justice and parliamentary committees, MGB emphasised that it is justified to obtain the Financial Supervisory Authority's statement on the legislative proposals of Sipilä's government to be taken into account in further legislation process. This statement should cover the connection between (i) municipalities' right to collect taxes as well as certain liquidity arrangements referred to in Regulation No. 575/2013 of the European Parliament and of the Council and (ii) the risk weight of municipalities and municipal entities.

In its statement to the Administration Committee of the Finnish Parliament, the Financial Supervisory Authority considered that if the compensation regulation required by the Constitutional Law Committee were approved in a way that the municipalities' right to decide on their own finances and their self-governance could be secured despite property arrangements in the reform, these property

arrangements would not necessarily have an effect on the risk weight of municipalities.

The statement of the Financial Supervisory Authority provides the Finnish Parliament an opportunity to combine the constitutional taxation right of municipalities and the compensation procedure required by the Constitutional Law Committee with the European regulation on risk weightings. Combining the Finnish Constitution with European regulation will clarify and strengthen the institutional framework of the joint funding system of municipalities and creates conditions for the continuity of the zero-risk weight of municipalities and municipal entities.

With the regional government reform, there will be changes to the balance sheet items of municipalities and municipal entities as a part of the assets and liabilities of municipalities and municipal federations will be transferred to the counties. In connection with the transfer, there are instances in the terms and conditions of loan agreements, where it is possible for credit institutions to invoke special conditions that might result in additional costs or termination of loans.

MGB investigated the terms and conditions of municipalities' loan agreements together with the Association of Finnish Local and Regional Authorities. According to the survey, it is apparent that, based on the terms and conditions of the loans, a change in the risk weighting of municipalities would cause pressure to the municipalities' funding costs.

The credit ratings of MGB remained the same as the previous year. The ability of MGB and MuniFin to take care of the financing of their customers continued to be excellent.

The membership of MGB consists of 295 Finnish municipalities (31.12.2017), representing 100 per cent of the population of mainland Finland. Due to the autonomy of the Province of Åland, the municipalities of the Province of Åland are not members of MGB.

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 funding system comprises 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 MGB. The Act on MGB is EU-notified.

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 MGB, i.e. safeguarding and developing the joint funding of municipalities and, where necessary, any other public entities.

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 2017, 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.

The most recent amendment to the Act on the Municipal Guarantee Board was made on 2 November 2017 when the Parliament decided on amending sections 5 and 8 of the Act on the Municipal Guarantee Board. The new Local Government Act that entered into force in 2015 postponed the municipal elections from autumn 2016 to spring 2017, which would have resulted in the term of the MGB Council commencing only almost one and a half years after the municipal elections. Thus, section 5 of the Act on the Municipal Guarantee Board was amended so that the term of the MGB Council would start on 1 January of the year following the municipal elections. The term of the current council was extended by three months to the end of 2017.

At the same time, section 8 of the Act on the Municipal Guarantee Board was amended so that a security granted for an MGB guarantee may also be granted as a covenant without a separate counter security. Covenants have been interpreted to be included in the definition of sufficient security required in section 8, but it was justified to provide for the issue in the legislation in order to avoid potential conflicts regarding interpretation. The significance of covenants has increased as the result of the financial crisis and the supervision of Municipality Finance having been transferred to the European System of Central Banks as a systemically important credit institution. The regulation emphasises credit institutions' liquid assets to secure their liquidity.

Specifically mentioning covenants in the section would not, however, change the basic principle that sufficient security from the perspective of healthy and cautious business principles and the interest of the member communities of the MGB would be justified to primarily consist of securities based on receivables and covenants which can be used to the extent that is justified for the purposes of the operations.





Timo Kotineva

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 Council, whose term ended, began its four-year term on 1 October 2013, and its term was extended by three months to the end of 2017 in connection with the amendment to the Act on the Municipal Guarantee Board. The Council appointed Mr **Mika Munkki**, Kunnallisneuvos¹ (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.

With its decision dated 28 November 2017, the Ministry of Finance appointed the new council for the term of 1 January 2018–31 December 2021. The Council will convene for the first time and appoint a Board of Directors for the MGB in its spring meeting.

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 Karrimaa** from Tampere and Mr **Jaakko Niinistö** from Vantaa.

The Board of Directors will continue in its task until the first meeting of the new Council, which will appoint a new Board of Directors.

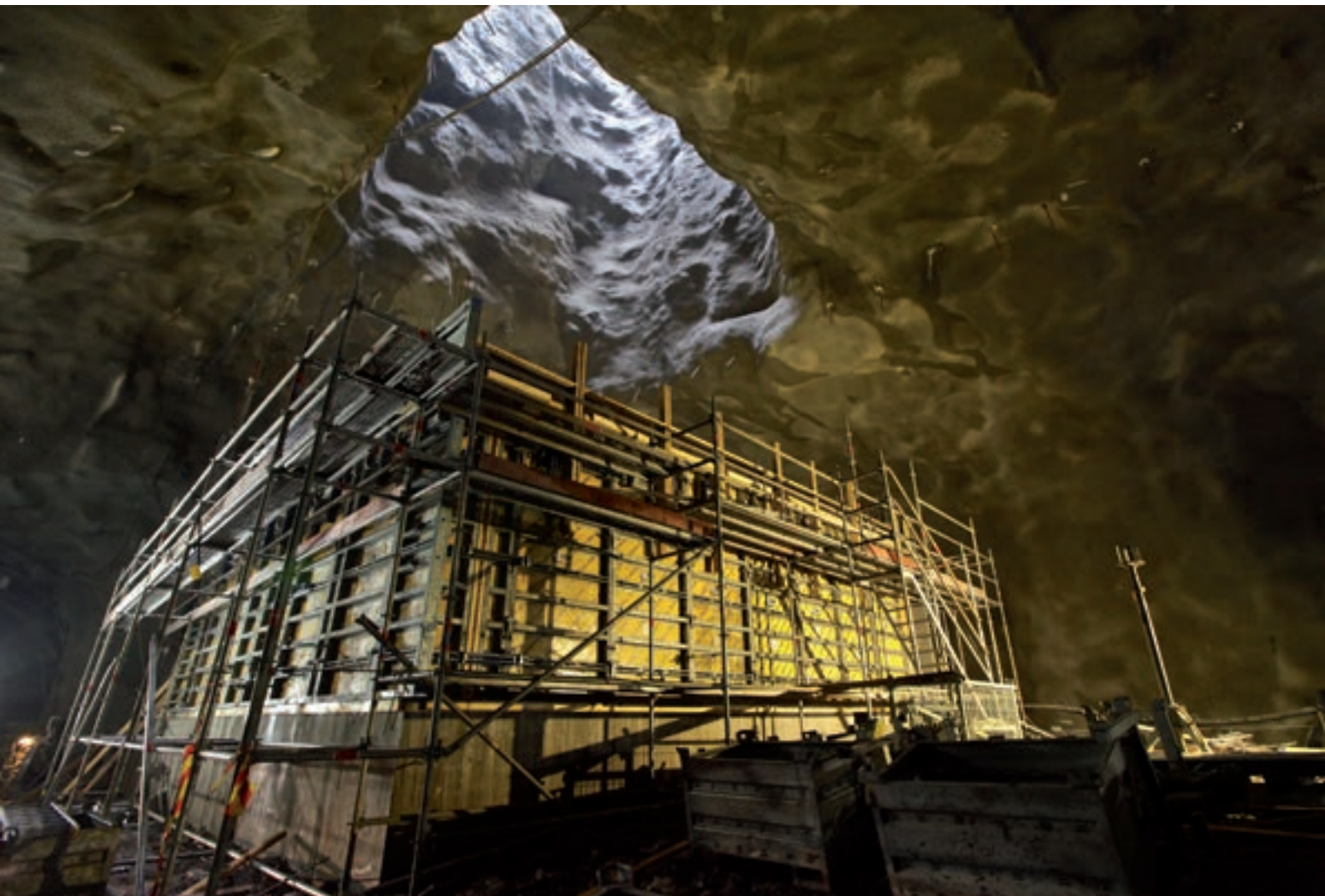
Mr **Heikki Niemeläinen** was MGB's Managing Director and Mr **Tuukka Salminen**, Executive Director, acted as a deputy to the Managing Director. The total number of employees during the year was three.

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 2017, the authorised auditing corporation was KPMG Oy Ab, and the new MGB Council will decide on reappointing it for the period 2018–2019 in its first meeting.

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. During the current term of the council in 2014–2017, the Guarantee Board Auditor has been the auditing firm DHS Oy Audit Partners, which the Ministry of Finance ordered to continue in its task in 2018–2021 as well.

¹ Finnish honorary title



Timo Kotineva

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 30.644.791.875,68 was in use at the end of 2017.

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 2017, these guarantee liabilities totalled EUR 2.563.903,00, or 0.8 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 30.647.355.778,68.

Funding guaranteed by MGB on 31 December 2017 was divided amongst the following currencies: US Dollar 38%, Euro 22%, Japanese Yen 18%, Turkish Lira 8%, Pound Sterling 5%, Norwegian Krone 4% and other currencies 5%. 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

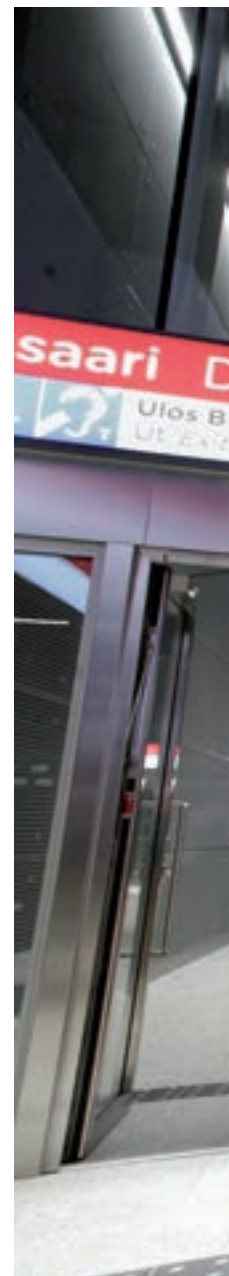
MGB's operative risks are dealt within the Standing Orders approved by the Council and in the Guarantee and Operations Policy approved by the Board of Directors, which stipulates the authorisations within MGB. MGB has a continuity plan, preparing for exceptional conditions so that MGB is able to continue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





Timo Kauppila

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 2.077.015,49, comprising of personnel costs of EUR 716.510,28, depreciation amounting to EUR 20.036,59 and other costs of EUR 1.340.468,62. 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 222.984,51.

In 2017 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 327.188,41 and costs to EUR 43.219,16, giving a result from investment activities of EUR 283.969,58. MGB values its investments at fair value on its balance sheet. The fair value reserve stood at EUR 1.644.989,23 and the increase in fair value compared to the previous year was EUR 100.558,82. The financial result of investment activities and the change of the fair value reserve gave a total return of 2,31% on invested capital.

The result for the financial year, i.e. the total from MGB's activities and investments, was EUR 506.954,09 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 18.608.598,07 on 31 December 2017, and the total amount of the equity will be EUR 20.253.587,30. MGB had on-going credit facilities for safeguarding its cash position up to EUR 150 million.

OUTLOOK

The outlook for MGB is stable as far as its own current operations are concerned, especially with the guarantee activities having been harmonised with the credit institution regulations applied to Municipality Finance Plc.

The functions of the Municipal Guarantee Board and Municipality Finance Plc can be developed further with regard to the provision of financing to county entities and municipalities' new vitality functions.

In connection with the changes, it is necessary to ensure that the established interpretations of the municipal right to levy and collect taxes and the protection of assets are strengthened and their connection with the EU Regulation on credit institution operations is clarified.

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



Timo Kauppila

INCOME STATEMENT

EUR

	1.1.-31.12.2017	1.1.-31.12.2016
ORDINARY OPERATIONS		
Income		
Guarantee premiums	2 300 000,00	2 300 000,00
Expenses		
Staff expenses (1)	-716 510,28	-615 752,43
Depreciation (2)	-20 036,59	-30 813,77
Other expenses	-1 340 468,62	-1 217 856,01
Result from ordinary operations	222 984,51	435 577,79
INVESTMENT ACTIVITIES		
Income	327 188,74	405 845,65
Expenses	-43 219,16	-90 621,35
Result from investment activities	283 969,58	315 224,30
RESULT BEFORE TRANSFER TO FUND (3)	506 954,09	750 802,09
TRANSFER TO FUND	-506 954,09	-750 802,09
Result for the financial year	0,00	0,00

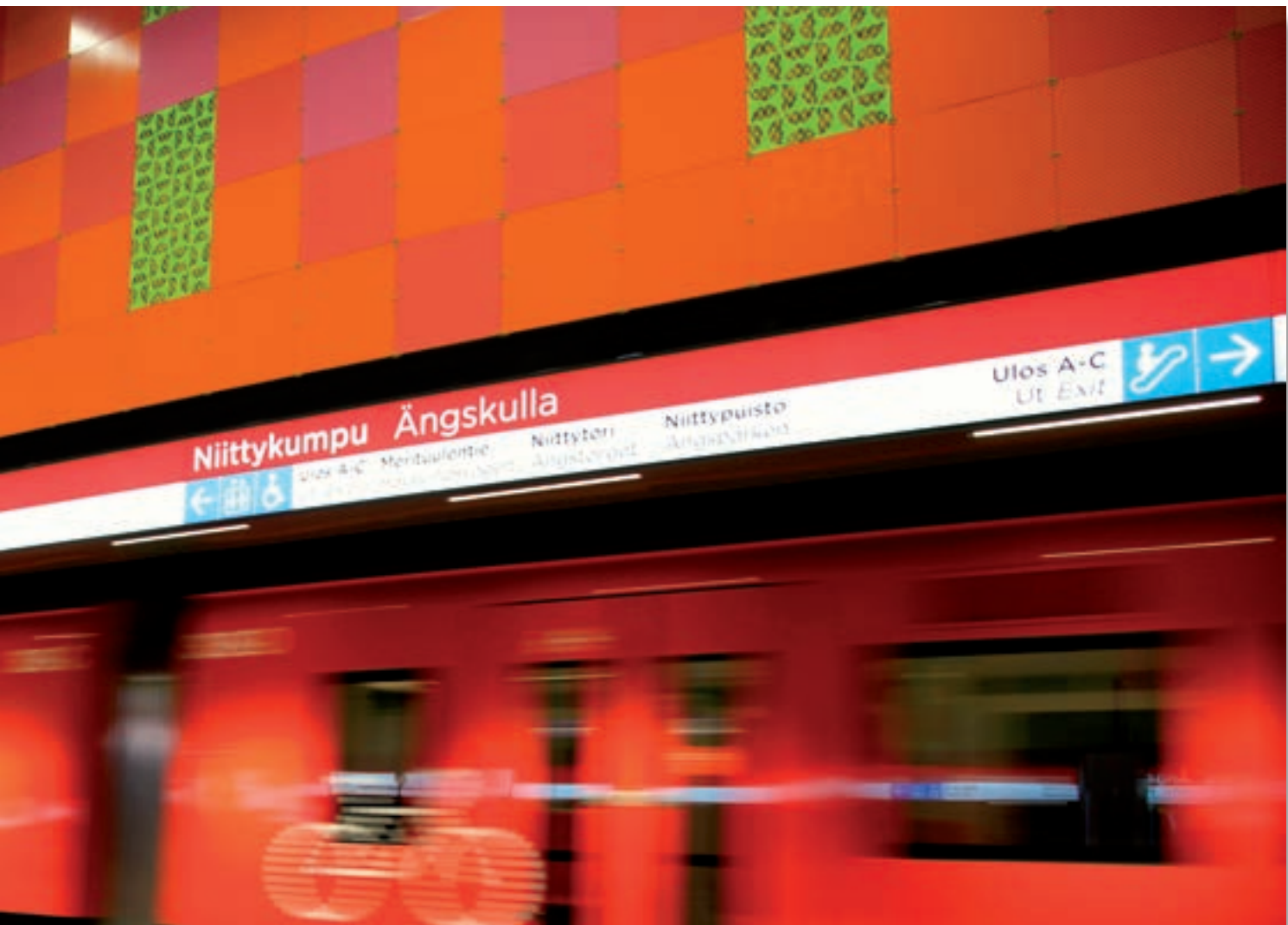
Items which reconcile to the income statement and balance sheet in the notes to the financial statements (numbered)

	INCOME STATEMENT AND BALANCE SHEET	NOTES TO THE FINANCIAL STATEMENTS
(1)	Staff expenses	Staff expenses, total
(2)	Depreciation	Accounting period depreciation
(3)	Result before transfer to fund	Fund transfer 31.12.
(4)	Tangible assets	Tangible assets, Book value 31.12.
(5)	Other shares and similar rights of ownership	Other shares and similar rights of ownership, total
(6)	Fund	Fund 31.12.
(7)	Fund value reserve	Fair value reserve 31.12.

BALANCE SHEET

EUR

	1.1.-31.12.2017	1.1.-31.12.2016
ASSETS		
Non-current assets		
Tangible assets (4)	192 006,67	212 043,26
Other shares and similar rights of ownership (5)	2 276 896,60	2 276 896,60
Investments		
Other investments		
Shares and similar rights of ownership	8 631 928,80	9 145 437,24
Certificates of deposits and deposits	1 982 175,48	669 907,31
Debt securities	6 168 840,08	6 655 260,08
Current assets		
Receivables		
Guarantee receivables	0,00	575 000,00
Accrued income	101 988,26	199 403,06
Cash and bank accounts	1 058 923,91	90 967,06
Total assets	20 412 759,80	19 824 914,61
EQUITY AND LIABILITIES		
Equity		
Fund (6)	18 608 598,07	18 101 643,98
Fair value reserve (7)	1 644 989,23	1 544 430,41
Liabilities		
Current liabilities		
Trade creditors	57 066,94	12 798,56
Accruals and deferred income	102 105,56	166 041,66
Other current liabilities	0,00	0,00
Total equity and liabilities	20 412 759,80	19 824 914,61



Timo Ojala

CASH FLOW STATEMENT

EUR	1.1.-31.12.2017	1.1.-31.12.2016
CASH FLOW FROM ORDINARY OPERATIONS		
-operating income	2 875 000,00	2 300 000,00
-operating costs	-2 002 454,97	-1 852 158,03
Cash flow from ordinary operations	872 545,03	447 841,97
Cash flow from non-current assets	0,00	-27 372,59
Cash flow from investments	95 411,82	-466 859,19
CHANGE IN CASH FUNDS	967 956,85	-46 389,81
Cash funds at the beginning of financial period	90 967,06	137 356,87
Cash funds at the end of financial period	1 058 923,91	90 967,06

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

EUR

1.1.-31.12.2017	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	124 754,48	9 026,68	571,78
Managing Director and Deputy MD	328 693,27	63 462,34	8 906,37
Others	159 119,47	20 371,53	1 604,36
Total (1)	612 567,22	92 860,55	11 082,51

NON-CURRENT ASSETS

	2017	2016
Tangible assets		
Acquisition cost 1.1.	309 076,44	324 957,96
Disposals	-4 593,07	-32 331,54
Increase	0,00	16 450,02
Acquisition cost 31.12.	304 483,37	309 076,44
Accrued depreciation 1.1.	-97 033,18	-98 550,95
Accrued depreciation on disposals	4 593,07	32 331,54
Accounting period depreciation (2)	-20 036,59	-30 813,77
Accrued depreciation 31.12.	-112 476,70	-97 033,18
Book value 31.12. (4)	192 006,67	212 043,26
Other shares and similar rights of ownership	2017	2016
Koy Yrjönkatu 11	1 487 875,70	1 487 875,70
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 (5)	2 276 896,60	2 276 896,60



Timo Kotineva

CHANGES TO CAPITAL AND RESERVES

	2017	2016
Fund 1.1.	18 101 643,98	17 350 841,89
Fund transfer 31.12. (3)	506 954,09	750 802,09
Fund 31.12. (6)	18 608 598,07	18 101 643,98
Fair value reserve 1.1.	1 544 430,41	1 145 796,77
Change in financial year	100 558,82	398 633,64
Fair value reserve 31.12. (7)	1 644 989,23	1 544 430,41

GUARANTEES AND COLLATERAL

	31.12.2017	31.12.2016
Guarantee limits granted	45 103 271 210,74	39 170 238 421,49
Guarantees in use	30 644 791 875,68	26 319 920 391,71
Collateral received and items		
Affecting collateral situation	33 413 603 696,03	29 407 483 829,05
Balance of collateral and guarantees	2 768 811 820,35	3 087 563 437,34
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net	2 563 903,00	3 221 745,00



Aarno Huovinen

SIGNATURES

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

Helsinki, 15th February 2018

MUNICIPAL GUARANTEE BOARD

Jari Blom
Chairman

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, 15th February 2018

KPMG OY AB
Marcus Tötterman
Authorised Public Accountant

AUDITOR'S REPORT

To the Council of the Kuntien takauskeskus

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Kuntien takauskeskus (business identity code 1075583-7) for the year ended 31 December, 2017. 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 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 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 other information and, in doing so, consider whether the other information 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, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 15 February 2018

KPMG OY AB

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT

GUARANTEES

Million Euro

MUNICIPALITY FINANCE PLC

Guarantee limits

Guarantees in use 31.12.2017

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	30 000,0	21 442,9
AUD 2 billion Programme (Kangaroo)	1 303,3	642,5
Euro Commercial Paper Programme	5 000,0	3 841,3
Domestic Debt Issuance Programme	800,0	0,0
Other domestic and foreign funding	6 500,0	3 332,0
Separate Decisions		1 363,4
Total	43 603,3	30 622,2

Total	45 103,3	30 644,8
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Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	Max. 4 %	2,6 0,8 %
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Total		30 647,4
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BOARD OF DIRECTORS AND COUNCIL

BOARD OF DIRECTORS 1.1.2016-15.3.2018

Jari Blom, Chairman

Janne Laine, Deputy Chairman

Paula Aikio-Tallgren

Pekka Alanen

Sari Innanen

Jaana Karrimaa

Jaakko Niinistö

COUNCIL 1.10.2013-31.12.2017

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



Riina Kairulahti



INFORMATION ABOUT THE ANNUAL REPORT

The Municipal Guarantee Board's funding based on pledges is channelled into the development of the operations and infrastructure of municipalities as well as social housing construction in the form of loans.

The photos in this annual report are of the West Metro, which started operating in November 2017. The Municipal Guarantee Board has guaranteed funding allocated to the construction of the West Metro.

We would like to thank Länsimetro Oy for their good cooperation in illustrating the annual report.