



ANNUAL REPORT 2018

| KUNTIEN TAKAUSKESKUS | KOMMUNERNAS GARANTICENTRAL | MUNICIPAL GUARANTEE BOARD |

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MANAGING DIRECTOR'S REVIEW

The year 2018 was exceptionally busy for the Municipal Guarantee Board (MGB). MGB's operating environment underwent changes both domestically and internationally. Administrative changes also took place as the composition of the MGB Board of Directors was entirely changed over spring 2018.

The recently lapsed regional government, health and social services reform driven by Prime Minister Sipilä's government caused the most development activities, and in particular the reform's aspects of EU competition law concerning government guarantees.

Government guarantees played a key role in the reform, as the proposed counties would not have been given the right of taxation. With the right to levy taxes, the counties' own loans or loans guaranteed by the counties could have been considered as zero-risk weighted (Capital Requirements Regulation (CRR) 575/2013/EU). The proposed government guarantees were intended to compensate the lack of counties' taxation right. The question was, how government guarantees are treated within EU regulation.

As part of the regional government, health and social services reform, the government proposed to amend the MGB Act, suggesting that acquired funding guaranteed by MGB could be also used to finance new counties functions and legal persons not included in the 2004 EU notification of the MGB Act.

In order to ensure the law proposal's compatibility with EU legislation, the Finnish municipalities' joint funding system commenced in-depth research and development activities. In this work, MGB comprehensively relied on experts of the financial sector regulation, central bank activities and EU legislation.

During the research, the collaboration obligation applied to EU competition authorities, financial supervisory authorities and the central bank system came to the forefront. The financial supervisory authorities and central banks can only acknowledge as valid such government guarantees that have been assessed and approved as adherent to EU competition law by the competent authorities at the EU level.

In its statement on the government's law proposal and basing its argument on the results obtained in the research, the MGB Board of Directors stated that the legal certainty of the extension to the MGB Act in covering new legal persons with respect to EU competition law must be ensured with the competent EU competition policy authorities.

At this point, I wish to thank the persons who have significantly contributed to MGB's success in performing its duties. As the EU bank union proceeds, EU regulation undergoes changes and changes are made domestically as well, there will be a need for specialists in the future, too.

The regional government, health and social services reform driven by Sipilä's government lapsed in March 2019. The MGB's development work in connection with it has significantly deepened the functioning of the joint funding system of Finnish municipalities in relation with EU competition law. MGB has determined the minimum preconditions for the successful performance of any new financing duties the parliament considers it must take on.

HEIKKI NIEMELÄINEN
Managing Director



REPORT OF ACTIVITIES 2018

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 construction.

The year 2018 was exceptionally busy for MGB. MGB's domestic and international operating environment underwent significant changes.

Out of the domestic changes, the most notable was Prime Minister Sipilä's government proposal for the regional government, health and social services reform and the related amendments proposed to the Act on the Municipal Guarantee Board. According to the proposal, funds guaranteed by MGB could be used to finance loans transferred from the current municipal federations to the new proposed counties.

MGB surveyed the preconditions of its guarantee activities with respect to the EU's capital requirements, central bank regulation and EU competition law, and based on these, formed its stance on the government proposal. According to the statement made by the MGB Board of Directors, the government guarantee for the transferred loans must be executable in accordance with articles 213 and 215 of the Capital Requirements Regulation (CRR) 575/2013 in all the relevant areas of jurisdiction. Additionally, the legal certainty of the amendments to the MGB Act with respect to EU competition law should be ensured.

Of the changes in the international operating environment, the most notable relate to the European Central Bank system's collateral management and to the EU Single Resolution Mechanism.

The ECB added new conditions for the collateral eligibility of loans (Guideline (EU) 2018/570 of the ECB). The new conditions stipulate which loans the ECB approves as collateral for its standby credit facilities. Based on the new conditions, loans with an interest rate that, according

to the loans' original conditions, may be either negative or linked to the lender's own reference rate, are no longer eligible.

This change is significant also for the Finnish municipalities' joint funding system, as the aforementioned conditions have previously been applied to some municipal loans.

MGB decided to establish a new, more rigorous monitoring system for the ECB's collateral management due to the expectation that, in the future, the ECB will implement its funding policy increasingly through the conditions it sets for collateral management and the changes to these conditions.

MGB discussed Municipality Finance Plc's (MuniFin) resolution plan from the perspective of the MGB Act together with the EU Single Resolution Board (SRB) and the Finnish Financial Stability Authority (FFSA). MGB noted that the resolution procedures of the Single Resolution Mechanism have been designed to be applied to private sector credit institutions. As public and private sector credit institutions are structurally different, MGB emphasised that the euro area also needs its own Single Resolution Mechanism applicable to public sector credit institutions.

MGB's development activities in 2018 were characterised by the in-depth examination of EU competition law, the Capital Requirements Regulation (CRR) and the European central bank system together with a number of experts. The success of MGB's activities is primarily based on the contribution of various experts and the municipalities' joint funding system personnel's ability to adapt the system's structures to changing circumstances.

MGB sends its thanks to its experts and hopes they continue to take interest in facing the complex but intriguing challenges of guarantee and funding activities.

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 2018, 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 MGB Act was made on 2 November 2017 when the Parliament decided on amending sections 5 and 8 of the Act. This amendment was the result of the changed date of the municipal elections, decreed in the Local Government Act and ratified in 2015. Section 5 of the Act was amended so that the term of the MGB Council would commence on 1 January of the year following the municipal elections.

At the same time, section 8 of the Act 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 MuniFin 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.



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 term of the new MGB Council commenced on 1 January 2018 and will continue until the end of 2021. The Council elected Ms **Terhi Peltokorpi** from Helsinki as Chair and Mr **Reijo Vuorento** from Helsinki and Mr **Kimmo Behm** from Nurmijärvi as Deputy Chair. 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 represents MGB.

The former Board of Directors commencing its term on 1 January 2016 remained operative until the first meeting of the new Council on 16 March 2018. The Chair of the Board of Directors was Mr **Jari Blom** from Jyväskylä and the Deputy Chair was Mr **Janne Laine** from Savonlinna. The other members were 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.

In its meeting on 16 March 2018, the Council elected Mr **Tapani Hellstén** from Helsinki, Mr **Kai Järvikare** from Helsinki, Mr **Janne Pesonen** from Espoo, Ms **Mervi Simoska** from Juva, Mr **Jaakko Stenhäll** from Tampere, Ms **Marita Toikka** from Kouvola and Ms **Päivi Yli-Kauhaluoma-Nurmi** from Pori as members of the Board of Directors. The Board of Directors elected **Tapani Hellstén** as Chair and **Marita Toikka** as Deputy Chair.

Mr **Heikki Niemeläinen** was MGB's Managing Director and Mr **Tuukka Salminen**, Executive Director, acted as the 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. The primary auditor appointed by the audit firm shall be an authorised APA (Authorised Public Accountant) or a CPFA (Chartered Public Finance Auditor) auditor. In 2018, the authorised auditing corporation was KPMG Oy Ab, which the Council has selected to continue in the task in 2019 as well.

The activities of MGB are supervised by the Guarantee Board Auditor (APA or CPFA), who is appointed by the Ministry of Finance on the proposal of the Board of Directors of MGB. The Ministry of Finance has appointed the audit firm DHS Oy Audit Partners as an auditor for MGB for the years 2018-2021.



RISK MANAGEMENT

RISKS IN GUARANTEE OPERATIONS

Under the MGB Act, MGB may grant guarantees against sufficient collateral. In accordance with section 8 of the parliament's amendment to the MGB Act on 2 November 2017, a collateral may also be granted as a covenant without any separate counter-collateral. Grounds for the application of covenants are based on the realisation of the Act on the Municipal Guarantee Board's intended purpose. The application of covenants has been agreed in the framework agreement entered into by MuniFin and MGB.

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 EMTN 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 31.305.703.916,42 was in use at the end of 2018.

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 2018, these guarantee liabilities totalled EUR 5,483,728,00, or 0.018 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 31,311,187,644,42.

Funding guaranteed by MGB on 31 December 2018 was divided amongst the following currencies: US Dollar 43%, Euro 24%, Japanese Yen 20%, Pound Sterling 7%, Norwegian Krone 3% and other currencies 3%. The currency risk is removed as a result of MuniFin's hedging operations. Collateral received by MGB from MuniFin was denominated in euros.

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 guidance, 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 best possible 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 2,500,000.00. Operating costs totalled EUR -1,932,279.99, comprising of staff expenses of EUR 742,472.65, depreciation amounting to EUR 42,005.62 and other expenses of EUR 1,147,801.72. Main factors for the increase in other expenses were the credit rating fees resulting from MuniFin's substantial funding acquisition. The result from MGB's ordinary operations was EUR 567,720.01.

Throughout its period of operation, MGB has not received any claims for the payment of guarantee fees. 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.

The investment income totalled EUR 316,992.66 and expenses totalled EUR 123,965.28. The expenses include EUR 100,000.00 of write-downs. Prior to fair value changes, the result from investment activities was EUR 193,027.38.

MGB values its investments at fair value on its balance sheet. A significant change in comparison with the previous presentation method is the presentation of changes in the fair value reserve of balance sheet as part of investment activities in the income statement. This change in presentation is based on the international IFRS standards referred to in the Accounting Act. At the end of the year, the fair value reserve stood at EUR 743,124.79, and the negative fair value changes in comparison to the previous year amounted to EUR 901,864.44. The fair value changes resulted mostly from the declining prices of stock-based investment instruments over the last months of the year. The yield of invested capital was -3.98%.¹

¹ Yield of invested capital = (Result from investment activities + Changes in the fair value reserve) / (Investments + Cash and bank accounts) average value for the beginning and end of the year * 100

Result before appropriations was EUR -141,117.05. Transfers into the fund and the fair value reserve are treated as appropriations. A sum of EUR 760,747.39 is proposed for fund transfer, comprising the result from ordinary operations and the result from investment activities prior to unrealised fair value changes. Thus, the total value of the fund on 31 December 2018 is EUR 19,369,345.46.

The transfer of EUR 901,864.44 into the fair value reserve corresponds with the fair value change of investments on the balance sheet. MGB's equity on 31 December 2018 totals EUR 20,112,470.25. The result for the financial year after the transfer is zero.

MGB's liquidity comprises the fund and liquidity arrangements. In 2018, MGB had standby credit facilities for safeguarding its cash position up to EUR 150 million.

OUTLOOK

MGB's development activities in 2018 clarified its outlook for the future. Development activities focused on scrutinizing the application of the bank crisis management system to public sector credit institutions in Europe. Additionally, MGB enhanced its monitoring system for changes in the ECB collateral management and considered the connection between EU competition law and the Capital Requirements Regulation governing credit institutions.

In the outlook for the municipalities' joint funding system, a key role is played by the implementation of the regional government, health and social services reform which, at this time, remains uncertain. Based on the development work performed so far, the system has great potential to stand up to any new funding duties appointed to it by the parliament upon the implementation of the reform.



INCOME STATEMENT

EUR	NOTES	1.1.-31.12.2018	1.1.-31.12.2017
ORDINARY OPERATIONS			
Income			
Guarantee premiums		2 500 000,00	2 300 000,00
Expenses			
Staff expenses	(1)	-742 472,65	-716 510,28
Depreciation	(2)	-42 005,62	-20 036,59
Other expenses		-1 147 801,72	-1 340 468,62
Result from ordinary operations		567 720,01	222 984,51
INVESTMENT ACTIVITIES			
Income		316 992,66	327 188,74
Expenses and impairment		-123 965,28	-43 219,16
Result from investment activities prior to unrealised fair value changes		193 027,38	283 969,58
Unrealised fair value changes		-901 864,44	100 558,82
Result from investment activities		-708 837,06	384 528,40
Result before appropriations		-141 117,05	607 512,91
APPRORIATIONS			
Transfer to fund		-760 747,39	-506 954,09
Transfer to the fair value reserve		901 864,44	-100 558,82
Result for the financial year		0,00	0,00

BALANCE SHEET

EUR	NOTES	31.12.2018	31.12.2017
ASSETS			
Non-current assets			
Tangible assets	(3)	177 076,11	192 006,67
Other shares and similar rights of ownership	(4)	2 255 184,05	2 276 896,60
Investments			
Other investments			
Shares and similar rights of ownership		8 084 432,89	8 631 928,80
Certificates of deposits		987 784,69	1 982 175,48
Debt securities		6 969 550,00	6 168 840,08
Current assets			
Receivables			
Guarantee receivables		0,00	0,00
Accrued income		98 432,50	101 988,26
Cash and bank accounts		1 698 497,63	1 058 923,91
Total assets		20 270 957,87	20 412 759,80
EQUITY AND LIABILITIES			
Equity	(5)		
Fund		19 369 345,46	18 608 598,07
Fair value reserve		743 124,79	1 644 989,23
Liabilities			
Current liabilities			
Trade creditors		64 095,46	57 066,94
Accruals and deferred income		94 392,16	102 105,56
Other current liabilities		0,00	0,00
Total equity and liabilities		20 270 957,87	20 412 759,80



CASH FLOW STATEMENT

EUR	1.1.-31.12.2018	1.1.-31.12.2017
CASH FLOW FROM ORDINARY OPERATIONS		
Operating income	2 500 000,00	2 875 000,00
Operating expenses	-1 887 792,92	-2 002 454,97
Cash flow from ordinary operations	612 207,08	872 545,03
Cash flow from non-current assets	-5 362,51	0,00
Cash flow from investments	32 729,15	95 411,82
CHANGE IN CASH FUNDS	639 573,72	967 956,85
Cash funds at the beginning of financial period	1 058 923,91	90 967,06
Cash funds at the end of financial period	1 698 497,63	1 058 923,91

NOTES TO THE FINANCIAL STATEMENTS

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

Investments are valued at fair value through profit or loss. Unrealized differences between their book value and fair value have been recognised in the fair value reserve in equity. 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	3 years, straight-line depreciation
- Equipment	5 years, straight-line depreciation
- Equipment of the MGB premises	10 years, straight-line depreciation

EUR

NOTES

STAFF EXPENSES

(1)

2018

	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	120 817,21	11 136,44	280,17
Managing Director and Deputy MD	353 771,31	68 552,61	5 757,28
Others	157 935,82	22 337,39	1 884,42
Total	632 524,34	102 026,44	7 921,87

NON-CURRENT ASSETS

2018

2017

Tangible assets		
Acquisition cost 1.1.	(3) 304 483,37	309 076,44
Disposals	-16 450,02	-4 593,07
Increase	5 362,51	0,00
Acquisition cost 31.12.	293 395,86	304 483,37
Accrued depreciation 1.1.	-112 476,70	-97 033,18
Accrued depreciation on disposals	16 450,02	4 593,07
Accounting period depreciation (2)	-20 293,07	-20 036,59
Accrued depreciation 31.12.	-116 319,75	-112 476,70

Book value 31.12.	177 076,11	192 006,67
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Other shares and

2018

2017

similar rights of ownership	(4)	
Koy Yrjönkatu 11	1 487 875,70	1 487 875,70
Nurmijärvi Golf Club, one share	1,00	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	2 255 184,05	2 276 896,60
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EUR	NOTES	2018	2017
CHANGES IN EQUITY	(5)		
Fund 1.1.		18 608 598,07	18 101 643,98
Fund transfer 31.12.		760 747,39	506 954,09
Fund 31.12.		19 369 345,46	18 608 598,07
Fair value reserve 1.1.		1 644 989,23	1 544 430,41
Change in financial year		-901 864,44	100 558,82
Fair value reserve 31.12.		743 124,79	1 644 989,23
GUARANTEES AND COLLATERAL		31.12.2018	31.12.2017
Guarantee limits granted		47 026 993 865,03	45 103 271 210,74
Guarantees in use		31 305 703 916,42	30 644 791 875,68
Collateral received and items affecting collateral situation		33 862 650 761,98	33 413 603 696,03
Balance of collateral and guarantees		2 556 946 845,56	2 768 811 820,35
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net		5 483 728,00	2 563 903,00



SIGNATURES

Helsinki, 13th February 2019

MUNICIPAL GUARANTEE BOARD

Tapani Hellstén
Chair

Marita Toikka
Deputy Chair of the Board

Kai Järvikare
Member of the Board

Janne Pesonen
Member of the Board

Mervi Simoska
Member of the Board

Jaakko Stenhäll
Member of the Board

Päivi Yli-Kauhaluoma-Nurmi
Member of the Board

Heikki Niemeläinen
Managing Director

AUDITOR'S NOTE

Our auditors' report has been issued today.

Helsinki, 13th February 2019

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, 2018. 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 the 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 a 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 THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about 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 the 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, 13 February 2019

KPMG OY AB

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT

GUARANTEES

Million Euro

MUNICIPALITY FINANCE PLC

Guarantee limits

Guarantees in use 31.12.2018

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	24 184,6
AUD 2 billion Programme (Kangaroo)	1 227,0	618,5
Euro Commercial Paper Programme	7 000,0	3 067,9
Domestic Debt Issuance Programme	800,0	0,0
Other domestic and foreign funding	6 500,0	3 412,1

Total	45 527,0	31 283,1
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Total	47 027,0	31 305,7
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Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	Max. 4 %	5,5 0,018 %
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BOARD OF DIRECTORS AND COUNCIL



Kai Järvikare, Mervi Simoska, Päivi Yli-Kauhaluoma-Nurmi, Janne Pesonen, Tapani Hellstén, Jaakko Stenhäll and Marita Toikka.

BOARD OF DIRECTORS 16.3.2018-31.12.2021

Tapani Hellstén, Chair

Marita Toikka, Deputy Chair

Kai Järvikare

Janne Pesonen

Mervi Simoska

Jaakko Stenhäll

Päivi Yli-Kauhaluoma-Nurmi



Reijo Vuorento, Terhi Peltokorpi and Kimmo Behm.

COUNCIL 1.1.2018-31.12.2021

Members of the council

Terhi Peltokorpi, Chair

Reijo Vuorento, 1. Deputy Chair

Kimmo Behm, 2. Deputy Chair

Tuomo Luoma

Satu Hatanpää

Maarita Mannelin

Jesse Jääskeläinen

Pia Hänninen

Lasse Hautala

Asta Tolonen

Sallamaari Muhonen

Leena Kuha

Lauri Heikkilä

Matti Semi

Fredrik Guseff

Personal Deputy

Martin Ylikännö

Ninni Taavitsainen

Mika Mäkinen

Joonas Grönlund,

Venla Väli-Torala

Pia-Riitta Korvenheimo

Vuokko Puljujärvi

Markku Harju

Mirva Kittilä

Markku Forss

Marko Kivelä

Ville Hämäläinen

Anssi Joutsenlahti

Tiina Ahlfors

Minna Österholm



INFORMATION ABOUT THE ANNUAL REPORT

The Municipal Guarantee Board grants guarantees for Municipality Finance Plc's funding which will be channeled into the development of the operations and infrastructure of municipalities as well as social housing construction in the form of loans.

The photographs in this annual report have been taken at the new Nummikeskus centre in Hämeenlinna, opened in August 2018. The new centre combines preschool education and teaching with library and mother-child clinic services. Sports and culture activities are also organised in the facilities in the evenings.

The Municipal Guarantee Board has guaranteed funding allocated to the construction of the Nummikeskus centre.

We would like to thank the City of Hämeenlinna for their cooperation in illustrating the annual report.