



Managing Director's Review

The past year was the best in the history of the municipalities' joint funding system so far. The system continued to grow profitably while the costs of local government funding and funding for social housing production remained low.

Development of the joint funding system was characterized by the impact of the previous year's clarification of the system's status in terms of competition law in the European Union. The municipalities' joint funding system can now be described as a joint procurement organization for funding activities falling within the sphere of public sector responsibilities. This interpretation will clarify the situation and thus facilitate development of the system in future years.



Implementation of the local government service structure reform is still open. It became obvious during the past year, however, that its impact on the Municipal Guarantee Board will be minor regardless of the mode of implementation, since any new municipalities will on the basis of legislation be members of the Guarantee Board without separate decisions.

In line with previous years, the competitiveness of the funding system on the international market continued to be based on the system's high credit rating. This allowed inexpensive funding, particularly in structured funding operations.

The system's prospects are favourable as a result of its high credit rating, its clearly defined position in terms of competition law and the high level of expertise among its personnel. These strengths form a solid foundation for addressing the challenges of future years.

Credit is due to our cooperation partners for the system's good performance; I would like to thank them for the past year and wish all parties continued joint success in future years.

Heikki Niemeläinen
Managing Director



ANNUAL REPORT ON THE ACTIVITIES OF 2005

The past year was the best in the history so far of the joint funding system for municipalities. The market share of the system improved significantly as did the financial performance. At the same time, the credit margins of municipalities remained at a historically low level. The success of our operations is based on a motivated personnel and advanced business procedures.

In keeping with past years, the system's acquisition of funding relied heavily on structured arrangements. The Municipal Guarantee Board continued to have the highest possible credit rating in 2005.

The Guarantee Board had no major new development projects in 2005. Instead, the system prepared for potential changes in local government operations. Changes will occur as a result of the local government service structure project introduced by the Government.

A reduction in the number of municipalities as a result of consolidation may prove to be the most significant of the changes. A typical consolidation procedure is to terminate the existing municipalities and establish a new municipality in their stead. According to the Ministry of the Interior's opinion, such a new municipality is automatically a member of the Municipal Guarantee Board. No separate decision is required. Another typical procedure is to terminate a municipality when it is joined to an existing municipality. In this case, too, the remaining municipality is automatically a member of the MGB if it or any one of the municipalities consolidated has been a member. Thus consolidations of municipalities do not reduce the total number of the members of the MGB or its coverage of Finland's local government sector.



Legislation and Member Organizations

The Act on the Municipal Guarantee Board (487/1996) was passed by Parliament on 18 June 1996 and entered into force on 1 July 1996. The Act states that the purpose of the Guarantee Board is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this purpose, the Guarantee Board can grant guarantees for such funding of credit institutions directly or indirectly owned or controlled by municipalities which will be used for lending to municipalities and municipal federations, and to corporations which are wholly owned by municipalities or under their control.

In 2005, the only credit institution to meet the criteria set out in the Act was Municipality Finance Plc.

An amendment to the Act, passed by the Finnish Parliament on 25 April 1997, entered into force on 1 May 1997. As a result of that amendment, the Guarantee Board was able to grant guarantees for such funding of a credit institution as will be used for lending to corporations designated by government authorities and engaged in renting or producing and maintaining housing on social grounds or corporations controlled by them.

The Act gave municipalities the option of not becoming member organizations of MGB by notification of their decision to the Ministry of the Interior by 30 September 1996. Fifteen municipalities chose to opt out of the system, of which after the various mergers 12 are still left. A total population of these twelve municipalities is around 43 000. During the year under review, the membership of the Guarantee Board comprised 404 municipalities, representing around 98.7 per cent of the Finnish population. Membership decreased by nine municipalities because of mergers. The municipalities of the semi-autonomous Åland Islands are not member organizations of the Guarantee Board.



Administration and Personnel

Under the Act, MGB has a Council of no fewer than 10 and no more than 15 members, each of whom has a personal deputy. On 30 August 2005, the Ministry of the Interior appointed a Council of 15 members for a term of office lasting from 1 October 2005 to 30 September 2009. From among its members, the Council elected **Mr Jari Blom**, Executive Director (Jyväskylä), as chairperson and **Mr Miika Munkki**, Agrolologist (Vehmaa) and **Ms Raija Rönkä-Nieminen**, Administration Manager (Lohja), as deputy chairpersons. The Council convened twice during the year under review.

Similarly, MGB has a Board of Directors responsible for its administration, the granting of guarantees, and the preparation and execution of the decisions of the Council. The members of the Board of Directors in 2005 were as follows:

Ms Irja Ansalehto-Salmi, Rector, Vantaa
Ms Maija-Liisa Havia, Director of Administration, Jyväskylä
Ms Pirkko Janhunen, Finance Manager, Varkaus
Mr Asko Koskinen, Director, Tampere (-24.11.2005)
Mr Raimo Liikkanen, Kunnallisneuvos (Hon), Luumäki
Mr Markku Pietarila, Director of Town Structure, Kemi
Mr Markku Rahikkala, Mayor, Nokia (24.11.2005-)
Mr Jorma Seppänen, Kaupunkineuvos (Hon), Nurmijärvi

Mr Jorma Seppänen served as chairperson of the MGB Board of Directors, and **Pirkko Jantunen** Finance Manager, replaced **Asko Koskinen** as deputy chair from April 16, 2005 onwards. The Board convened nine times during the year under review.

At its meeting of 10 November 2005, the Council approved **Asko Koskinen's** resignation from the Board, as **Mr Koskinen** had been elected member of the Board of Municipality Finance Plc and had thus become ineligible to act on the MGB Board. **Mr Koskinen** is chairman of the Municipality Finance Board. At the same meeting the Council elected **Markku Rahikkala** of Nokia a new member of the MGB Board.

The Board's term of office ended on 31 December 2005, and the Council elected the following for the term of office beginning on 1 January 2006: Director **Pekka Alanen** of Helsinki; Director of Administration **Maija-Liisa Havia** of Jyväskylä; Lecturer **Sari Innanen** of Kokkola; Finance Manager **Pirkko Janhunen** of Varkaus; Mayor **Janne Laine** of Ikaalinen; Director of Town Structure **Markku Pietarila** of Kemi; and Mayor **Markku Rahikkala** of Nokia.

Heikki Niemeläinen was MGB's Managing Director who also held a post at the University of Joensuu at the same time. During the financial period, **Tuukka Salminen** was employed by MGB as office manager. **Mr Salminen** is also the Managing Director's deputy.



Auditing and Supervision

The Council appoints a corporation of accountants authorized by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors for a term of office of one calendar year to audit the financial accounts and administration of the Guarantee Board. In 2005, the authorized accountants were KPMG Oy Ab, who were also re-appointed to continue in 2006.

The activities of the Guarantee Board are supervised by the Guarantee Board Auditor, appointed by the Ministry of the Interior on the proposal of the Board of Directors of the Guarantee Board. In 2005, the Guarantee Board Auditor was Deloitte & Touche Oy, whom the Ministry of the Interior also re-appointed to continue in 2006.



Guarantee Activities and Risk Management

At the end of 2005, Municipality Finance Plc had EUR 5699 million in funding arranged through guarantees granted by the Municipal Guarantee Board; EUR 646 million of this sum was acquired in 2005. MGB granted guarantees so that Municipality Finance Plc could raise its international debt instrument programme from EUR 3000 million to EUR 5000 million. In addition, the guarantee limit for funding outside the debt programmes under separate loan documentation was raised to EUR 1200 million.

EUR 2776 million from the International Debt Instrument programme, EUR 384 million from the Treasury Bill Programme, EUR 331 million from the Domestic Debt Issuance Programme and EUR 471 million from the guarantee limit for separate loan documentation funding were in use at year-end. A further EUR 193 million under separate decisions made by MGB's Board of Directors was in use at the end of the financial year. EUR 1543 million remained of Municipal Housing Finance Plc's and the now defunct Municipal Finance Plc's undue funding at the end of the financial year.

At year-end 2005, MGB had loans and investments totalling EUR 5595 million pledged as security for guarantees granted. Unsecured items as referred to in the Act came to EUR 384 million. Nominal excess security amounted to EUR 309 million at the end of the year 2005.

On 31 December 2005, funding acquisition guaranteed by MGB was divided in the following way on a currency basis: euro 53%, yen 23% and other currencies 24%. The equivalence of guarantees and securities was ensured by Municipality Finance Plc's hedging agreements related to its funding.

MGB has an investment policy approved by the Board of Directors to guide investment activities. Under this policy, the Guarantee Board allocates 70% of its investments in normal debt instruments issued by governments and banks and no more than 30% in capital secured debt instruments issued by banks, corporates and in shares in condominiums. The minimum requirement in respect of credit rated investments is that they are investment grade.

MGB's operational risks are dealt with in the Regulations and in the Guarantee and Operations Policy approved by the Board of Directors in which the authority and rights of different Municipal Guarantee Board organs are defined. In the main, guarantee activities are arranged so that the Board of Directors grants guarantees for funding programmes, of which the EMTN programme is the most important. The managing director of the Guarantee Board approves the individual issues within the funding programme.



Finances

Income from regular operations consisted of guarantees granted, which produced in the year 2005 a total guarantee premium sum of EUR 1,750,000.00. Operating costs came to a total of EUR 625,182.30, comprising personnel costs of EUR 227,795.40, depreciation of EUR 14,041.18 and other costs of EUR 383,345.72. Result from ordinary activities was 1,124,817.70, for the financial year.

No claims on guarantees were paid in 2005 nor were there any recoveries, and the nature of MGB's activities makes it unlikely that any claims on guarantees will need to be paid, nor recoveries made in the foreseeable future.

Income from investments came to EUR 319,737.08 and costs to EUR 1,872.37. The result from investment activities was EUR 317,864.71, approximately 5.3% on the invested capital. MGB values its investments at fair value in the balance sheet. The change in the fair value fund was EUR -51,843.38. Result from investments and value adjustments together were some 4.5% on the invested capital. The Result for the financial year, i.e. the total from ordinary activities and investment totalled EUR 1,442,682.41 before transfer to the fund.

The Result for the financial year in total put forward a proposal to transfer to the fund. The fund thus totalled EUR 7,025,631.45 on 31 December 2005.

The MGB has an ongoing agreement for safeguarding the Guarantee Board's cash position up to EUR 50 million.



Outlook

The joint funding system for municipalities has produced a high-standard credit institution operation with a highly skilled and motivated personnel. The system's market share continues to be fairly small in comparison with equivalent arrangements in the other Nordic countries, which is why it can look forward to sound and profitable growth.

Municipalities' way of providing and organizing services may change with the advent of the local government service structure reform. The joint funding acquisition system has been working with the aim of safeguarding the competitiveness of local government funding services and the system's operating scope in changing circumstances.



INCOME STATEMENT 1.1.-31.12.2005

	1.1.-31.12.2005	1.1.-31.12.2004
Ordinary operations		
Income		
Guarantee premiums	1 750 000,00	1 736 514,00
Expenses		
Staff expenses	-227 795,40	-218 284,89
Depreciation	-14 041,18	-12 948,97
Other expenses	-383 345,72	-278 342,02
Result from ordinary operations	1 124 817,70	1 226 938,12
Investment activities		
Income		
	319 737,08	133 116,19
Expenses		
	-1 872,37	-1 570,70
Result from investment activities	317 864,71	131 545,49
Result before transfer to fund	1 442 682,41	1 358 483,61
Transfer to fund	-1 442 682,41	-1 358 483,61
Result for the financial year	0,00	0,00



BALANCE SHEET

Assets

	31.12.2005	31.12.2004
Non-current assets		
Intangible assets	856,44	1 221,10
Tangible assets	64 362,10	52 523,32
Other shares and similar rights of ownership	21 713,55	21 713,55
Investments		
Other investments		
Shares and similar rights of ownership	119 380,00	119 380,00
Certificates of deposit	1 928 406,45	743 587,97
Debt securities	3 259 887,20	3 587 150,00
Other investments	1 183 252,00	619 670,00
Current assets		
Debtors		
Guarantee receivables	437 500,00	465 169,00
Receivables	33 230,05	86 877,83
Cash and bank accounts	102 271,26	90 921,37
Total assets	7 150 859,05	5 788 214,14

Equity and liabilities

Capital and reserves		
Fund	7 025 631,45	5 582 949,04
Current rate fund	95 224,16	147 067,54
Creditors		
Current liabilities		
Trade creditors	2 850,94	27 798,65
Accruals and deferred income	18 398,87	23 185,09
Other current liabilities	8 753,63	7 213,82
Total equity and liabilities	7 150 859,05	5 788 214,14



CASH FLOW STATEMENT

	31.12.2005	31.12.2004
Cash flow from regular operations		
- operating income	1 777 669,00	1 700 681,00
- operating costs	636 662,17	502 520,75
Cash flow from regular operations	1 141 006,83	1 198 160,25
Cash flow from investments		
- tangible and intangible assets	25 515,30	1 047,68
- investments	1 104 141,64	1 197 375,91
Cash flow from investments	1 129 656,94	1 198 423,59
Change in cash and cash equivalents	11 349,89	-263,34
Cash and cash equivalents at the beginning of financial period	90 921,37	91 184,71
Cash and cash equivalents at the end of financial period	102 271,26	90 921,37

SIGNATURES OF THE ANNUAL REPORT OF ACTIVITIES AND THE FINANCIAL STATEMENTS

Helsinki, 14th February 2006

MUNICIPAL GUARANTEE BOARD

Pekka Alanen
Chairman of the Board

Pirkko Janhunen
Deputy Chairman of the Board

Maija-Liisa Havia
Member of the Board

Sari Innanen
Member of the Board

Janne Laine
Member of the Board

Markku Pietarila
Member of the Board

Markku Rahikkala
Member of the Board

Heikki Niemeläinen
Managing Director

The financial statements have been prepared in accordance with normal accounting practices. We have today given the Auditors' Report.

Helsinki, 14th February 2006

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant



Auditor's Report

To the Council of the Municipal Guarantee Board

We have audited the accounting records, the financial statements and the administration of the Municipal Guarantee Board for the year 2005. The Board of Directors and the Managing Director have prepared the Report of the Board of Directors and the financial statements, which include the income statement, balance sheet, cash flow statement and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director have complied with the rules of the Act on the Municipal Guarantee Board.

In our opinion the financial statements have been prepared in accordance with the Accounting Act to the appropriate extent. The financial statements give a true and fair view, as defined in the Accounting Act, of the institution's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the year audited by us.

Helsinki, 14th February 2006

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant



GUARANTEES 31.12.2005

Million euro

Municipality Finance Plc

	Guarantees	Funding
	31.12.2005	31.12.2005
Municipality Finance Plc (-30.4.2001)		
Domestic Debt Issuance Programme	800,0	18,5
EMTN	2 000,0	650,9
Other Guarantees	750,0	143,2
Total	3 550,0	812,5

Municipal Housing Finance Plc (-30.4.2001)

EMTN	1 500,0	714,3
Other guarantees	400,0	16,1
Total	1 900,0	730,4
Total	5 450,0	1 543,0

Municipality Finance Plc (1.5.2001-)

EMTN	5 000,0	2 775,9
Treasury Bill Programme	500,0	384,4
Domestic Debt Issuance Programme	500,0	331,1
Other foreign funding	1 200,0	471,3
Separate Decisions		193,2
Back up facility	140,0	0,0
Total	7 340,0	4 155,8
Total	12 790,0	5 698,8



MUNICIPAL GUARANTEE BOARD

ANNUAL REPORT 2005



Board of Directors

Chairperson

Mr. Pekka Alanen
Director
Helsinki

Deputy Chairperson

Ms. Pirkko Janhunen
Finance Manager
Varkaus

Other Members

Mr. Markku Pietarila
Director of Town Structure
Kemi

Ms. Maija-Liisa Havia
Director of Administration
Jyväskylä

Ms. Sari Innanen
Lecturer
Kokkola

Mr. Janne Laine
Mayor
Ikaalinen

Mr. Markku Rahikkala
Mayor
Nokia



Council

Chairperson:

Jari Blom,
Jyväskylä

Deputy Chairpersons:

Mika Munkki,
Vehmaa

Raija Rönkä-Nieminen,
Lohja,

Other Members:

Pirkko Miikkulainen,
Helsinki

Markku Pohjonen,
Kokkola

Päivi Yli-Kauhaluoma-Nurmi,
Pori

Hilkka Hiltunen,
Ilomantsi

Asko Meski,
Orimattila

Mirja Okkonen,
Sotkamo

Aimo Ahti,
Kouvola

Kimmo Behm,
Nurmijärvi

Sari Hyytiäinen,
Hollola

Marjo Matikainen-Kallström,
Espoo

Leena Kuha,
Oulu

Torsten Widén,
Kauniainen

Personal Deputy Member:

Liisa Ruokoselkä,
Pieksänmaa

Personal Deputy Members:

Leena Koponen,
Muurame

Pekka Heikkinen,
Tuusula,

Personal Deputy Members:

Raimo Korjus,
Kotka

Annina Lehtiö-Vainio,
Turku

Markku Harju,
Kemijärvi

Kari Heikkilä,
Miehikkälä

Jouko Luukkonen,
Haapavesi

Sinikka Kangas,
Salla

Olli Viitasaari,
Lempäälä

Jukka Vilén,
Kemi

Päivi Norhio,
Kotka

Armi Salo-Oksa,
Mikkeli

Flemming Bergh,
Kirkkonummi

Gun Kapténs,
Luoto



Information about the Annual Report

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

One example is the City of Ylöjärvi, where the Municipal Guarantee Board has indirectly participated in financing investments of the City. The illustrations in this annual report are based on photographs taken at City Hall of Ylöjärvi.

Municipal Guarantee Board

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