INTERIM REPORT

March 31, 2004

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Kuntarahoitus
MUNICIPALITY FINANCE

Managing Director's review

The first quarter of the new financial year at Municipality Finance was much like that of last year. Despite a slightly slower start than usual, the brisk growth rate typical of this time of the year was reached by the end of March.

Widely recognized zero-risk weighting

For capital adequacy purposes, debt instruments issued by Municipality Finance and guaranteed by the Finnish Municipal Guarantee Board have zero risk under Finnish law. Many international investors already accept this zero-risk weighting of the bonds issued by Municipality Finance. Further confirmation of this was received in March, when the German financial market authorities confirmed in writing that Municipality Finance issues guaranteed by the Finnish Municipal Guarantee Board had been given the lowest possible risk weighting. Similar confirmation has been received earlier from the Banque de France.

Steady growth and increasing competition

The record low interest rates of the loan market are evident in tougher competition between financial institutions and in tendering practices which depart from the standard. In a situation where municipal sector borrowing is clearly on the increase, the long-term effects of the costs of these loans will be significant if the economy enters an upturn as predicted. Hence effective protection against any growth in loan costs caused by rising interest rates will become increasingly important.

Despite intense competition, Municipality Finance has been successful in tendering competitions between municipal lenders. Municipality Finance won 45 per cent of the competitive tendering in which it participated during the first quarter.

Interest-subsidized loans to become a competitive form of housing finance

As expected, the Government has improved the conditions for interest-subsidized loans for construction of rented and owner-occupied housing. The decision is in line with the Government's housing policy aim of raising the percentage of interest-subsidized loans to 60 per cent of State-subsidized social housing production over the next few years.

This reform makes interest-subsidized loans a competitive alternative to State housing loans (ARAVA loans).

Volatile markets reflect economic uncertainty

Interest rates were falling overall during the first quarter. The euro zone has largely followed economic trends in the USA, where interest rates were brought down by factors such as low employment figures and a slumping consumer confidence index. The fall in interest rates was furthered by weak economic trends in the euro zone and the strong euro. At the time of writing, the outlook for both the USA and the euro zone is cautiously positive.

Helsinki, April 29, 2004

Pekka Averio
Managing Director

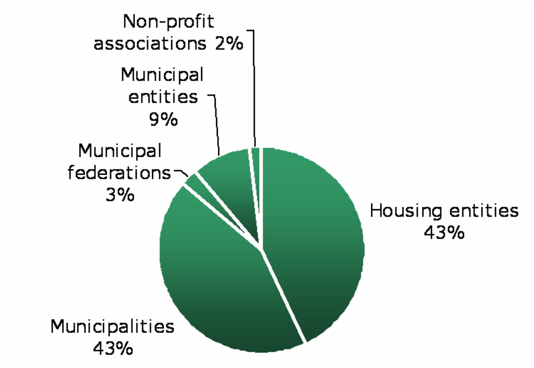
At the end of March, Municipality Finance's balance sheet amounted to EUR 4,736.0 million (March 31, 2003: EUR 4,153.9 million). The profit for January-March was EUR 1.0 million (Jan 1-March 31, 2003: EUR 1.0 million). The company's long-term loan portfolio stood at EUR 3,773.6 million, which is a 2% increase on the end of 2003.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 3,773.6 million (March 31, 2003: EUR 3,471.5 million). The loan portfolio increased by 2% on the end of 2003 and by 9% on the end of March 2003.

In January-March, EUR 158.5 million in long-term loans were withdrawn (Jan 1-March 31, 2003: EUR 129.2 million). At the end of March about EUR 106.9 million in offers had also been accepted (March 31, 2003: EUR 133.2 million). The company won about 45% of its bidding during the first quarter.

The demand for loans was much higher than during the first quarter of last year. New long-term loans in 2004 are expected to reach EUR 800 million as against EUR 691 million in 2003.



Lending by borrower types on March 31, 2004

Funding

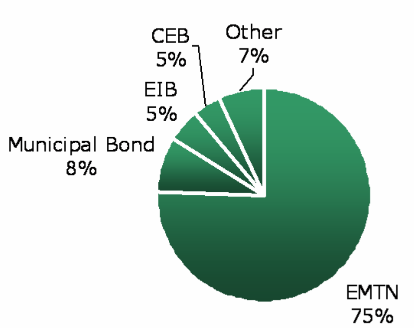
Funding by Municipality Finance is based on several key capital markets, mainly within the following debt programmes:

EMTN	EUR 2,250,000,000
Domestic debt programme	EUR 500,000,000
Treasury Bill programme	EUR 500,000,000

In January-March, the company acquired EUR 236.8 million (Jan 1-March 31, 2003: EUR 173.7 million) in long-term funding. Debt instruments under the Treasury Bill programme were issued for a total of EUR 304.3 million during the financial period (January 1-March 31, 2003: EUR 234.3 million). Total funding at the end of March stood at EUR 4,527.3 million (March 31, 2003: EUR 3,969.5 million). The euro was used in 57% of the funding; 43% were denominated in other currencies.

Three Municipal Bonds were issued. OP-ryhmä member banks and Okopankki Oyj branches joined the network at the beginning of the year, thereby increasing the number of distribution channels for Municipal Bonds. The distribution network now consists of 1,200 bank branches.

The bulk of international funding again came from Japan's market, with the exception of a few individual arrangements made in the euro market.



Long-term funding sources on March 31, 2004

Risk management and internal control

Decisions on the general principles of Municipality Finance's risk management are taken by the Board of Directors and implemented by the Managing Director, who is assisted by the Board of Management. Actual risk management and related supervisory functions are separate. The company's risk standing is monitored regularly by the Board of Management and the Board of Directors on the basis of limits reporting. Derivative instruments are used solely for hedging. The company is fully protected against foreign exchange risks. All funding in foreign currencies is converted into euros through derivative contracts.

Loans can be granted directly to Finnish municipalities and joint municipal boards without separate collateral. For other loans, an absolute guarantee or deficiency guarantee issued by a municipality or a joint municipal board, or a State deficiency guarantee is acceptable. Because of these requirements, the loans granted are considered zero-risk for purposes of calculating the company's capital adequacy.

In credit risk management, principles and limits approved by the Board of Directors and based on external ratings are applied when choosing counterparties. Counterparty risk is monitored using the real mark to market method.

The Municipality Finance Board of Directors has set limits on the following market risks:
- currency position risk
- refinancing risk/sustainability of financing
- refinancing gap
- interest rate risk based on duration
- minimum and maximum amounts of liquid assets

Apart from this, the management receives monthly interest rate sensitivity analyses and value-at-risk calculations.

The company has access to altogether EUR 140 million in arrangements to safeguard its liquidity.

Internal auditing has been outsourced. Competitive tenders for the company's internal auditing were invited at the end of 2003. Deloitte Touche Oy were selected to perform the internal auditing as of the beginning of 2004. These duties were previously carried out by Authorized Public Accountants Suomen Tilintarkastuskeskus Oy.

Capital adequacy and own funds

Municipal Finance's capital adequacy on March 31, 2004 was 53.70% (March 31, 2003: 65.97%). Capital adequacy is affected by the volume of funds obtained directly via advance funding and invested in debt securities before lending to customers.

The company has never had any non-performing loans or credit losses.

On March 31, 2004, share capital stood at EUR 16.5 million. Own funds totalled EUR 92.4 million.

Credit ratings

The company's credit ratings have been confirmed the best possible:

	Long-term funding	Short-term funding	Outlook
Moody's Investors Service	Aaa	P1	stable
Standard & Poor's	AAA	A-1+	stable

Operating result

Company performance in the first quarter was still good. The profit before appropriations and taxes for the period January 1 to March 31, 2004 came to EUR 1.0 million against EUR 1.0 million for the corresponding period in 2003. In 2003, the profit before appropriations and taxes was EUR 4.0 million for the whole financial year.

Net income from financial operations for the first quarter was EUR 3.0 million (Jan 1-March 31, 2003: EUR 2.73 million).

The net income of EUR 6,526 (Jan 1-March 31, 2003: EUR 11,306) from securities transactions and foreign exchange dealing comprised profits from the sale of debt securities. Assets from advance funding were invested in these instruments before the money was issued in loans to customers.

An entry of EUR 1.0 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance had 29 employees on March 31, 2004.

As stipulated in the Articles of Association, the Board of Directors has nine members.

Members of the Board of Directors
(Main duties outside the company)

- Chairman *Risto Parjanne* (Managing Director, Association of Local and Regional Authorities)
- Vice Chairman *Timo Honkala* (Deputy Mayor, City of Helsinki)
- *Juhani Alanen* (Deputy Mayor, City of Mikkeli)
- *Esa Katajamäki* (Director of Finance and Planning, City of Oulu)
- *Jouko Lehmusto* (Director of Administration, City of Turku)
- *Eva Liljeblom* (Professor, Swedish School of Economics and Business Administration)
- *Kari Nars* (D.Sc.(Econ. & Bus.Adm.), Helsinki)
- *Raija Peltonen* (Municipal Manager, Municipality of Hartola)
- *Timo Viherkenttä* (Deputy Managing Director, Local Government Pensions Institution)

The company's Managing Director is *Pekka Averio* and the Deputy Managing Director *Jukka Reijonen* (funding and treasury). Both belong to the Board of Management, which also includes Credit Director *Harri Hiltunen* (lending, marketing, communications), Director of Financial Administration *Marjo Tomminen* (finance and personnel administration) and Director *Jarkko Vuorenmaa* (back office and IT management).

The Annual General Meeting elected KPMG Wideri Oy Ab as company auditors, with Mikael Leskinen, Authorized Public Accountant, as senior responsible auditor.

Profit and loss account

	Jan 1 – Mar 31, 2004	Jan 1 – Mar 31, 2003	Jan 1 - Dec 31, 2003
Interest income	29,460,069.85	35,844,657.20	128,622,247.68
Net income from leasing operations	0.00	10.97	393.34
Interest expenses	-26,493,289.50	-33,111,008,42	-117,140,772.72
NET INCOME FROM FINANCIAL OPERATIONS	**2,966,780.35**	**2,733,659.75**	**11,481,868.30**
Commission income	0.00	0.00	8,180.00
Comission expenses	-514,186.99	-460,048.74	-2,066,323.04
Net income from securities transactions and foreign exchange dealing	6,526.03	11,305.79	24,436.89
Other operating income	19,753.27	19,588.87	35,707.58
Administrative expenses			
Staff costs			
Salaries and fees	-418,685.40	-389,328.08	-1,696,461.85
Staff-related costs			
Pension costs	-70,529.99	-59,945.96	-286,687.27
Other staff-related expenses	-48,142.72	-36,191.89	-126,984.03
Other administrative expenses	-376,991.20	-297,786.28	-1,352,589.97
Total administrative expenses	-914,349.31	-783,252.21	-3,462,723.12
Depreciation and write-downs on tangible and intangible assets	-122,452.16	-107,349.76	-464,871.81
Other operating expenses	-395,374.06	-366,794.39	-1,511,053.57
NET OPERATING PROFIT	**1,046,697.13**	**1,047,109.31**	**4,045,221.23**
PROFIT BEFORE APPROPRIATIONS AND TAXES	**1,046,697.13**	**1,047,109.31**	**4,045,221.23**
Appropriations *)	-1,038,000.00	-1,040,000.00	-4,013,000.00
Income taxes	-5,762.46	-5,876.28	-28,834.41
PROFIT FOR THE FINANCIAL YEAR	**2,934.67**	**1,233.03**	**3,386.82**

*) Appropriations: Voluntary provisions affecting taxation for the period have been entered under the profit for each quarter.

Key indicators

	Mar 31, 2004	Mar 31, 2003	Dec 31, 2003
Turnover, EURm	29.5	35.9	128.7
Net operating profit, EUR million	1.0	1.0	4.0
% of turnover	3.55	2.92	3.14
Balance sheet total, EUR million	4,736.0	4,153.9	4,643.6
Return on equity (ROE), %	7.44	8.23	7.28
Yield-expense ratio	1.54	1.61	1.54

Turnover consists of income from interests, leasing operations, commissions, net income from securities transactions and foreign exchange dealing and other operating income.

Return on equity (ROE) is calculated as follows:

$$\frac{\text{net operating profit - taxes}}{\text{equity capital + voluntary provisions minus deferred tax liabilities (average of year beginning and year end)}} \times 100$$

Yield-expense ratio:

$$\frac{\text{net income from financial operations + commission income + net income from securities transactions and foreign exchange dealing + other operating income}}{\text{commission expenses + administrative expenses + depreciation + other operating expenses}}$$

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Balance sheet

	Mar 31, 2004	Mar 31, 2003	Dec 31, 2003
ASSETS			
Liquid assets			
Cash	1,223.15	945.10	1,401.80
Liquid assets	3,799,098.77	4,282,088.24	3,893,280.53
Debt securities eligible for refinancing with other banks	445,995,803.70	349,371,291.21	510,740,362.84
Claims on credit institutions			
Repayable on demand	644,111.49	1,229,706.29	762,316.60
Other	27,508,021.34	94,288,260.01	8,639,443.61
Claims on the public and public sector entities	3,773,612,217.12	3,471,498,286.61	3,687,127,827.63
Leasing assets	0.00	1,665.35	0.00
Debt securities			
On public sector entities	165,667,484.58	77,037,350.74	111,328,355.83
Other	225,661,070.55	49,983,426.61	247,656,091.59
Shares and participations	24,219.06	24,219.06	24,219.06
Intangible assets	936,545.07	755,753.91	953,308.06
Tangible assets			
Other tangible assets	1,153,973.25	1,240,513.16	1,198,413.13
Other assets	0.00	30,530,503.88	0.00
Accrued income and prepayments	90,947,449.54	73,678,841.38	71,271,485.63
TOTAL ASSETS	**4,735,951,217.62**	**4,153,922,851.55**	**4,643,596,506.31**
LIABILITIES			
Liabilities			
Liabilities to credit institutions and central banks			
Credit institutions			
Other	476,679,308.72	468,614,763.66	424,619,622.28
Liabilities to the public and public sector entities	238,270,984.88	134,341,630.00	187,328,562.38
Debt securities issued to the public			
Bonds	3,557,671,581.31	3,142,253,415.74	3,526,708,736.15
Other	254,632,824.90	224,285,153.89	247,316,243.22
Other liabilities	5,967,644.56	4,737,699.74	70,526,538.62
Accrued expenses and deferred income	101,004,948.11	87,777,653.68	86,413,813.19
Subordinated liabilities	33,818,792.65	33,818,792.65	33,818,792.65
Appropriations			
Voluntary provisions	26,336,544.90	22,325,544.90	25,298,544.90
Equity capital			
Share capital			
Share capital	16,522,000.00	16,522,000.00	16,522,000.00
Other restricted reserves			
Reserve fund	276,711.01	276,711.01	276,711.01
Capital loans			
Capital investment	1,345,503.44	1,345,503.44	1,345,503.44
Capital loans	22,500,000.00	16,704,698.16	22,500,000.00
Profit brought forward	921,438.47	918,051.65	918,051.65
Profit for the financial year	2,934.67	1,233.03	3,386.82
TOTAL LIABILITIES	**4,735,951,217.62**	**4,153,922,851.55**	**4,643,596,506.31**
Irrevocable commitments given in favour of a customer	349,362,307.00	266,258,297.56	146,053,516.00

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Off-balance-sheet commitments and capital adequacy

(EUR 1,000)
DERIVATIVE CONTRACTS

	Values of underlying instruments, for hedging purposes		
	Mar 31, 2004	***Mar 31, 2003***	***Dec 31, 2003***
Interest rate derivatives			
Interest rate swaps	4,926,281	3,798,283	4,792,445
Currency derivatives			
Interest rate and currency swaps	1,765,831	1,504,607	1,620,336
Index linked derivatives	48,682	103,112	32,839

	Equivalent credit value of derivatives (without netting)		
	Mar 31, 2004	***Mar 31, 2003***	***Dec 31, 2003***
Interest rate derivative contracts	203,724	179,982	151,356
Currency derivative contracts	170,427	146,128	137,886
Index linked derivatives	5,881	8,342	4,461

LIABILITIES AND SECURITY GIVEN

	Mar 31, 2004	***Mar 31, 2003***	***Dec 31, 2003***
Bonds pledged to the Local Government Pensions Institution	44,889	58,375	55,990
Bonds pledged to the Municipal Guarantee Board	3,719,871	2,474,586	2,674,186
Debt securities pledged to the Municipal Guarantee Board	664,872	395,933	749,363

CAPITAL ADEQUACY

	Mar 31, 2004	***Mar 31, 2003***	***Dec 31, 2003***
Own funds			
Original own funds including capital loans	59,527	50,880	59,527
Deductions, intangible assets	-937	-756	-953
Additional own funds (net)	33,819	33,819	33,819
Total	92,409	83,943	92,393
Risk-weighted claims, investments and off-balance-sheet commitments	172,096	127,241	177,797
Capital adequacy ratio	**53.70%**	**65.97%**	**51.97%**
Ratio of original own funds against risk-weighted claims, investments and off-balance-sheet commitments	34.04%	39.39%	32.94%

The profit of the financial period by March 3, 2004, as stated in this interim report, is not included in the original own funds. Latent tax debt has been deducted from voluntary provisions when calculating own funds for the capital adequacy ratio. This interim report has not been audited and no separate auditor’s report has been prepared.

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