



# INTERIM REPORT

March 31, 2005

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Municipality Finance has had a lively first three months to the year. The demand for loans has exceeded expectations and the company's long-term loan portfolio has increased by 3.1% from the end of 2004. Compared with the corresponding period one year previously, the growth is 10.1%.

The balance sheet total at the end of the period went up to EUR 5,641.3 million. The operating profit remained at the level of the corresponding period last year (EUR 1.0 million).

### **Lively funding**

The company acquired EUR 357.2 million in long-term funding during the first quarter, whereas in the corresponding period one year earlier the figure was EUR 236.8 million. The company's total funding at the end of the period was EUR 5,344.2 million. Most of the funding has still been done on the Japanese market. The amount of the company's EMTN debt programme was raised from EUR 3 billion to EUR 5 billion on April 8, 2005.

Three Municipal Bonds were issued in the first quarter, two of them specifically for institutional investors and one for the general public. More than EUR 30 million were raised through the bonds.

### **Growth in spite of intense competition**

The continuing low interest rate level on the loan market can be seen in the intensifying competition among financial institutions. The loan portfolios of municipalities are also growing. The interpretation and comparison of the more complicated loan offers and conditions require professional expertise in order to assess the actual loan costs competently.

### **Advisory services advance**

Financial advisory services initiated by Municipality Finance in 2004 have advanced as hoped. There have been several commissions. The growing demand has shown that the service was started at just the right time. The fragmentation of municipalities' service structure and the contraction of resources will increase the need for advisory services further.

Helsinki, April 28, 2005

Pekka Averio

Managing director

At the end of March Municipality Finance's balance sheet totalled EUR 5,641.3 million (March 31, 2004: EUR 4,736.0 million). The operating profit for January-March was EUR 1.0 million (January 1-March 31, 2004: EUR 1.0 million). The company's long-term loan portfolio stood at EUR 4,156.1 million, an increase of 3.1% from the end of 2004.

### Lending

Municipality Finance's long-term loan portfolio stood at EUR 4,156.1 million at the end of March (March 31, 2004: EUR 3,773.6 million). The loan portfolio increased by 3.1% from the end of 2004 and by 10.1% from the end of March 2004.

In January-March EUR 199.5 million in long-term loans were withdrawn (January 1-March 31, 2004: EUR 158.5 million). At the end of March about EUR 143.9 million in offers had also been accepted (March 31, 2004: EUR 128.2 million). During 2005 the company has won a little over 55% of its bidding.

Demand for loans at the beginning of the year was livelier than in the previous year. About 24% more invitations to tender came by the end of March compared with the corresponding period in 2004. In January-March invitations to tender worth EUR 694 million were received (January 1-March 31, 2004: EUR 560 million).

### Funding

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

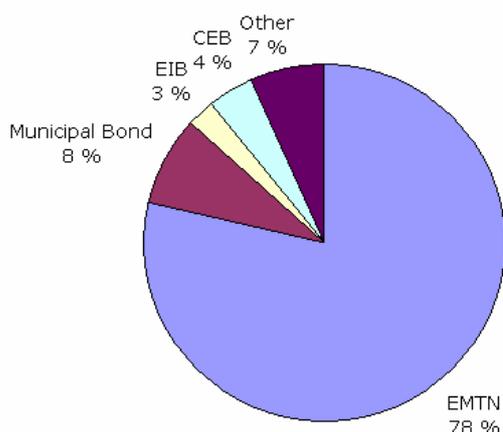
EMTN	EUR 5,000,000,000
Domestic debt programme	EUR 500,000,000
Treasury Bill programme	EUR 500,000,000

Municipality Finance updated the EMTN programme to EUR 5,000,000,000 on April 4, 2005.

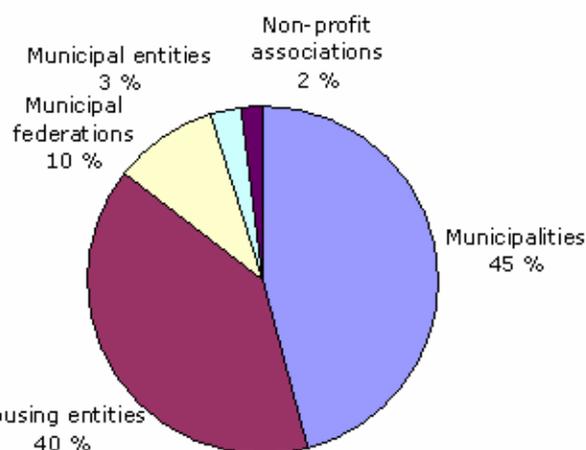
In January-March the company acquired EUR 357.2 million in long-term funding (January 1-March 31, 2004: EUR 236.8 million). Short-term debt instruments under the Treasury Bill programme were issued for a total of EUR 385.2 million during the financial period (January 1-March 31, 2004: EUR 304.3 million). Total funding at the end of March stood at EUR 5,344.2 million (March 31, 2004: EUR 4,527.3 million). 55% of this was in the euro and 45% was denominated in other currencies.

Three Municipal Bonds were issued.

Much of the funding was done on the Japanese market. At the year 2005 has been made more funding arrangements as year 2004.



Lending by borrower types on Mar 31, 2005



Long-term funding sources on Mar 31, 2005

## 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.

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. Deloitte Touche Oy performs the internal auditing.

## 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

## Capital adequacy and own funds

Municipality Finance's capital adequacy on March 31, 2005 was 34.76% (March 31, 2004: 53.70%). 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.

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.

The company's share capital on March 31, 2005 stood at EUR 16.5 million. Own funds totalled EUR 96.1 million.

## Operating result

Municipality Finance's results for the period under review were as budgeted. The profit before appropriations and taxes for the period January 1-March 31, 2005 was EUR 1.0 million (January 1-March 31, 2004: EUR 1.0 million).

Net income from financial operations was EUR 3.10 million (January 1-March 31, 2004: EUR 2.97 million). The net income of EUR 29,566 from available-for-sale financial assets comprised profits from the sale of debt securities (January 1-March 31, 2004: EUR 6,187). Assets from advance funding are invested in these instruments before the money is issued in loans to customers.

## Personnel and administration

Municipality Finance's personnel is 31.

In accordance with the Articles of Association, Municipality Finance's Board of Directors has nine members.

The Board members are (main job outside the company given in brackets):

- Asko Koskinen (Director, City of Tampere) as Chairman
- Timo Viherkenttä (Deputy Managing Director, Local Government Pensions Institution)
- Juhani Alanen (Deputy Mayor, City of Mikkeli)
- Esa Katajamäki (Director of Finance and Planning, City of Oulu)
- Tapio Korhonen (Finance Director, City of Helsinki)
- Jouko Lehmusto (Head of City Office, City of Turku)
- Eva Liljebloom (Professor, Swedish School of Economics and Business Administration, Helsinki)
- Kari Nars (D.Sc.(Econ & Bus.Adm.), Advisor to the Council of Europe Development Bank, Helsinki)
- Raija Peltonen (Municipal Manager, Municipality of Hartola)

The company's Board of Management includes

- Pekka Averio, Managing Director
- Jukka Reijonen, Deputy Managing Director, Customer finance and funding
- Marjo Tomminen, Director, Risk assesment and financial planning
- Kimmo Lehto, Director, Financial advisory services

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

## Profit and loss account

	1.1. - 31.3.2005	1.1. - 31.3.2004	1.1. - 31.12.2004
Interest income	33,487,886.33	29,460,069.85	122,669,072.90
Interest expenses	-30,388,506.78	-26,493,289.50	-110,861,240.39
<b>NET INCOME FROM FINANCIAL OPERATIONS</b>	<b>3,099,379.55</b>	<b>2,966,780.35</b>	<b>11,807,832.51</b>
Commission expenses	-563,666.23	-514,186.99	-2,383,824.15
Net income from securities transactions and foreign exchange dealing	534.84	338.80	207.83
Net income from available-for-sale financial assets	29,565.50	6,187.23	78,078.12
Other operating income	21,264.81	19,753.27	85,110.69
Administrative expenses			
Staff costs			
Salaries and fees	-475,723.72	-418,685.40	-1,890,289.24
Staff-related costs			
Pension costs	-76,336.55	-70,529.99	-319,421.01
Other staff-related costs	-48,847.95	-48,142.72	-153,543.21
Other administrative expenses	-361,555.65	-376,991.20	-1,693,947.22
Total administrative expenses	-962,463.87	-914,349.31	-4,057,200.68
Depreciation and write-downs on tangible and intangible assets	-149,975.85	-122,452.16	-535,192.54
Other operating expenses	-468,482.35	-395,374.06	-1,573,889.30
<b>NET OPERATING PROFIT</b>	<b>1,006,156.40</b>	<b>1,046,697.13</b>	<b>3,421,122.48</b>
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>1,006,156.40</b>	<b>1,046,697.13</b>	<b>3,421,122.48</b>
Appropriations *)	-997,000.00	-1,038,000.00	-3,389,455.10
Income taxes	-5,270.09	-5,762.46	-28,077.66
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>3,886.31</b>	<b>2,934.67</b>	<b>3,589.72</b>

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

## Key indicators

	31.3.2005	31.3.2004	31.12.2004
Turnover, EUR million	33.5	29.5	122.8
Net operating profit, EUR million	1.0	1.0	3.4
% of turnover	3.00	3.55	2.79
Balance sheet total, EUR million	5,641.3	4,736.0	5,367.6
Return on equity (ROE), %	6.31	7.44	5.55
Yield-expense ratio	1.47	1.54	1.40

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:

net operating profit - taxes  
----- \* 100  
equity capital + voluntary provisions minus deferred tax liabilities  
(average of year beginning and year end)

Yield-expense ratio:

net income from financial operations + commission income + net income from securities transactions and foreign exchange dealing + other operating income  
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commission expenses + administrative expenses + depreciation + other operating expenses

## Balance sheet

<b>ASSETS</b>	<b>31.3.2005</b>	<b>31.3.2004</b>	<b>31.12.2004</b>
Liquid assets			
Cash	1,421.60	1,223.15	1,277.80
Liquid assets	3,260,551.61	3,799,098.77	3,997,083.11
Debt securities eligible for refinancing with central banks	611,320,426.46	445,995,803.70	588,846,522.22
Claims on credit institutions			
Repayable on demand	161,437.81	644,111.49	478,038.19
Other	85,243,155.45	27,508,021.34	59,778,439.44
Claims on the public and public sector entities	4,156,059,822.93	3,773,612,217.12	4,029,574,609.44
Debt securities			
Public sector entities	264,831,425.69	165,667,484.58	195,645,149.46
Other	396,666,928.95	225,661,070.55	389,939,339.30
Shares and participations	24,219.06	24,219.06	24,219.06
Derivative contracts	20,084,174.18	0.00	15,035,316.12
Intangible assets	839,941.38	936,545.07	901,890.21
Tangible assets			
Other tangible assets	1,352,584.89	1,153,973.25	1,264,260.42
Accrued income and prepayments	101,445,042.11	90,947,449.54	82,070,418.51
<b>TOTAL ASSETS</b>	<b><u>5,641,291,132.12</u></b>	<b><u>4,735,951,217.62</u></b>	<b><u>5,367,556,563.28</u></b>

<b>LIABILITIES</b>	<b>31.3.2005</b>	<b>31.3.2004</b>	<b>31.12.2004</b>
<b>LIABILITIES</b>			
Liabilities to credit institutions and central banks			
To credit institutions			
Other	384,428,192.35	476,679,308.72	452,247,106.73
Liabilities to the public and public sector entities	312,367,890.98	238,270,984.88	311,929,783.28
Debt securities issued to the public			
Bonds	4,351,925,586.59	3,557,671,581.31	4,016,308,974.61
Other	295,453,848.42	254,632,824.90	273,934,258.28
Derivative contracts and other trading liabilities	82,849,416.31	5,272,754.44	115,340,711.06
Other liabilities	746,623.26	694,890.12	596,287.02
Accrued expenses and deferred income	108,102,620.61	101,004,948.11	93,123,407.01
Subordinated liabilities	57,664,296.09	57,664,296.09	57,664,296.09
<b>APPROPRIATIONS</b>			
Voluntary provisions	29,685,000.00	26,336,544.90	28,688,000.00
<b>EQUITY CAPITAL</b>			
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
Non-restricted reserves			
Fair value reserve	340,032.00	0.00	0.00
Profit brought forward	925,028.19	921,438.47	921,438.47
Profit for the financial year	3,886.31	2,934.67	3,589.72
<b>TOTAL LIABILITIES</b>	<b><u>5,641,291,132.12</u></b>	<b><u>4,735,951,217.62</u></b>	<b><u>5,367,556,563.28</u></b>

Irrevocable commitments given in favour of a customer	481,061,681.00	349,362,307.00	246,197,466.00
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