INTERIM REPORT
March 31, 2006

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Kuntarahoitus
MUNICIPALITY FINANCE

The first quarter of Municipality Finance's current financial year has started briskly. The demand for loans has continued to grow, and the company's long-term loan portfolio has increased by 2.5% from the end of the previous financial year. The volume of loans granted now totalled EUR 4,706.7 million compared with a corresponding figure of EUR 4,593.6 million at the end of the financial year.

The balance sheet total at the end of the period was EUR 6,188.1 million compared with EUR 5,641.3 million exactly one year earlier. The operating profit (EUR 1.5 million) showed a increase over the previous equivalent period (EUR 1.0 million).

New openings in funding

The company acquired EUR 325.6 million in new long-term funding during the first quarter of the year, compared with EUR 357.2 million in the equivalent period one year ago. Most of the acquisition of funding is still carried out on Asian markets, particularly Japan.

During the first quarter of the financial year the company made its way to the Australian capital market. A debt programme denominated in the Australian dollar has been set up for this purpose. Investors there gave the company an enthusiastic welcome to the market. With this expansion the company is endeavouring to prepare itself for changes in the financial markets and follow market trends actively.

Interest rates on the rise

Activities this year will probably be affected by a distinct rise in interest rates, which has already started. This can be expected to continue, so now is still a highly opportune moment to change to loans with fixed as opposed to floating interest rates.

Local government reform awaited

The completion of the skeleton law concerning the local government and service, which is now in progress, can be expected by the summer, although the various parties' views about the solution models are still divergent. For local government finances the best solution would be one that strengthens the municipalities' economy and promotes their solvency. The solutions should not give rise to any distinct inequality among municipalities. A financially healthy municipality is not only a benefit to each of its inhabitants but also the basis of strong, integrated local government finances.

April 28, 2006

Pekka Averio
Managing Director

At the end of March Municipality Finance's balance sheet totalled EUR 6,188.1 million (March 31, 2005: EUR 5,641.3 million). The operating profit for January-March was EUR 1.5 million (January 1-March 31, 2005: EUR 1.0 million). The company's long-term loan portfolio stood at EUR 4,706.7 million, an increase of 2.5% from the end of 2005.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 4,706.7 million at the end of March (March 31, 2005: EUR 4,156.1 million). The loan portfolio increased by 2.5% from the end of 2005 and by 13.2% from the end of March 2005.

In January-March 2006 EUR 199.9 million in long-term loans were withdrawn (January 1-March 31, 2005: EUR 199.5 million). At the end of March about EUR 237.8 million in offers had also been accepted (March 31, 2005 EUR 143.9 million). During 2006 the company's marketshare has been over 47% of new loans.

The demand for loans in the initial part of the year was similar to that in the corresponding period one year earlier. Demand has remained strong, particularly in the municipality and municipal federations segment, but fallen slightly for housing corporations.

Funding

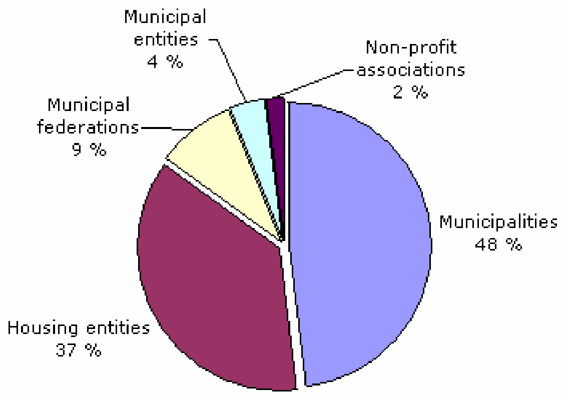
Funding by Municipality Finance is based on several key capital markets, mainly within the following debt programmes:

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

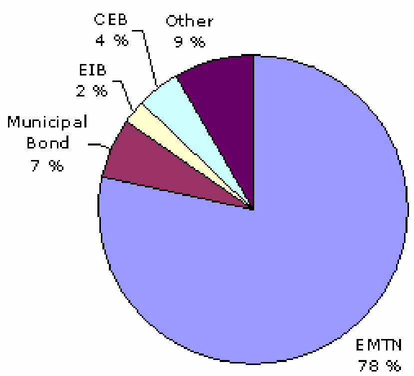
In January-March the company acquired EUR 325.6 million in long-term funding (January 1-March 31, 2005: EUR 357.2 million). Short-term debt instruments under the Treasury Bill programme were issued for a total of EUR 413.7 million during the financial period (January 1-March 31, 2005: EUR 385.2 million). Total funding at the end of March stood at EUR 5,847.1 million (March 31, 2005: EUR 5,344.2 million). 51.8% of this was in the euro and 48.2% was denominated in other currencies.

Two Municipal Bonds were issued.

The main emphasis of Municipality Finance's borrowing arrangements in 2006 has still been on Japan. In addition to structured issues, the company has made one funding arrangement directly with a Japanese investor. The company also made two arrangements in Germany in January-March. Municipality Finance set up a debt programme of AUD 500 million in Australia in March.



Lending by borrower types on Mar 31, 2006



Long-term funding sources on Mar 31, 2006

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:
- VAR
- refinancing risk/sustainability of financing
- refinancing gap
- interest rate risk based on duration
- minimum and maximum amounts of liquid assets
- currency position risk.

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, 2006 was 30.07% (March 31, 2005: 34.76%). 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.

The company's share capital on March 31, 2006 stood at EUR 16.5 million. Own funds totalled EUR 98.7 million.

Operating result

Municipality Finance's results for the period under review were better than same period previous year. The profit before appropriations and taxes for the period January 1-March 31, 2006 was EUR 1.5 million (January 1-March 31, 2005: EUR 1.0 million).

Net income from financial operations was EUR 3.6 million (January 1-March 31, 2005: EUR 3.1 million). The net income of EUR 0.1 million from available-for-sale financial assets comprised profits from the sale of debt securities (January 1-March 31, 2005: EUR 0.03 million). Assets from advance funding are invested in these instruments before the money is issued in loans to customers.

An entry of EUR 1.4 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance's personnel is 33.

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 Liljeblom (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
- Esa Kallio, Director
- Kimmo Lehto, Director
- Marjo Tomminen, Director

The Annual General Meeting elected KPMG Oy Ab as company auditors, with Raija-Leena Hankonen, Authorized Public Accountant, as senior responsible auditor.

Profit and loss account

	1.1. - 31.3.2006	1.1. - 31.3.2005	1.1. - 31.12.2005
Interest income	39,773,420.43	33,487,886.33	142,004,562.84
Interest expenses	-36,152,121.84	-30,388,506.78	-127,919,620.65
NET INCOME FROM FINANCIAL OPERATIONS	**3,621,298.59**	**3,099,379.55**	**14,084,942.19**
Commission expenses	-592,775.23	-563,666.23	-2,421,764.72
Net income from securities transactions and foreign exchange dealing	4,751.42	534.84	3,843.71
Net income from available-for-sale financial assets	91,495.03	29,565.50	543,622.94
Other operating income	56,650.00	21,264.81	171,999.93
Administrative expenses			
Staff costs			
Salaries and fees	-529,845.38	-475,723.72	-2,165,167.98
Staff-related costs			
Pension costs	-161,260.09	-76,336.55	-379,153.79
Other staff-related costs	-47,997.24	-48,847.95	-179,197.79
Other administrative expenses	-398,723.05	-361,555.65	-1,643,509.65
Total administrative expenses	-1,137,825.76	-962,463.87	-4,367,029.21
Depreciation and write-downs on tangible and intangible assets	-140,423.32	-149,975.85	-587,716.74
Other operating expenses	-449,629.98	-468,482.35	-1,796,295.48
NET OPERATING PROFIT	**1,453,540.75**	**1,006,156.40**	**5,631,602.62**
PROFIT BEFORE APPROPRIATIONS AND TAXES	**1,453,540.75**	**1,006,156.40**	**5,631,602.62**
Appropriations *)	-1,443,000.00	-997,000.00	-5,602,000.00
Income taxes	-6,149.61	-5,270.09	-25,241.78
PROFIT FOR THE FINANCIAL YEAR	**4,391.14**	**3,886.31**	**4,360.84**

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

Key indicators

	31.3.2006	31.3.2005	31.12.2005
Turnover, EUR million	39.9	33.5	142.7
Net operating profit, EUR million	1.5	1.0	5.6
% of turnover	3.64	3.00	3.95
Balance sheet total, EUR million	6,188.1	5,641.3	6,050.2
Return on equity (ROE), %	8.71	6.31	8.76
Yield-expense ratio	1.63	1.47	1.61

Turnover consists of income from interests, leasing operations, commissions, net income from securities transactions and foreign exchange dealing, net income from available-for-sale financial assets and other operating income.

Return on equity (ROE) is calculcated 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 + net income from available-for-sale financial assets + other operating income
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commission expenses + administrative expenses + depreciation + other operating expenses

Balance sheet

ASSETS	31.3.2006	31.3.2005	31.12.2005
Liquid assets			
Cash	1,620.80	1,421.60	1,592.10
Liquid assets	4,829,959.54	3,260,551.61	3,251,294.09
Debt securities eligible for refinancing with central banks	828,807,902.26	611,320,426.46	835,050,650.92
Claims on credit institutions			
Repayable on demand	107,061.57	161,437.81	2,294,282.83
Other	58,360,667.39	85,243,155.45	21,197,171.03
Claims on the public and public sector entities	4,706,706,086.20	4,156,059,822.93	4,593,604,437.23
Debt securities			
Public sector entities	203,419,423.16	264,831,425.69	250,850,837.21
Other	227,762,449.95	396,666,928.95	205,403,186.40
Shares and participations	24,219.06	24,219.06	24,219.06
Derivative contracts	54,773,899.68	20,084,174.18	44,415,407.28
Intangible assets	645,271.70	839,941.38	698,484.27
Tangible assets			
Other tangible assets	1,055,490.93	1,352,584.89	1,121,907.40
Accrued income and prepayments	101,556,983.04	101,445,042.11	92,323,642.90
TOTAL ASSETS	**6,188,051,035.28**	**5,641,291,132.12**	**6,050,237,112.72**

LIABILITIES	31.3.2006	31.3.2005	31.12.2005
LIABILITIES			
Liabilities to credit institutions and central banks			
To credit institutions			
Other	394,193,965.15	384,428,192.35	421,512,441.84
Liabilities to the public and public sector entities	477,856,058.06	312,367,890.98	440,350,366.82
Debt securities issued to the public			
Bonds	4,619,106,982.98	4,351,925,586.59	4,532,385,528.87
Other	355,902,700.18	295,453,848.42	383,354,122.32
Derivative contracts and other trading liabilities	115,018,034.14	82,849,416.31	55,125,934.82
Other liabilities	906,080.29	746,623.26	2,651,879.53
Accrued expenses and deferred income	115,342,973.75	108,102,620.61	106,254,098.39
Subordinated liabilities	57,664,296.09	57,664,296.09	57,664,296.09
APPROPRIATIONS			
Voluntary provisions	35,733,000.00	29,685,000.00	34,290,000.00
EQUITY 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
Non-restricted reserves			
Fair value reserve	-1,405,546.54	340,032.00	-1,079,656.00
Profit brought forward	929,389.03	925,028.19	925,028.19
Profit for the financial year	4,391.14	3,886.31	4,360.84
TOTAL LIABILITIES	**6,188,051,035.28**	**5,641,291,132.12**	**6,050,237,112.72**
Irrevocable commitments given in favour of a customer	436,346,014.00	481,061,681.00	282,941,981.00

Off-balance-sheet commitments and capital adequacy

(EUR 1,000) **DERIVATIVE CONTRACTS**	Values of underlying instruments, for hedging purposes **31.3.2006**	**31.3.2005**	**31.12.2005**
Interest rate derivatives			
Interest rate swaps	7,194,616	5,683,919	6,877,907
Currency derivatives			
Interest rate and currency swaps	3,254,916	2,753,130	3,120,315
Index linked derivatives	57,480	114,306	57,480
Other derivatives			
Commodity linked derivatives	4,500	0	4,500

COMMITMENTS AND SECURITY GIVEN	**31.3.2006**	**31.3.2005**	**31.12.2005**
Bonds pledged to the Local Government Pensions Institution	40,119	42,504	40,119
Bonds pledged to the Municipal Guarantee Board	4,663,821	4,108,519	4,550,694
Debt securities pledged to the Municipal Guarantee Board	1,060,105	1,004,851	1,044,010

CAPITAL ADEQUACY	**31.3.2006**	**31.3.2005**	**31.12.2005**
Own funds			
Original own funds including capital loans	66,948	62,798	65,868
Deductions, intangible assets	-645	-840	-698
Additional own funds (net)	32,413	34,159	33,819
Total	98,716	96,117	98,989
Risk-weighted claims, investments and off-balance-sheet commitments	328,306	276,531	329,556
Capital adequacy ratio	**30.07 %**	**34.76 %**	**30.04 %**
Ratio of original own funds against risk-weighted claims, investments and off-balance sheet commitments	20.20 %	22.41 %	19.78 %

The profit of the financial period by March 31, 2006 as stated in this interim report, is not included in the original own funds.
In the calculation of the company's own funds used for the capital adequacy a latent tax liability calculated at a rate of 26 per cent has been deducted from the voluntary provisions.
This interim report has not been audited and no separate auditor's report has been prepared.