INTERIM REPORT

June 30, 2004

Table of contents

Kuntarahoitus
MUNICIPALITY FINANCE

The second quarter of Municipality Finance's current financial year has proceeded at the same steady growth rate as at the beginning of the year. During the entire first six months financial markets have given indications of increasing competition and lower interest margins. This, of course, benefits our customers; borrowing clearly increased during the spring.

Pressures for a rise in interest rates on the bond market

The first suggestions of a possible rise in interest rates at some time in the future are detectable on the market. The US Central Bank raised its central bank rate for the first time in four years. Long-term rates in the euro zone have adopted a wait-and-see stance, whereas short-term rates have been going up slightly.

Steady economic growth and higher inflation are increasing pressures for a rise in interest rates, which borrowers should take into account by protecting floating-rate loans. In many instances new loans are already tied to longer-term interest rates to a great extent. However, the situation in which interest rates favour customers will continue and margins have also been reduced for smaller loan amounts. While the markets wait for a rise in interest rates, consideration should be given to tying rates for loans to longer reference rates or fixed rates

Heightened competition on the lending side and low interest rates have increased banks' supply for municipalities in the form of a vast range of loan interest structures. Municipalities should look carefully into their advantageousness and long-term risks and ensure that the offers are fully comparable.

Operations

The number of invitations to tender, which showed a big increase over the previous year, shows how strained the municipal financial situation is. The growth of the company's lending portfolio has been slower than the market's in general. According to the company policy, company aims to secure the basic profitability of its operations in the long term.

The use of municipal commercial papers as the main tool for short-term financing for local authorities increased greatly during the period. Many new customers have discovered this form of financing, and old customers have raised the withdrawal limits allowed by their framework agreements with Municipality Finance.

Interest subsidized loans in trouble

The difficulties experienced by state-financed housing production can be seen directly in the low demand for interest subsidized loans, which is the result of the low demand for rented accommodation, poor availability of sites and high level of construction costs. Low interest rates are leading the demand for housing towards the owner-occupied market.

EU approves guarantees granted to Municipal Finance by the Municipal Guarantee Board

The EU Commission has decided not to oppose Finnish legislation enabling the Municipal Guarantee Board to grant guarantees to Municipal Finance's funding. The Commission states in its decision that Municipality Finance shall grant loans to its customers on favourable terms and in accordance with the EU's state subsidy regulations.

On the basis of the decision, Municipality Finance is an intra-governmental funding agency or a special credit institution. So Municipality Finance can provide funding for Finnish municipalities, municipal federations and other corporations under the municipalities' control for environmental investment, the development of the infrastructure and housing supply and services of benefit to everyone.

The decision clarifies and strengthens Municipality Finance's position on the domestic financial market even though its will not have any real effect on the operations, because it only reinforces the validity of the company's previous operating model.

The Commission's decision is in line with its earlier policy decisions about, for example, the operating preconditions of public financing institutions in Germany and Austria.

Helsinki, August 26, 2004

Pekka Averio
Managing Director

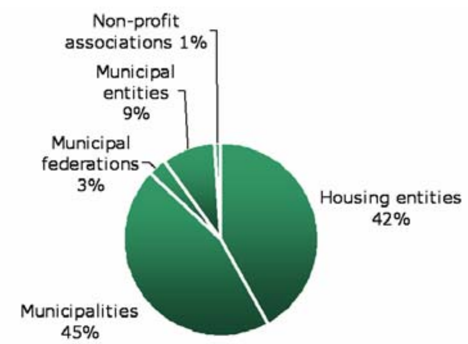
At the end of June, Municipality Finance's balance sheet amounted to EUR 4,870.1 million (June 30, 2003: EUR 4,574.4 million). The profit for January-June was EUR 2.0 million (Jan 1-June 30, 2003: EUR 2,3 million). The company's long-term loan portfolio stood at EUR 3,834.5 million, which is a 4% increase on the end of 2003.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 3,834.5 million (June 30, 2003: EUR 3,515.5 million). The loan portfolio increased by 4% on the end of 2003 and by 9% on the end of June 2003.

In January-June, EUR 327.1 million in long-term loans were withdrawn (Jan 1-June 30, 2003: EUR 267.1 million). At the end of June about EUR 112.8 million in offers had also been accepted (June 30, 2003: EUR 154.9 million). The company won about 30% of its bidding during the first quarter.

The demand for loans continued to be livelier than in the previous year. Because of a more competitive market situation the company's market share has fallen slightly. It is expected that long-term lending will total some EUR 650 to 700 million compared with the targeted EUR 800 million.



Lending by borrower types on June 30, 2004

Funding

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

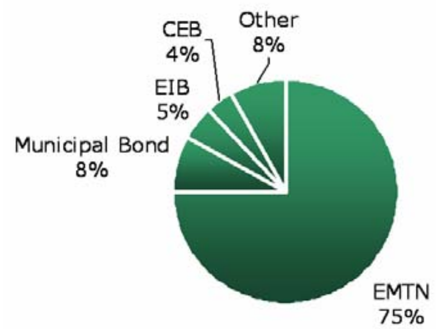
EMTN	EUR 3,000,000,000
Domestic debt programme	EUR 500,000,000
Treasury Bill programme	EUR 500,000,000

The EMTN programme was raised to EUR 3.0 billion when the programme was updated in June.

In January-June, the company acquired EUR 409.6 million (Jan 1-June 30, 2003: EUR 850.3 million) in long-term funding. Debt instruments under the Treasury Bill programme were issued for a total of EUR 520.3 million during the financial period (January 1-June 30, 2003: EUR 369.7 million). Total funding at the end of June stood at EUR 4,664.5 million (June 30, 2003: EUR 4,362.1 million). The euro was used in 62% of the funding; 38% were denominated in other currencies.

Seven Municipal Bonds were issued.

Funding in 2003 consisted mainly of several small structured arrangements on the Japanese market. This year the sizes of the funding arrangements have increased and loan times have been extended.



Long-term funding sources on June 30, 2004

Risk management

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.

The internal audit has been outsourced and is now being handled by Deloitte Touche Oy.

Capital adequacy and own funds

Municipal Finance's capital adequacy on June 30, 2004 was 54.50% (June 30, 2003: 41.05%). 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 June 30, 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

Municipality Finance's results for the first six months are as budgeted. The profit before appropriations and taxes for the period January 1 to June 30, 2004 came to EUR 2.0 million against EUR 2.3 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 half of the year was EUR 5.80 million (Jan 1-June 30, 2003: EUR 5.80 million).

The net income of EUR 78,271 (Jan 1-June 30, 2003: EUR 11,602) 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 2.0 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance had 30 employees on June 30, 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* (Head of the City Office, 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, market¬ing, 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

	1.1. - 30.6.2004	1.1. - 30.6.2003	1.1. - 31.12.2003
Interest income	58,777,387.76	67,648,125.22	128,622,247.68
Net income from leasing operations	0.00	100.61	393.34
Interest expenses	-52,972,584.25	-61,849,484.01	-117,140,772.72
NET INCOME FROM FINANCIAL OPERATIONS	**5,804,803.51**	**5,798,741.82**	**11,481,868.30**
Commission income	0.00	8,180.00	8,180.00
Commission expenses	-1,040,263.56	-1,050,934.96	-2,066,323.04
Net income from securities transactions and foreign exchange dealing	78,270.81	11,601.54	24,436.89
Other operating income	34,529.47	19,588.87	35,707.58
Administrative expenses			
Staff costs			
Salaries and fees	-841,236.88	-775,307.44	-1,696,461.85
Staff-related costs			
Pension costs	-133,088.83	-116,053.32	-286,687.27
Other staff-related costs	-76,513.68	-66,485.68	-126,984.03
Other administrative expenses	-831,902.45	-692,887.91	-1,352,589.97
Total administrative expenses	-1,882,741.84	-1,650,734.35	-3,462,723.12
Depreciation and write-downs on tangible and intangible assets	-250,886.08	-214,184.18	-464,871.81
Other operating expenses	-739,422.15	-659,922.73	-1,511,053.57
NET OPERATING PROFIT	**2,004,290.16**	**2,262,336.01**	**4,045,221.23**
PROFIT BEFORE APPROPRIATIONS AND TAXES	**2,004,290.16**	**2,262,336.01**	**4,045,221.23**
Appropriations *)	-1,988,000.00	-2,240,000.00	-4,013,000.00
Income taxes	-11,524.92	-16,536.56	-28,834.41
PROFIT FOR THE FINANCIAL YEAR	**4,765.24**	**5,799.45**	**3,386.82**

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

Key indicators

	30.6.2004	30.6.2003	31.12.2003
Turnover, EUR million	58.9	67.7	128.7
Net operating profit, EUR million	2.0	2.3	4.0
% of turnover	3.40	3.34	3.14
Balance sheet total, EUR million	4,870.1	4,574.4	4,643.6
Return on equity (ROE), %	7.03	8.76	7.28
Yield-expense ratio	1.51	1.63	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:

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

Balance sheet

ASSETS	30.6.2004	30.6.2003	31.12.2003
Liquid assets			
Cash	1,673.10	1,203.55	1,401.80
Liquid assets	3,098,095.54	3,571,097.92	3,893,280.53
Debt securities eligible for refinancing with central banks	423,324,969.14	535,202,093.21	510,740,362.84
Claims on credit institutions			
Repayable on demand	110,108.27	1,865,713.36	762,316.60
Other	54,424,020.57	98,742,260.01	8,639,443.61
Claims on the public and public sector entities	3,834,450,782.54	3,515,457,260.82	3,687,127,827.63
Leasing assets	0.00	832.70	0.00
Debt securities			
On public sector entities	235,218,937.46	104,092,462.26	111,328,355.83
Other	253,161,655.88	253,609,939.00	247,656,091.59
Shares and participations	24,219.06	24,219.06	24,219.06
Intangible assets	922,909.64	831,150.55	953,308.06
Tangible assets			
Other tangible assets	1,204,622.11	1,259,885.95	1,198,413.13
Other assets	0.00	0.00	0.00
Accrued income and prepayments	64,200,381.80	59,789,290.13	71,271,485.63
TOTAL ASSETS	**4,870,142,375.11**	**4,574,447,408.52**	**4,643,596,506.31**

LIABILITIES	30.6.2004	30.6.2003	31.12.2003
LIABILITIES			
Liabilities to credit institutions and central banks			
Credit institutions			
Other	477,271,307.74	398,145,708.75	424,619,622.28
Liabilities to the public and public sector entities	303,771,560.63	152,083,753.33	187,328,562.38
Debt securities issued to the public			
Bonds	3,641,187,192.16	3,633,828,928.13	3,526,708,736.15
Other	242,233,979.44	178,041,828.36	247,316,243.22
Other liabilities	32,472,437.07	49,718,078.70	70,526,538.62
Accrued expenses and deferred income	70,530,142.36	69,512,009.99	86,413,813.19
Subordinated liabilities	33,818,792.65	33,818,792.65	33,818,792.65
APPROPRIATIONS			
Voluntary provisions	27,286,544.90	23,525,544.90	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	4,765.24	5,799.45	3,386.82
TOTAL LIABILITIES	**4,870,142,375.11**	**4,574,447,408.52**	**4,643,596,506.31**
Irrevocable commitments given in favour of a customer	240,011,077.00	282,191,391.00	146,053,516.00

Off-balance sheet commitments and capital adequacy

(EUR 1,000)

DERIVATIVE CONTRACTS	Values of underlying instrumetns, for hedging purposes		
	30.6.2004	**30.6.2003**	**31.12.2003**
Interest rate derivatives			
Interest rate swaps	5,192,414	4,366,220	4,792,445
Currency derivatives			
Interest rate and currency swaps	1,842,803	1,544,206	1,620,336
Index linked derivatives	48,682	58,500	32,839

	Credit value of contracts without netting		
	30.6.2004	**30.6.2003**	**31.12.2003**
Interest rate derivative contracts	143,714	168,160	151,356
Currency derivative contracts	173,784	145,112	137,886
Index linked derivatives	6,044	4,710	4,461

COMMITMENTS AND SECURITY GIVEN	**30.6.2004**	**30.6.2003**	**31.12.2003**
Bonds pledged to the Local Government Pensions Institution	43,772	57,258	55,990
Bonds pledged to the Municipal Guarantee Board	3,781,953	2,493,746	2,674,186
Debt securities pledged to the Municipal Guarantee Board	669,152	785,933	749,363

CAPITAL ADEQUACY	**30.6.2004**	**30.6.2003**	**31.12.2003**
Own funds			
Original own funds including capital loans	59,527	50,880	59,527
Deductions, intangible assets	-923	-831	-953
Additional own funds (net)	33,819	33,819	33,819
Total	92,423	83,868	92,393
Risk-weighted claims, investments and off-balance-sheet commitments	169,569	204,296	177,797
Capital adequacy ratio	**54.50 %**	**41.05 %**	**51.97 %**
Ratio of original own funds against risk-weighted claims, investments and off-balance sheet commitments	34.56 %	24.50 %	32.94 %

The profit of the financial period by June 30, 2004 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 29 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.

Kuntarahoitus
MUNICIPALITY FINANCE