



INTERIM REPORT

June 30, 2006

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The second quarter of the current financial year has continued briskly for Municipality Finance. The financial result is satisfying insofar as the company's operating profit of EUR 3.2 million for the period January-June showed distinct growth over the corresponding period last year (EUR 2.5 million) and rose to the budgeted level. The balance sheet total at the end of the period rose to EUR 6,416.4 million compared with EUR 5,855.7 million a year ago.

Varied funding

The company acquired EUR 794.6 million in new long-term funding during the period January-June compared with EUR 625.8 million last year. Total funding acquired stood at EUR 6,036.1 million at the end of the second quarter, compared with a figure of EUR 5,654.8 million a year ago. Just under half of this was euro-denominated.

The main emphasis for the acquisition of funds is still on the Japanese markets, but funding is also acquired in a number of other countries including Germany, Switzerland, Denmark and Norway. Six municipal bond issues were made during the period.

Growth in lending

At the end of June, the Municipality Finance long-term loan portfolio stood at EUR 4,801.5 million, compared with EUR 4,323.5 million a year ago. The loan portfolio has grown 4.5% since the end of last year and 11.1% since the end of the corresponding period in the last financial year. Some 2% more requests for tender have been received than a year ago. Price levels have been further reduced due to the continued tightening competition on the funding markets.

Local government reform makes progress

The working group preparing the local government and service structure reform completed its proposal for framework legislation by the end of June. The proposal is intended to strengthen the local

government and service structure and to improve methods of producing and organizing local government services. At the same time, the aim is to reform municipal funding systems, improve local authority productivity and slow down the growth in municipal expenditure.

The fact that political unanimity has been achieved on the matter gives grounds for satisfaction. The viable local authority structure that is the idea behind the framework legislation will be to the advantage of every individual municipality and to society as a whole. There is good reason to believe that the framework legislation will fulfil the financial and quality criteria set for it and that it will thus strengthen the position of the local authority sector.

Development of the company's capital structure on the drawing board

The Board of Municipality Finance has decided to call an extraordinary general meeting in the autumn when a proposal will be made to increase the company's share capital by a share issue aimed at the local authority sector.

There is a need to expand the share capital of Municipality Finance to correspond with the current weight of the company, as its balance sheet total and market share have risen considerably. The changing funding markets coupled with the Financial Supervision Authority's new recommendations on the capital adequacy of financial institutions and the volume of capital loans that follow the new European guidelines, call for the strengthening of the company's own share capital.

The aim is to be able to respond to the continually growing funding needs of municipalities in the future, too. The project is extremely important from the point of view of municipal operating requirements, so that competitive funding can be organized for local authorities in the long term.

New premises

Early in August, Municipality Finance moved into new premises in the Graniittitalo building which adjoins the Kamppi Centre and is adjacent to the new Helsinki bus terminal. The new premises are modern and eminently suitable for Municipality Finance's operations.

Helsinki, August 17, 2006

Pekka Averio
Managing Director

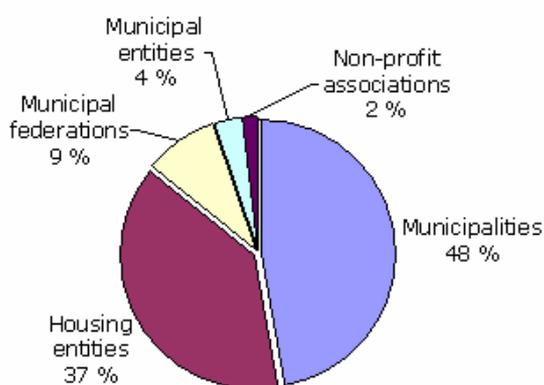
At the end of June Municipality Finance's balance sheet totalled EUR 6,416.4 million (June 30, 2005: EUR 5,855.7 million). The operating profit for January-June was EUR 3.2 million (January 1-June 30, 2005: EUR 2.5 million). The company's long-term loan portfolio stood at EUR 4,801.5 million, an increase of 4.5% from the end of 2005.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 4,801.5 million at the end of June (June 30, 2005: EUR 4,323.5 million). The loan portfolio increased by 4.5% from the end of 2005 and by 11.1% from the end of June 2005.

In January-June 2006 EUR 430.3 million in long-term loans were withdrawn (January 1-June 30, 2005: EUR 476.2 million). At the end of June about EUR 227.6 million in offers had also been accepted (June 30, 2005 EUR 239.3 million). During 2006 the company's marketshare has been over 44% 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 in the municipality and municipal federations segment and increased to same level as last year in the housing corporations segment.



Lending by borrower types on June 30, 2006

Funding

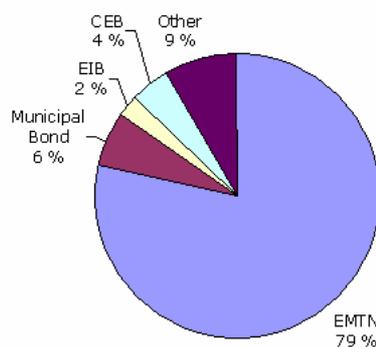
Funding by Municipality Finance is based on several key capital markets, mainly within the following debt programmes:

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

In January-June the company acquired EUR 794.6 million in long-term funding (January 1-June 30, 2005: EUR 625.8 million). Short-term debt instruments under the Treasury Bill programme were issued for a total of EUR 689.9 million during the financial period (January 1-June 30, 2005: EUR 632.3 million). Total funding at the end of June stood at EUR 6,036,1 million (June 30, 2005: EUR 5,654.8 million) 48.8% of this was in the euro and 51.2% was denominated in other currencies.

Six Municipal Bonds has been issued in 2006.

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 has also made two arrangements in Germany during 2006 and acquired funding from the Swiss, Danish and Norwegian debt markets.



Long-term funding sources on June 30, 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.

Loans can be granted directly to municipalities and municipal federations without separate collateral. For other loans, an absolute guarantee or deficiency guarantee issued by a municipality or a municipal federation, or a State deficiency guarantee, is acceptable. Because such security is required, the loans granted are calculated as zero-risk for the purpose of calculating the credit institution'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:

- 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 June 30, 2006 was 27.72% (June 30, 2005: 31.79%). 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 June 30, 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-June 30, 2006 was EUR 3.2 million (January 1-June 30, 2005: EUR 2.5 million).

Net income from financial operations was EUR 7.6 million (January 1-June 30, 2005: EUR 6.4 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-June 30, 2005: EUR 0.4 million). Assets from advance funding are invested in these instruments before the money is issued in loans to customers.

An entry of EUR 3.1 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance's personnel is 34.

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, 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
- 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. - 30.6.2006	1.1. - 30.6.2005	1.1. - 31.12.2005
Interest income	85,709,267.50	68,465,190.62	142,004,562.84
Interest expenses	-78,113,630.36	-62,108,524.88	-127,919,620.65
NET INCOME FROM FINANCIAL OPERATIONS	7,595,637.14	6,356,665.74	14,084,942.19
Commission expenses	-1,205,235.34	-1,144,925.90	-2,421,764.72
Net income from securities transactions and foreign exchange dealing	-8,519.59	2,514.61	3,843.71
Net income from available-for-sale financial assets	103,339.12	409,666.95	543,622.94
Other operating income	114,851.02	43,466.41	171,999.93
Administrative expenses			
Staff costs			
Salaries and fees	-1,101,126.62	-958,321.30	-2,165,167.98
Staff-related costs			
Pension costs	-253,145.38	-158,357.79	-379,153.79
Other staff-related costs	-106,836.78	-96,282.90	-179,197.79
Other administrative expenses	-798,078.34	-845,608.48	-1,643,509.65
Total administrative expenses	-2,259,187.12	-2,058,570.47	-4,367,029.21
Depreciation and write-downs on tangible and intangible assets	-275,385.15	-299,028.02	-587,716.74
Other operating expenses	-907,493.64	-848,810.10	-1,796,295.48
NET OPERATING PROFIT	3,158,006.44	2,460,979.22	5,631,602.62
PROFIT BEFORE APPROPRIATIONS AND TAXES	3,158,006.44	2,460,979.22	5,631,602.62
Appropriations *)	-3,142,000.00	-2,447,000.00	-5,602,000.00
Income taxes	-12,299.22	-10,540.19	-25,241.78
PROFIT FOR THE FINANCIAL YEAR	3,707.22	3,439.03	4,360.84

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

Key indicators

	30.6.2006	30.6.2005	31.12.2005
Turnover, EUR million	85.9	68.9	142.7
Net operating profit, EUR million	3.2	2.5	5.6
% of turnover	3.68	3.57	3.95
Balance sheet total, EUR million	6,416.4	5,855.7	6,050.2
Return on equity (ROE), %	9.39	7.71	8.76
Yield-expense ratio	1.68	1.57	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 calculated as follows:

$$\frac{\text{net operating profit} - \text{taxes}}{\text{equity capital} + \text{voluntary provisions} - \text{deferred tax liabilities}} \times 100$$

(average of year beginning and year end)

Yield-expense ratio:

$$\frac{\text{net income from financial operations} + \text{commission income} + \text{net income from securities transactions} + \text{net income from available-for-sale financial assets} + \text{other operating income}}{\text{commission expenses} + \text{administrative expenses} + \text{depreciation} + \text{other operating expenses}}$$

Balance sheet

ASSETS	30.6.2006	30.6.2005	31.12.2005
Liquid assets			
Cash	1,557.25	1,276.60	1,592.10
Liquid assets	4,254,618.37	70,723.33	3,251,294.09
Debt securities eligible for refinancing with central banks	887,493,934.10	869,692,502.41	835,050,650.92
Claims on credit institutions			
Repayable on demand	421,872.05	40,394.43	2,294,282.83
Other	103,377,541.51	54,312,421.12	21,197,171.03
Claims on the public and public sector entities	4,801,530,949.98	4,323,519,798.33	4,593,604,437.23
Debt securities			
Public sector entities	232,050,526.95	252,555,264.81	250,850,837.21
Other	241,894,743.09	251,119,239.99	205,403,186.40
Shares and participations	5,039,169.06	24,219.06	24,219.06
Derivative contracts	65,050,897.28	28,530,248.90	44,415,407.28
Intangible assets	592,912.33	768,863.50	698,484.27
Tangible assets			
Other tangible assets	1,044,154.73	1,240,594.85	1,121,907.40
Accrued income and prepayments	73,665,083.45	73,803,759.77	92,323,642.90
TOTAL ASSETS	<u>6,416,417,960.15</u>	<u>5,855,679,307.10</u>	<u>6,050,237,112.72</u>

LIABILITIES	30.6.2006	30.6.2005	31.12.2005
LIABILITIES			
Liabilities to credit institutions and central banks			
To credit institutions			
Other	400,286,436.87	423,076,744.07	421,512,441.84
Liabilities to the public and public sector entities	479,006,243.09	412,317,552.24	440,350,366.82
Debt securities issued to the public			
Bonds	4,924,865,966.65	4,593,223,349.12	4,532,385,528.87
Other	231,918,150.17	226,205,730.28	383,354,122.32
Derivative contracts and other trading liabilities	177,607,426.30	4,060,326.43	55,125,934.82
Other liabilities	5,627,879.54	582,680.46	2,651,879.53
Accrued expenses and deferred income	85,870,507.83	88,937,071.18	106,254,098.39
Subordinated liabilities	58,845,503.44	57,664,296.09	57,664,296.09
APPROPRIATIONS			
Voluntary provisions	37,432,000.00	31,135,000.00	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	-2,773,961.00	749,379.00	-1,079,656.00
Profit brought forward	929,389.03	925,028.19	925,028.19
Profit for the financial year	3,707.22	3,439.03	4,360.84
TOTAL LIABILITIES	<u>6,416,417,960.15</u>	<u>5,855,679,307.10</u>	<u>6,050,237,112.72</u>

Irrevocable commitments given in favour of a customer	432,777,657.00	406,685,140.15	282,941,981.00
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Off-balance-sheet commitments and capital adequacy

(EUR 1,000)	Values of underlying instruments, for hedging purposes		
	30.6.2006	30.6.2005	31.12.2005
DERIVATIVE CONTRACTS			
Interest rate derivatives			
Interest rate swaps	7,256,954	6,139,082	6,877,907
Currency derivatives			
Forward exchange contracts	0	164	0
Interest rate and currency swaps	3,415,828	3,237,660	3,120,315
Index linked derivatives	206,784	114,306	57,480
Other derivatives			
Commodity linked derivatives	4,500	4500	4,500
Other	20,000	0	0
	30.6.2006	30.6.2005	31.12.2005
COMMITMENTS AND SECURITY GIVEN			
	39,002	41,387	40,119
Bonds pledged to the Local Government Pensions Institution	4,759,876	4,277,223	4,550,694
Bonds pledged to the Municipal Guarantee Board	1,140,301	1,124,700	1,044,010
Debt securities pledged to the Municipal Guarantee Board			
	30.6.2006	30.6.2005	31.12.2005
CAPITAL ADEQUACY			
Own funds	66,948	62,798	65,868
Original own funds including capital loans	-593	-769	-698
Deductions, intangible assets	32,226	34,568	33,819
Additional own funds (net)	98,581	96,597	98,989
Total			
Risk-weighted claims, investments and off-balance-sheet commitments	355,605	303,846	329,556
Capital adequacy ratio	27.72 %	31.79 %	30.04 %
Ratio of original own funds against risk-weighted claims, investments and off-balance sheet commitments	18.66 %	20.41 %	19.78 %

The profit of the financial period by June 30, 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.