

INTERIM REPORT

September 30, 2004

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The third quarter of Municipality Finance's current financial year has proceeded as budgeted, as in the first two quarters. During the entire first part of the year, financial markets have been characterized by increasing competition, and interest margins have favoured the customer by remaining low. Pressures for a rise in interest rates on the bond market have surfaced at times but not resulted in any major changes so far.

Interest markets looking expectant

During the period that has elapsed, short-term interest rates in the Euro zone have risen slightly, while long-term interest rates, which have fluctuated slightly because of uncertain conditions, experienced an overall decrease in July-August. Downward pressure has been exerted on them by high oil prices in particular. Pressures for a rise in interest rates still exist, which borrowers should take into account by diversifying their loan portfolios, although an increase might not come into effect until next year. Loans tied to the Euribor continue to be the most popular loan agreement type.

Balance sheet exceeds five billion

Municipality Finance has grown steadily over the whole year at an average rate of 5%, which is somewhat above the budgeted level. For the first time, the balance sheet exceeded EUR 5 billion, amounting to a total of EUR 5.171 billion. As expected, the growth rate lagged slightly behind last year's figures. The tight market situation is a contributory factor, at times slowing down the realization of offers made.

Municipality Finance's new business operation launched

At the beginning of August, Municipality Finance launched a new business operation area, which has already attracted a great deal of interest within the local government sector. The new business operation concentrates on financial consultation

services directed at customers. The aim is to secure municipal financial services from a wide perspective, and to provide customers in the local government sector with diverse consultation relating to the field as well as independent assessments of the cost-effectiveness of available financial solutions for municipalities themselves. The new operation has been headed by Kimmo Lehto, Master of Laws, MBA.

Increasingly important role of risk management

Fiercer competition on the lending market has led to an increasing number of situations where financial offers received by municipalities require a thorough risk analysis in order to carefully predetermine the long-term risks involved in their various interest rate structures. The terms of an offer may not be easily comparable with the terms of a request to tender, and their impact in the possible event of rising interest or exchange rates can prove difficult to estimate.

Local government sector's credit rating strengthened

The local government sector's already excellent credit rating was strengthened, when Moody's gave the best possible Aaa rating to the Municipal Guarantee Board. This was the first time that the Board's credit rating had been evaluated. This should improve Municipality Finance's future financial prospects on the international money market, and is set to have a positive effect on the loan costs of Municipality Finance's customers, while boosting the financial system of the entire local government sector.

Helsinki, September 30, 2004

Pekka Averio
Managing Director

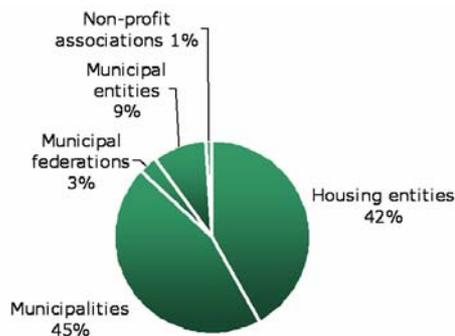
At the end of September, Municipality Finance's balance sheet amounted to EUR 5,171.5 million (Sep 30, 2003: EUR 4,500.6 million). The profit for January-September was EUR 3.0 million (Jan 1-Sep 30, 2003: EUR 3.3 million). The company's long-term loan portfolio stood at EUR 3,876.2 million, which is a 5% increase on the end of 2003.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 3,876.2 million (Sep 30, 2003: EUR 3,580.3 million). The loan portfolio increased by 5% on the end of 2003 and by 8% on the end of September 2004.

In January-September, EUR 437.2 million in long-term loans were withdrawn (Sep 1-June 30, 2003: EUR 424.9 million). At the end of September about EUR 115.0 million in offers had also been accepted (Sep 30, 2003: EUR 154.2 million). In terms of euros, the company has won just over 35% of the competitive bidding in which it participated in 2004.

At the beginning of the year, the demand for loans was considerably livelier than in the previous year, although it has levelled out since the summer. There was a 5% increase in invitations to offer received by the end of September compared with the same time in the previous year. It is expected that long-term lending will stand at some EUR 650-700 million (2003: EUR 691 million), the target for 2004 being EUR 800 million.



Lending by borrower types on Sep 30, 2004

Funding

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

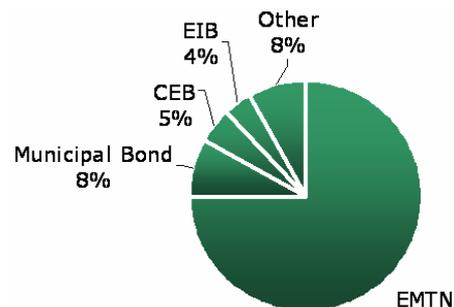
EMTN EUR 3,000,000,000
 Domestic debt programme EUR 500,000,000

Treasury Bill programme EUR 500,000,000

In January-September, the company acquired EUR 775.0 million (Jan 1-Sep 30, 2003: EUR 1017.4 million) in long-term funding. Debt instruments under the Treasury Bill programme were issued for a total of EUR 814.0 million during the financial period (Jan 1-Sep 30, 2003: EUR 609.2 million). Total funding at the end of September stood at EUR 4,905.2 million (September 30, 2003: EUR 4,308.7 million). The euro was used in 60% of the funding; 40% were denominated in other currencies.

Eight Municipal Bonds were issued.

Funding last year consisted mainly of several small structured arrangements on the Japanese market, where the bulk of funding was still carried out. As a change from 2003, this year funding arrangements have increased and loan times have been extended. In September, a 10-year bond was issued in Switzerland with a loan capital of CHF 200 million.



Long-term funding sources on Sep 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 September 30, 2004 was 40.13% (Sep 30, 2003: 48.29%). 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 September 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 financial performance for the period is above the budgeted level, although slightly lower than at the end of September, 2003. The profit before appropriations and taxes for the period January 1 to September 30, 2004 came to EUR 3.0 million against EUR 3.3 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 period January 1 to September 30, 2004 was EUR 8.78 million (Jan 1-Sep 30, 2003: EUR 8.59 million). The net income of EUR 76.880 (Jan 1-Sep 30, 2003: EUR 10,702) 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 3.0 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance had 30 employees on September 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* (M.Soc.SC., 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 Liljebloom* (Professor, Swedish School of Economics and Business Administration)
- *Kari Nars* (D.Sc.(Econ. & Bus.Adm.), Helsinki)
- *Rajja 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

	1.1. - 30.9.2004	1.1. - 30.9.2003	1.1. - 31.12.2003
Interest income	89,733,475.42	98,643,432.92	128,622,247.68
Net income from leasing operations	0.00	190.17	393.34
Interest expenses	-80,950,257.66	-90,049,576.66	-117,140,772.72
NET INCOME FROM FINANCIAL OPERATIONS	8,783,217.76	8,594,046.43	11,481,868.30
Commission income	0.00	8,180.00	8,180.00
Commission expenses	-1,631,064.50	-1,620,290.79	-2,066,323.04
Net income from securities transactions and foreign exchange dealing	76,880.13	10,702.46	24,436.89
Other operating income	34,829.47	19,588.87	35,707.58
Administrative expenses			
Staff costs			
Salaries and fees	-1,214,839.84	-1,089,996.51	-1,696,461.85
Staff-related costs			
Pension costs	-217,049.40	-191,514.91	-286,687.27
Other staff-related costs	-85,251.51	-78,687.42	-126,984.03
Other administrative expenses	-1,153,171.39	-930,749.56	-1,352,589.97
Total administrative expenses	-2,670,312.14	-2,290,948.40	-3,462,723.12
Depreciation and write-downs on tangible and intangible assets	-388,145.94	-337,278.93	-464,871.81
Other operating expenses	-1,161,246.04	-1,095,433.11	-1,511,053.57
NET OPERATING PROFIT	3,044,158.74	3,288,566.53	4,045,221.23
PROFIT BEFORE APPROPRIATIONS AND TAXES	3,044,158.74	3,288,566.53	4,045,221.23
Appropriations *)	-3,025,000.00	-3,260,000.00	-4,013,000.00
Income taxes	-17,607.84	-22,717.21	-28,834.41
PROFIT FOR THE FINANCIAL YEAR	1,550.90	5,849.32	3,386.82

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

Key indicators

	30.9.2004	30.9.2003	31.12.2003
Turnover, EUR million	89.8	98.7	128.7
Net operating profit, EUR million	3.0	3.3	4.0
% of turnover	3.39	3.33	3.14
Balance sheet total, EUR million	5,171.5	4,500.6	4,643.6
Return on equity (ROE), %	7.03	8.38	7.28
Yield-expense ratio	1.52	1.62	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:

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

(average of year beginning and year end)

Yield-expense ratio:

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

Balance sheet

ASSETS	30.9.2004	30.9.2003	31.12.2003
Liquid assets			
Cash	1,255.90	1,398.70	1,401.80
Liquid assets	4,250,337.60	2,577,297.02	3,893,280.53
Debt securities eligible for refinancing with central banks	579,185,278.38	433,890,344.56	510,740,362.84
Claims on credit institutions			
Repayable on demand	272,863.38	376,744.76	762,316.60
Other	88,389,069.65	41,790,272.93	8,639,443.61
Claims on the public and public sector entities	3,876,239,723.32	3,580,276,938.43	3,687,127,827.63
Leasing assets	0.00	0.00	0.00
Debt securities			
On public sector entities	201,787,454.53	121,356,538.19	111,328,355.83
Other	325,747,495.44	243,865,563.64	247,656,091.59
Shares and participations	24,219.06	24,219.06	24,219.06
Intangible assets	988,097.49	833,277.10	953,308.06
Tangible assets			
Other tangible assets	1,174,162.74	1,227,515.24	1,198,413.13
Other assets	7,694,307.00	0.00	0.00
Accrued income and prepayments	85,776,417.27	74,345,545.93	71,271,485.63
TOTAL ASSETS	5,171,530,681.76	4,500,565,655.56	4,643,596,506.31
LIABILITIES	30.9.2004	30.9.2003	31.12.2003
LIABILITIES			
Liabilities to credit institutions and central banks			
Credit institutions			
Other	484,976,553.01	396,532,210.06	424,619,622.28
Liabilities to the public and public sector entities	312,836,036.67	168,047,182.81	187,328,562.38
Debt securities issued to the public			
Bonds	3,871,729,680.04	3,565,027,302.02	3,526,708,736.15
Other	235,694,688.82	179,110,071.07	247,316,243.22
Other liabilities	72,394,186.72	10,865,745.76	70,526,538.62
Accrued expenses and deferred income	90,189,995.13	86,845,992.71	86,413,813.19
Subordinated liabilities	33,818,792.65	33,818,792.65	33,818,792.65
APPROPRIATIONS			
Voluntary provisions	28,323,544.90	24,545,544.90	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	1,550.90	5,849.32	3,386.82
TOTAL LIABILITIES	5,171,530,681.76	4,500,565,655.56	4,643,596,506.31
Irrevocable commitments given in favour of a customer	284,183,218.00	343,610,458.55	146,053,516.00

Off-balance sheet commitments and capital adequacy

(EUR 1,000)

DERIVATIVE CONTRACTS

Values of underlying instruments, for hedging purposes

	30.9.2004	30.9.2003	31.12.2003
Interest rate derivatives			
Interest rate swaps	5,230,940	4,565,189	4,792,445
Currency derivatives			
Interest rate and currency swaps	2,294,722	1,635,482	1,620,336
Index linked derivatives	38,182	61,364	32,839

Credit value of contracts without netting

	30.9.2004	30.9.2003	31.12.2003
Interest rate derivative contracts	175,137	161,071	151,356
Currency derivative contracts	214,037	154,556	137,886
Index linked derivative contracts	10,296	5,748	4,461

COMMITMENTS AND SECURITY GIVEN

	30.9.2004	30.9.2003	31.12.2003
Bonds pledged to the Local Government Pensions Institution	42,822	56,308	55,990
Bonds pledged to the Municipal Guarantee Board	3,827,291	2,546,716	2,674,186
Debt securities pledged to the Municipal Guarantee Board	896,782	673,993	749,363

CAPITAL ADEQUACY

	30.9.2004	30.9.2003	31.12.2003
Own funds			
Original own funds including capital loans	59,527	50,880	59,527
Deductions, intangible assets	-988	-833	-953
Additional own funds (net)	33,819	33,819	33,819
Total	92,358	83,866	92,393
Risk-weighted claims, investments and off-balance-sheet commitments	230,119	173,664	177,797
Capital adequacy ratio	40.13 %	48.29 %	51.97 %
Ratio of original own funds against risk-weighted claims, investments and off-balance sheet commitments	25.44 %	28.82 %	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.