



INTERIM REPORT

September 30, 2005

TABLE OF CONTENTS

Managing Director's review	2
Lending	3
Funding	3
Risk management and internal audit	4
Capital adequacy and own funds	4
Credit Ratings	4
Operating result	4
Personnel and administration	5
Profit and loss account	6
Key indicators	6
Balance sheet	7
Off-balance-sheet commitments and capital adequacy	8



The third quarter of Municipality Finance's current financial year was characterized by the further positive development in its operations. The net income from financial operations strengthened and the balance sheet total rose during the period to EUR 5,962.7 million, compared with EUR 5,171.5 million for the corresponding period in 2004.

Low interest rates benefit customers

Competition on the financing market has continued to be keen and interest margins have remained low, to the benefit of the customer. Pressures for a rise in interest rates that appear intermittently on the fixed interest market have not as yet brought about any significant changes in the situation. There are still pressures for an increase, which borrowers should take into account by diversifying their loan portfolio, even though the rise may not take place until later.

Lending continues to grow steadily

The company's long-term loan portfolio at the end of September was EUR 4,438.1 million, whereas a year earlier it was EUR 3,876.2 million. There has been a rise of 10.1% in the loan portfolio since the end of last year and a rise of 14.5% compared with the corresponding period last year.

The company's acquisition of funding was lively compared with last year, expanding not only to Japan but also elsewhere on the Asian market. Investor demand has remained strong especially for MTN loans. The company's total funding on September 30, 2005 amounted to EUR 5,723.8 million, which is denominated roughly half and half in euros and other currencies.

Reform of local government service structure

The Ministry of the Interior is presenting the reform to the local government and service structure at wide-ranging seminars throughout the regions during October. The future amalgamation of municipalities and the reorganization of basic services are the talk of the entire local government sector. Decisions that are important for every local resident will be made in the autumn of 2006 and finding the most appropriate option will be a challenge. Whatever the outcome, we believe that the strong creditworthiness of the local government sector will reassure our investors in the future, too.

October 20, 2005

Pekka Averio
Managing Director

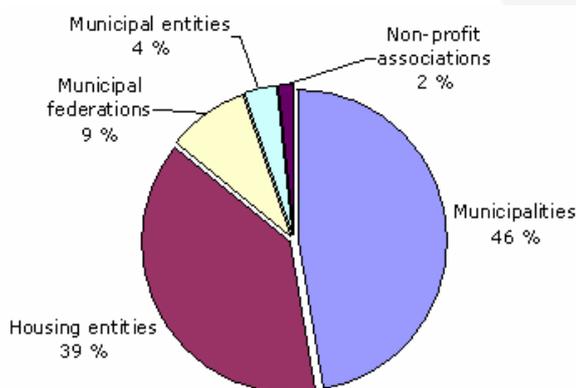
At the end of September Municipality Finance's balance sheet totalled EUR 5,962.7 million (September 30, 2004: EUR 5,171.5 million). The operating profit for January-September was EUR 4.2 million (January 1-September 30, 2004: EUR 3.0 million). The company's long-term loan portfolio stood at EUR 4,438.1 million, an increase of 10.1% from the end of 2004.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 4,438.1 million at the end of September (September 30, 2004: EUR 3,876.2 million). The loan portfolio increased by 10.1% from the end of 2004 and by 14.5% from the end of September 2004.

In January-September EUR 673.0 million in long-term loans were withdrawn (January 1-September 30, 2004: EUR 437.2 million). At the end of September about EUR 199.5 million in offers had also been accepted (September 30, 2004: EUR 115.0 million). During 2005 the company's marketshare has risen over 50 % of new loans.

Demand for loans at the beginning of the year was livelier than in the previous year. About 20% more invitations to tender came by the end of September compared with the corresponding period in 2004.



Lending by borrower types on Sep 30, 2005

Funding

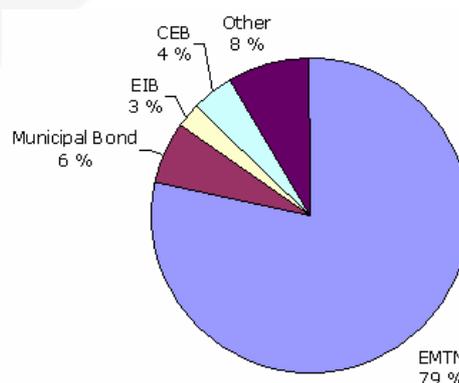
Funding by Municipality Finance is based on several key capital markets, mainly within the following debt programmes:

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

In January-September the company acquired EUR 848.4 million in long-term funding (January 1-September 30, 2004: EUR 775.0 million). Short-term debt instruments under the Treasury Bill programme were issued for a total of EUR 923.3 million during the financial period (January 1-September 30, 2004: EUR 814.0 million). Total funding at the end of September stood at EUR 5,723.8 million (September 30, 2004: EUR 4,905.2 million). 51.1% of this was in the euro and 48.9% was denominated in other currencies.

Eight Municipal Bonds were issued.

As far as acquisition of funding is concerned, 2005 has been a success both quantitatively and qualitatively. Municipality Finance's loan issues have still been selling well, particularly in Japan, and investor interest has increased, as planned, also elsewhere in Asia. The range of funding products has expanded and diversified.



Long-term funding sources on Sep 30, 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:

- 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 September 30, 2005 was 31.51% (September 30, 2004: 40.13%). 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 September 30, 2005 stood at EUR 16.5 million. Own funds totalled EUR 96.6 million.

Operating result

Municipality Finance's results for the period under review were better than budgeted. The profit before appropriations and taxes for the period January 1-September 30, 2005 was EUR 4.2 million (January 1-September 30, 2004: EUR 3.0 million).

Net income from financial operations was EUR 10.2 million (January 1-September 30, 2004: EUR 8.8 million). The net income of EUR 0.5 million from available-for-sale financial assets comprised profits from the sale of debt securities (January 1-September 30, 2004: EUR 0.3 million). Assets from advance funding are invested in these instruments before the money is issued in loans to customers.

An entry of EUR 4.2 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance's personnel is 30.

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
- Marjo Tomminen, Director
- Kimmo Lehto, Director

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. - 30.9.2005	1.1. - 30.9.2004	1.1. - 31.12.2004
Interest income	104,730,619.44	89,733,475.42	122,669,072.90
Interest expenses	-94,578,593.95	-80,950,257.66	-110,861,240.39
NET INCOME FROM FINANCIAL OPERATIONS	10,152,025.49	8,783,217.76	11,807,832.51
Commission expenses	-1,759,244.87	-1,631,064.50	-2,383,824.15
Net income from securities transactions and foreign exchange dealing	2,191.83	304.04	207.83
Net income from available-for-sale financial assets	507,229.70	76,576.09	78,078.12
Other operating income	62,539.91	34,829.47	85,110.69
Administrative expenses			
Staff costs			
Salaries and fees	-1,385,560.68	-1,214,839.84	-1,890,289.24
Staff-related costs			
Pension costs	-255,966.41	-217,049.40	-319,421.01
Other staff-related costs	-113,502.85	-85,251.51	-153,543.21
Other administrative expenses	-1,207,638.09	-1,153,171.39	-1,693,947.22
Total administrative expenses	-2,962,668.03	-2,670,312.14	-4,057,200.68
Depreciation and write-downs on tangible and intangible assets	-440,854.81	-388,145.94	-535,192.54
Other operating expenses	-1,314,858.32	-1,161,246.04	-1,573,889.30
NET OPERATING PROFIT	4,246,360.90	3,044,158.74	3,421,122.48
PROFIT BEFORE APPROPRIATIONS AND TAXES	4,246,360.90	3,044,158.74	3,421,122.48
Appropriations *)	-4,227,000.00	-3,025,000.00	-3,389,455.10
Income taxes	-17,539.18	-17,607.84	-28,077.66
PROFIT FOR THE FINANCIAL YEAR	1,821.72	1,550.90	3,589.72

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

Key indicators

	30.9.2005	30.9.2004	31.12.2004
Turnover, EUR million	105,3	89,8	122,8
Net operating profit, EUR million	4,3	3,0	3,4
% of turnover	4,03	3,39	2,79
Balance sheet total, EUR million	5 962,7	5 171,5	5 367,6
Return on equity (ROE), %	8,78	7,03	5,55
Yield-expense ratio	1,66	1,52	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:

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

(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	30.9.2005	30.9.2004	31.12.2004
Liquid assets			
Cash	1,989.29	1,255.90	1,277.80
Liquid assets	4,243,407.90	4,250,337.60	3,997,083.11
Debt securities eligible for refinancing with central banks	829,466,785.20	579,185,278.38	588,846,522.22
Claims on credit institutions			
Repayable on demand	335,012.53	272,863.38	478,038.19
Other	17,741,274.07	88,389,069.65	59,778,439.44
Claims on the public and public sector entities	4,438,056,853.70	3,876,239,723.32	4,029,574,609.44
Debt securities			
Public sector entities	275,073,211.97	201,787,454.53	195,645,149.46
Other	265,826,971.48	325,747,495.44	389,939,339.30
Shares and participations	24,219.06	24,219.06	24,219.06
Derivative contracts	36,731,505.45	7,694,307.00	15,035,316.12
Intangible assets	743,390.06	988,097.49	901,890.21
Tangible assets			
Other tangible assets	1,173,455.88	1,174,162.74	1,264,260.42
Accrued income and prepayments	93,318,581.31	85,776,417.27	82,070,418.51
TOTAL ASSETS	5,962,736,657.90	5,171,530,681.76	5,367,556,563.28
LIABILITIES	30.9.2005	30.9.2004	31.12.2004
LIABILITIES			
Liabilities to credit institutions and central banks			
To credit institutions			
Other	466,196,455.02	484,976,553.01	452,247,106.73
Liabilities to the public and public sector entities	421,132,528.09	312,836,036.67	311,929,783.28
Debt securities issued to the public			
Bonds	4,637,300,779.41	3,871,729,680.04	4,016,308,974.61
Other	199,159,427.68	235,694,688.82	273,934,258.28
Derivative contracts and other trading liabilities	23,853,518.01	71,979,893.09	115,340,711.06
Other liabilities	730,609.90	414,293.63	596,287.02
Accrued expenses and deferred income	105,337,725.78	90,189,995.13	93,123,407.01
Subordinated liabilities	57,664,296.09	57,664,296.09	57,664,296.09
APPROPRIATIONS			
Voluntary provisions	32,915,000.00	28,323,544.90	28,688,000.00
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	720,757.00	0.00	0.00
Profit brought forward	925,028.19	921,438.47	921,438.47
Profit for the financial year	1,821.72	1,550.90	3,589.72
TOTAL LIABILITIES	5,962,736,657.90	5,171,530,681.76	5,367,556,563.28
Irrevocable commitments given in favour of a customer	454,435,608.00	284,183,218.00	246,197,466.00

