



INTERIM REPORT

September 30, 2006

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Municipality Finance's third quarter of this financial year continued to be one of particularly lively activity. The increase in the company's share capital that is now under preparation has provided its own additional colour to events in this period.

The financial performance for the period measures up to the company's expectations, with growth in all the key indicators. The company's operating profit for January-September (EUR 4.9 million) clearly exceeded the figure for the previous equivalent period (30.9.2005: EUR 4.2 million) The balance sheet total rose during the period to EUR 6,520.4 million, compared with EUR 5,962.7 million a year earlier.

Steady growth in lending

Municipality Finance's long-term loan portfolio stood at EUR 4,846.6 million at the end of September, whereas the equivalent figure one year earlier was EUR 4,438.1 million. It has increased by 5.5% since the end of the previous year and by 9.2% since the end of the corresponding period in the previous financial year. In spite of increasing competition, Municipality Finance has been able to keep its market share. The demand for loans in the financial markets in January-September 2006 was almost at the same level as last year's corresponding period.

Lively funding

During January-September the company acquired EUR 899.4 million in long-term funding (30.9.2005 EUR 848.4 million). The company's total funding acquired was EUR 6,086.2 million at the end of September, the corresponding figure one year earlier being EUR 5,723.8 million, just under half of which was denominated in euros.

The main emphasis in the acquisition of funding continues to be on international capital markets. Arrangements have been made on structured markets in particular. Funding has continued to be obtained

primarily from Asia, especially Japan, and in Europe, e.g. Germany, Switzerland, Denmark and Norway. During the end of September seven Municipal Bonds were launched.

An extraordinary meeting of Municipality Finance's shareholders on October 4, 2006 decided to increase the company's share capital by means of a share issue targeted at the local government sector. The company's plans have met with a favourable reception, and many municipalities, both big and smaller, have taken decisions to participate in the share subscription, which starts on November 1, 2006.

Municipality Finance has, as a company, been able to influence borrowing by the local government sector by increasing competition among financial institutions and, in doing so, reduced loan margins and municipalities' financial costs. Participation in the share issue should be seen as an effective opportunity for every municipality to have an impact through its own investment on the continuation of a competition situation that is favourable for the municipality. For these reasons the company hopes that municipalities of all sizes will take part in the issue on as wide a front as possible.

Investment in the company's new shares will provide a tangible opportunity to have an impact on the continuation of proper competition, which for municipalities will mean more favourable loan terms and conditions and loan products that are suited to their needs. The intention is to pay a dividend to shareholders for the 2006 financial year.

Demand for targeted bonds

The second targeted Municipal Bond in the history of Municipality Finance, i.e. the Sea Museum Bond, was issued in order to finance the new museum centre at Kotka. The sale of the Bond has started successfully.

Helsinki, October 23, 2006

Pekka Averio
Managing Director



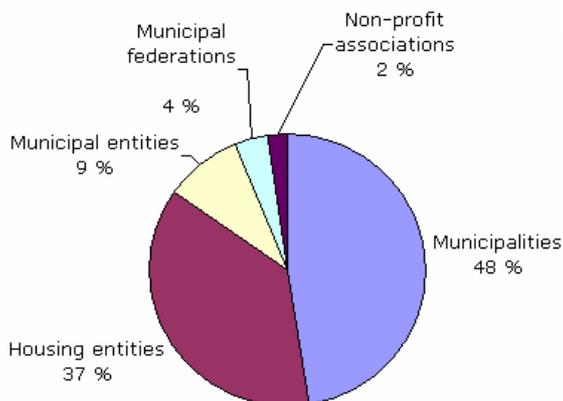
At the end of September Municipality Finance's balance sheet totalled EUR 6,520,4 million (September 30, 2005: EUR 5,962.7 million). The operating profit for January-September was EUR 4.9 million (January 1-September 30, 2005: EUR 4.2 million). The company's long-term loan portfolio stood at EUR 4.846,6 million, an increase of 5.5% from the end of 2005.

Lending

Municipality Finance's long-term loan portfolio stood at EUR 4,846.6 million at the end of September (September 30, 2005: EUR 4,438.1 million). The loan portfolio increased by 5.5% from the end of 2005 and by 9.2% from the end of September 2005.

In January-September 2006 EUR 568.7 million in long-term loans were withdrawn (January 1-September 30, 2005: EUR 673.0 million). At the end of September about EUR 228.8 million in offers had also been accepted (September 30, 2005 EUR 199.5 million). During 2006 the company's marketshare has been over 44 % of new loans.

The demand for loans in the first part of the year was almost at the level for the corresponding period in the previous year and has remained good in all customer segments.



Lending by borrower types Sep 30, 2006

Funding

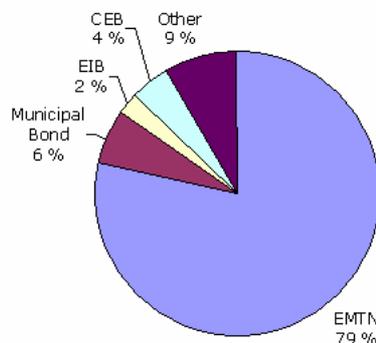
Funding by Municipality Finance is based on several key capital markets, mainly within the following debt programmes:

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-September the company acquired EUR 899.4 million in long-term funding (January 1-September 30, 2005: EUR 848.4 million). Short-term debt instruments under the Treasury Bill programme were issued for a total of EUR 915.9 million during the financial period (January 1-September 30, 2005: EUR 932.3 million). Total funding at the end of September stood at EUR 6,086.2 million (September 30, 2005: EUR 5,723.8 million) 48.1% of this was in the euro and 51.9% was denominated in other currencies.

Seven Municipal Bonds have been issued in 2006.

Municipality Finance's acquisition of funds in 2006 has focused, as before, on international capital markets. Arrangements have been made on structured markets in particular. Furthermore, Municipality Finance has operated on the public markets and through bilateral arrangements. The geographical focus has continued to be on Asia, where Japan has remained an extremely important source of money. In Europe the company has made arrangements on the Swiss, German, Danish and Norwegian markets.



Long-term funding sources on Sep 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 Board of Directors of Municipality Finance has set limits to the following indicators of market and liquidity risk:

- Value at Risk
- refinancing risk
- 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.

The company has access to a total of 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, 2006 was 29.73% (September 30, 2005: 31.51%). 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, 2006 stood at EUR 16.5 million. Own funds totalled EUR 99.5 million.

Operating result

Municipality Finance's results for the period under review were better than the corresponding period previous year. The profit before appropriations and taxes for the period January 1-September 30, 2006 was EUR 4.9 million (January 1-September 30, 2005: EUR 4.2 million).

Net income from financial operations was EUR 11.6 million (January 1-September 30, 2005: EUR 10.2 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-September 30, 2005: EUR 0.5 million). Assets from advance funding are invested in these instruments before the money is issued in loans to customers.

An entry of EUR 4.9 million was made in voluntary provisions as an appropriation from operating profit.

Personnel and administration

Municipality Finance's personnel are 36.

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. - 30.9.2006	1.1. - 30.9.2005	1.1. - 31.12.2005
Interest income	137,617,550.77	104,730,619.44	142,004,562.84
Interest expenses	-125,971,761.86	-94,578,593.95	-127,919,620.65
NET INCOME FROM FINANCIAL OPERATIONS	11,645,788.91	10,152,025.49	14,084,942.19
Commission expenses	-1,812,168.41	-1,759,244.87	-2,421,764.72
Net income from securities transactions and foreign exchange dealing	-8,542.51	2,191.83	3,843.71
Net income from available-for-sale financial assets	110,176.33	507,229.70	543,622.94
Other operating income	246,907.16	62,539.91	171,999.93
Administrative expenses			
Staff costs			
Salaries and fees	-1,566,590.88	-1,385,560.68	-2,165,167.98
Staff-related costs			
Pension costs	-362,915.19	-255,966.41	-379,153.79
Other staff-related costs	-130,799.22	-113,502.85	-179,197.79
Other administrative expenses	-1,297,727.99	-1,207,638.09	-1,643,509.65
Total administrative expenses	-3,358,033.28	-2,962,668.03	-4,367,029.21
Depreciation and write-downs on tangible and intangible assets	-401,410.73	-440,854.81	-587,716.74
Other operating expenses	-1,519,505.17	-1,314,858.32	-1,796,295.48
NET OPERATING PROFIT	4,903,212.30	4,246,360.90	5,631,602.62
PROFIT BEFORE APPROPRIATIONS AND TAXES	4,903,212.30	4,246,360.90	5,631,602.62
Appropriations *)	-4,878,000.00	-4,227,000.00	-5,602,000.00
Income taxes	-23,172.49	-17,539.18	-25,241.78
PROFIT FOR THE FINANCIAL YEAR	2,039.81	1,821.72	4,360.84

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

Key indicators

	30.9.2006	30.9.2005	31.12.2005
Turnover, EUR million	138.0	105.3	142.7
Net operating profit, EUR million	4.9	4.3	5.6
% of turnover	3.55	4.03	3.95
Balance sheet total, EUR million	6,520.4	5,962.7	6,050.2
Return on equity (ROE), %	9.65	8.78	8.76
Yield-expense ratio	1.69	1.66	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:

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

Balance sheet

ASSETS	30.9.2006	30.9.2005	31.12.2005
Liquid assets			
Cash	672.60	1,989.29	1,592.10
Liquid assets	4,234,924.86	4,243,407.90	3,251,294.09
Debt securities eligible for refinancing with central banks	950,111,532.23	829,466,785.20	835,050,650.92
Claims on credit institutions			
Repayable on demand	940,129.01	335,012.53	2,294,282.83
Other	34,406,396.93	17,741,274.07	21,197,171.03
Claims on the public and public sector entities	4,846,604,675.94	4,438,056,853.70	4,593,604,437.23
Debt securities			
Public sector entities	240,669,664.88	275,073,211.97	250,850,837.21
Other	267,132,432.19	265,826,971.48	205,403,186.40
Shares and participations	5,078,253.31	24,219.06	24,219.06
Derivative contracts	78,779,648.86	36,731,505.45	44,415,407.28
Intangible assets	658,481.55	743,390.06	698,484.27
Tangible assets			
Other tangible assets	1,177,476.52	1,173,455.88	1,121,907.40
Accrued income and prepayments	90,633,965.37	93,318,581.31	92,323,642.90
TOTAL ASSETS	<u>6,520,428,254.25</u>	<u>5,962,736,657.90</u>	<u>6,050,237,112.72</u>

LIABILITIES	30.9.2006	30.9.2005	31.12.2005
LIABILITIES			
Liabilities to credit institutions and central banks			
To credit institutions			
Other	405,231,425.20	466,196,455.02	421,512,441.84
Liabilities to the public and public sector entities	476,227,759.40	421,132,528.09	440,350,366.82
Debt securities issued to the public			
Bonds	4,988,250,512.91	4,637,300,779.41	4,532,385,528.87
Other	216,471,900.64	199,159,427.68	383,354,122.32
Derivative contracts and other trading liabilities	219,725,818.00	23,853,518.01	55,125,934.82
Other liabilities	798,832.94	730,609.90	2,651,879.53
Accrued expenses and deferred income	99,797,728.87	105,337,725.78	106,254,098.39
Subordinated liabilities	58,845,503.44	57,664,296.09	57,664,296.09
APPROPRIATIONS			
Voluntary provisions	39,168,000.00	32,915,000.00	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	-1,819,367.00	720,757.00	-1,079,656.00
Profit brought forward	929,389.03	925,028.19	925,028.19
Profit for the financial year	2,039.81	1,821.72	4,360.84
TOTAL LIABILITIES	<u>6,520,428,254.25</u>	<u>5,962,736,657.90</u>	<u>6,050,237,112.72</u>

Irrevocable commitments given in favour of a customer	411,279,800.00	454,435,608.00	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		
	30.9.2006	30.9.2005	31.12.2005
DERIVATIVE CONTRACTS			
Interest rate derivatives			
Interest rate swaps	7,351,880	6,469,934	6,877,907
Currency derivatives			
Forward exchange contracts	0	165	0
Interest rate and currency swaps	3,396,374	3,197,748	3,120,315
Index linked derivatives	279,545	91,305	57,480
Other derivatives			
Commodity linked derivatives	4,500	4500	4,500
Other	22,132	0	0
COMMITMENTS AND SECURITY GIVEN	30.9.2006	30.9.2005	31.12.2005
Bonds pledged to the Local Government Pensions Institution	38,052	40,437	40,119
Bonds pledged to the Municipal Guarantee Board	4,805,975	4,393,799	4,550,694
Debt securities pledged to the Municipal Guarantee Board	1,225,489	1,098,549	1,044,010
CAPITAL ADEQUACY	30.9.2006	30.9.2005	31.12.2005
Own funds			
Original own funds including capital loans	66,948	62,798	65,868
Deductions, intangible assets	-658	-743	-698
Additional own funds (net)	33,181	34,540	33,819
Total	99,471	96,595	98,989
Risk-weighted claims, investments and off-balance-sheet commitments	334,594	306,550	329,556
Capital adequacy ratio	29.73 %	31.51 %	30.04 %
Ratio of original own funds against risk-weighted claims, investments and off-balance sheet commitments	19.81 %	20.24 %	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.