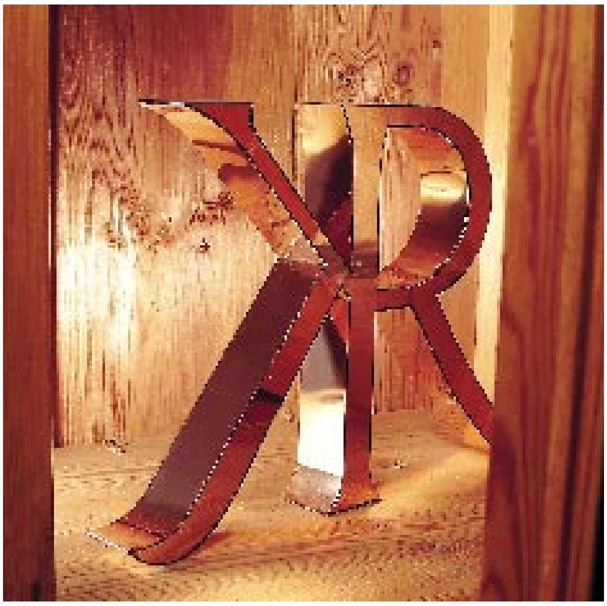

KUNTARAHOITUS

MUNICIPALITY FINANCE

ANNUAL REPORT 1997

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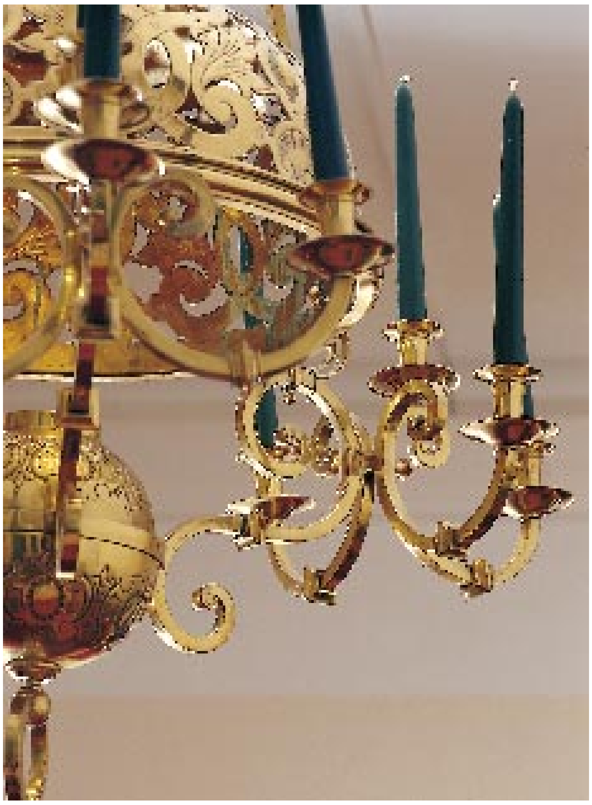


MUNICIPALITY FINANCE LTD.

Municipality Finance Ltd. represents the Finnish municipal sector on domestic and international capital markets. The company's main objective is to arrange finance for the municipal sector at the lowest possible cost. The company grants loans exclusively to municipalities, municipal federations and municipality-controlled entities whose loans are guaranteed by a municipality.

Municipality Finance was established in 1989 and it is a non-profit making organisation. The company has been wholly owned by the Local Government Pensions Institution from the very beginning. The funding of Municipality Finance is guaranteed by the Municipal Guarantee Board, a public organisation consisting of 421 member municipalities. The Act of governing the MGB came into force on July, 1996.

Through Municipality Finance, municipalities are able to reap the benefits of the sector's excellent credit rating and influence their own funding costs. Municipality Finance has been granted high credit ratings for both markka- and foreign currency-denominated funding. For this reason the company is able to raise funds at a reasonable cost and provide competitive loans to municipalities.

The company started lending operations at the beginning of 1991. It operates as a credit institution under the Act on Credit Institutions.

Funds are mainly raised by issuing bonds on the domestic and international capital markets. Municipal Bonds™ are the company's most important form of funding on the domestic market. They are suitable investment instruments for both private and institutional investors. Municipality Finance launched the first Municipal Bond issue five years ago. By the end of 1997, the company had executed 15 issues.

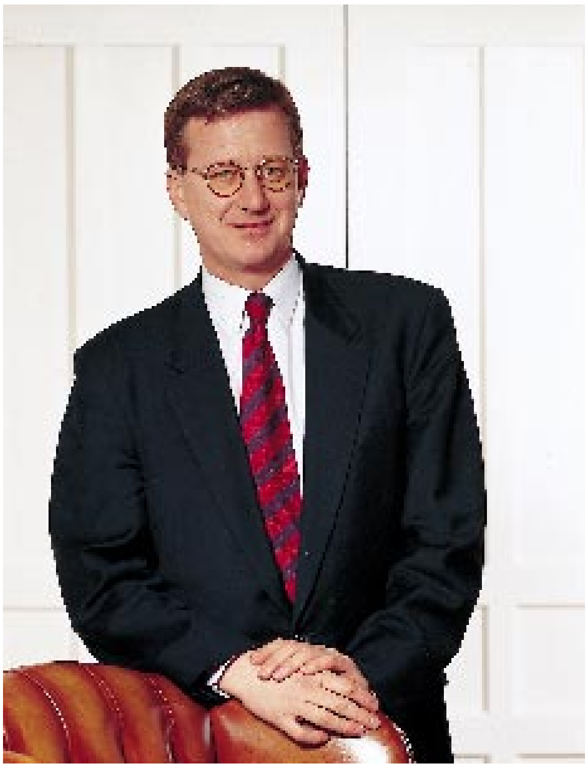
Short-term Municipal Notes are an increasingly important form of funding for Municipality Finance on the domestic market. They are suitable instruments for institutional investors. Funds raised are lent as short-term loans to the municipal sector. The first Municipal Notes were sold in January 1997.

Long-term funding is mainly raised under the EMTN programme listed on the London Stock Exchange.

All Municipality Finance debt is included in the zero risk category in capital adequacy calculations for banks and credit institutions in Finland.

Municipality Finance Ltd's credit ratings Jan 16 th 1998:

	Domestic currency	Foreign currency
Standard & Poor´s	AA+	AA
Moody´s	Aaa	Aa1



REVIEW OF THE MANAGING DIRECTOR

The problems in the Asian markets, and in the other emerging markets, shook the foundations of the financial system around the world. Many huge financial institutions have disappeared, many others are threatened. Well established banks are finding that their ratings can fall with unexpected suddenness. Huge trading losses, unreported problems, staff defections, and serious management problems can cause them to be downgraded overnight.

The financial supervision in many countries has been lax or just not equipped to handle the problems. The recent Wahlroos report, published in Finland, no matter what criticism has been launched against it, contained plenty of cold facts about the weaknesses and dangers of our present financial system. Because some offering financial services are getting bigger and are taking on huge market shares, there must be cause for concern about taxpayer liability and costs. What better time to remove the special privileges now that financial institutions are in better financial shape. When the next economic downturn occurs they will resist reform by claiming that their income statements cannot withstand the costs of restructuring. Furthermore, it is complacent to think that the next large losses for taxpayers could only be started in Finland. Look how swiftly an error on the other side of the world can cause global infection. In fact, the error does not have to happen so far from here.

What are the results of the changes in 1997 – new financial empires?

There has been an increase in the size of individual financial institutions and a reduction in banking capacity through mergers and acquisitions. The number of staff and offices have been reduced and the remaining market share has increased. Other types of financial institutions, like insurance companies and investment funds, are claiming market shares. The owners of financial institutions can be found across national boundaries through complex agreements and share holding schemes. Their balance sheets are increasing to a size that dwarfs the Finnish government's budget. Although they like to market their own national identity it is difficult to know who is responsible for their ultimate good health.

Growth and cross border mergers are executed to achieve efficiency and shareholder value which are virtuous and reasonable justifications. However, when such institutions enjoy special privileges through national legislation which really means that their products may receive significant tax benefits or that the taxpayer bears the ultimate responsibility for their liabilities, then the question arises who is responsible for looking after the taxpayers' interests? Is it the government where the holding company is registered, or is it the respective financial supervisors, jointly or separately, where they are operating. Is the media such a protector, with investigative reporting or the bureaucrats in the European Commission who carefully prepare exhaustive and comprehensive directives?

Private savers are generally the biggest taxpayers and they should be concerned about such liabilities because only healthy, competitive markets can produce secure and stable capital markets. Issuers and borrowers need competition to raise the cheapest cost of finance. We cannot succeed if there is a concentration of market share with a few who are more interested in selling their own products and restricting access of others to the markets. Even today the biggest banks have the easiest access to the capital markets when issuing windows open because they control the sales process. Finally, as banks grow the adage "too big to fail" becomes too much of a reality. Size and efficiency are business virtues - oligopoly is not.

What has this environment meant for Municipality Finance Ltd?

It was this environment in which we saw many important developments. We have seen an improvement in our relative rating position. After the government only municipal credit institutions are left with such a good rating. We have done as much as possible to prevent our balance sheet from risk infection. Risk management has been kept at the highest standards and strict adherence to our objectives of only lending to the Finnish municipalities. In order to be successful we have continued to develop our services for small and medium-sized investors.

There has been a return of demand for funding from the Finnish municipalities which has been reflected in a growth of our balance sheet. The growth in demand was modest and has been caused by a reduction of the excessive cash positions of the municipalities. These cash positions have been used to repay debt and to pay for the slight increase in investments which the sector as a whole is now undertaking. This was the first year, after three, that we have seen any increase in our total balance sheet.

Municipality Finance is competing in a market dominated by very large domestic and foreign financial institutions, some of whom have several significant advantages through taxation or government support. The playing field is not level and these institutions can consequently secure cheaper funding. The lower cost gives them higher operating margins. All domestic banks and some foreign banks are still enjoying government or State guarantees, directly or indirectly, when they borrow money in the capital markets. Deposit banks operating in Finland are able to take tax-free deposits under special legislation. Insurance companies are able to sell financial investment products in the markets using advertising which is not subject to the same stringent rules which Municipality Finance has to follow in the bond markets for products which are virtually identical.

However we saw a strong development of our sales of Municipal Bonds™ and Municipal Notes. At the end of the year, our sales team managed to sell almost FIM 300 million of Municipal Bonds to small and medium-sized investors in the course of six weeks. This was an impressive achievement after the patient sales efforts of the last four years. The sales of Municipal Notes have been in line with our expectations, particularly since the efforts have been aimed at the municipal sector as a cash management tool. The volume and their acceptance, by most municipalities, have been encouraging for the first year of this product.

Our Internet pages for investors and municipalities on www.munifin.fi have got the first on-line bond and loan calculator in Europe. The tools are those professional investors use. The same aids should be available to all, not just the professional investor or financial manager, but also the small investor who feels comfortable using the latest technology to calculate the returns of investing or the costs of borrowing.

The Asian crisis has lead to a flight to quality and caused the capital markets to slow down at the end of the year. There has been a lack in the availability of long-term funds and a relative increase in the cost of borrowing, even though liquidity has been at record levels. We have tried to find a solution to this problem which is both sustainable and viable. We have continued giving presentations to investors and bond salesmen in the major financial centers, where we have emphasized our suitability for retail accounts. Private and small institutional investors prefer to have very secure bonds with a high rating. We followed up a European presentation with a Swiss Franc bond issue lead by Swiss Bank Corporation. We were extremely pleased with the issue which received glowing reports in the press.

In Japan, we also sold two bond issues to the retail market through New Japan Securities and an affiliate of the Industrial Bank of Japan. The Japanese market is extremely important for Municipality Finance. We had a great success with the fifth joint presentation in June with Kommuninvest i Sverige in Tokyo, where we met some hundred institutions. All these foreign bond issues are as important as our Municipal Bonds and exemplify the importance of having the small and medium-sized investor buying our bonds.

What are the challenges for 1998?

Next year will see the entrance of the single European currency into the daily activities of the municipality and the investor. There will be no lull in the volatility of the market place. Even small surprises have the potential of wreaking havoc because so many are already worried about the crisis in Asian and in the other parts of the markets. The domino effect is here to stay and we will be lucky if the transition has little impact on our operations in 1998. Thus we will place special emphasis on following the path we have already chosen and seek to maintain our high credit rating and improve our position on the retail markets. The municipalities will demand and get the best price in the market for their financial needs. Municipality Finance will be one important channel.

Nicholas Anderson
Managing Director

REVIEW OF OPERATIONS IN 1997

At the end of the year Municipality Finance Ltd.'s balance sheet stood at FIM 8,090 million, which was FIM 1,443 million more than in 1996.

In 1997 all long-term funding was guaranteed by the Municipal Guarantee Board. The Act on the Municipal Guarantee Board came into force on July 1, 1996. According to section 1 of the Act, the Municipal Guarantee Board may grant guarantees for such funding of credit institutions owned or controlled by municipalities, which will be used for lending to the municipal sector. Since December 2, 1996 all funding of Municipality Finance has thus been guaranteed by the Municipal Guarantee Board. All funding guaranteed by the Local Government Pensions Institution ended on December 2, 1996 will remain unchanged until the date of its final maturity.

The company's capital adequacy ratios in the years 1993-1997 were as follows:

1993	33%	1994	35%	1995	45%
1996	44%	1997	27%		

According to the Act on Credit Institutions, the minimum capital adequacy ratio is set at 8%. There have not been any non-performing loans, nor credit losses in the company's history. Share capital now stands at FIM 38 million and share capital including tier one capital stands at FIM 50.8 million. The Local Government Pensions Institution holds 100% of the equity of Municipality Finance Ltd.

Lending

Municipality Finance Ltd. grants loans mainly to municipalities and municipal federations. If a municipality or a municipal federation acts as a guarantor, loans can also be granted to municipality-controlled companies and foundations.

Borrowing by municipalities was brisk throughout 1997. The loan portfolio of Municipality Finance totalled FIM 7,038 million at the end of 1997. Of all loans granted, 89% were denominated in markka and 11% in foreign currencies. The amount of new borrowings by municipalities from Municipality Finance totalled FIM 2,162 million in 1997. Loans granted in 1996 totalled FIM 1,484 million.

All new loans were denominated in markka. The majority of the loans had annual repayment structures. The total of loans, which finally matured during the accounting period totalled FIM 1,306 million. The number of long-term loan agreements was 844 at the end of 1997. The number of borrowers was 376 against 363 at the end of 1996. The company did not grant any short-term loans.

The total number of municipal commercial paper programmes was 100 at the end of the year, totalling FIM 2,124 million. Trading in municipal paper remained active totalling FIM 1,741 million at the end of the year.

The book value of leased property stood at FIM 718,000 at the end of the year.

Funding

The company has launched a programme for the issuance of Municipal Bonds™. According to this programme, the maximum total of bonds which may be issued is FIM 1,500 million. In 1996 this was the first programme in Finland under which it was possible to issue a debt listed on the Helsinki Stock Exchange. In March 1997 the company issued its first index-linked Municipal Bond. Return on the loan is tied to the price development of a share index basket during term-to-maturity. Return on a share index is calculated on the basis of price changes of certain shares listed on stock exchanges in Amsterdam, Paris, Frankfurt and London during a certain period of time.

In 1996 Municipality Finance Ltd. and the European Investment Bank (EIB) signed a Global Loan Agreement for FIM 200 million. During 1997 the loan was wholly used for projects of energy production, environmental protection and infrastructure in the municipal sector. Negotiations are under way with EIB in order to sign a new Global Loan Agreement for FIM 200 million for the above mentioned projects. In December

1997 co-operation with EIB was broadened when a Global Loan Agreement for FIM 160 million was signed. These credits will be offered to the municipal sector for health care projects and education.

In December 1997 Municipality Finance and the Social Development Fund of Council of Europe signed a financing agreement for ECU 100 million. Credits will be offered to the municipal sector for projects of health care, education, environmental protection, and basic social infrastructure.

Municipality Finance has a FIM 5 billion Medium Term Note programme, which is an agreement on issuance of debt to the Euro market. In March the company launched two bond issues totalling AUD 85 million and USD 80 million to the Japanese retail market through IBJ International and New Japan Securities Europe Limited. In December an issue totalling CHF 150 million was sold through Swiss Bank Corporation to retail investors. This was significant for Municipality Finance Ltd. in terms of entering the Swiss retail market. The issue was syndicated by twenty-four banks. During the year, the company issued debt under the EMTN programme totalling FIM 2,215 million. The issuance under the Municipal Bond programme totalled FIM 609 million. Other long-term debt totalled FIM 162 million. The company's short-term funding totalled FIM 331 million at the end of the year. The amount of long-term debt falling due during the year totalled FIM 1,298 million. Total funding at the end of the accounting period was FIM 7,749 million of which 46% was denominated in markka and 54% in foreign currencies.

The company launched actively an issuance of short-term debt at the beginning of 1997. The Municipal Note programme is targeted at institutional investors as an investment instrument. Municipal Notes are discount papers with final maturities of less than 12 months. They are included in the zero risk category in capital adequacy calculations and are guaranteed by the Municipal Guarantee Board. Funds raised by the sales of Municipal Notes are granted as loans to the Finnish municipal sector.

Risk management

The prime objective of Municipality Finance is to satisfy the financing requirements of the municipal sector at the lowest possible costs. Because the company is indirectly owned and guaranteed by municipalities, it does not seek to maximise profits and therefore all risks have been minimised. The company has been hedged completely against foreign currency risks, and exposure to interest rate risks is limited. Risks are hedged with interest rate swaps, currency rate swaps and forward rate agreements. Other derivative instruments may also be used for hedging. Risk management is improved further by standardising loan terms and dates when loans are drawn down.

The company uses risk management software for monitoring counterparty risks, interest rate risks, as well as foreign currency risks. Rating requirements and internal risk limits have been set for counterparties. The counterparties of interest rate swaps denominated in Finnish markka are required to have at least rating A. With other currencies the minimum rating requirement is AA-. The company's portfolio of loans carries no real credit risks, as it lends exclusively to municipalities, municipal federations and municipality-controlled companies whose loans are guaranteed by a municipality. The same prudent policies are followed for investment activity. The majority of liquid assets is always invested in Finnish government treasury bills, bonds or bank CDs. The company reports regularly on its activities to the Bank of Finland and the Financial Supervision.

Outlook for 1998

The single European currency euro will soon enter into the daily activities of municipalities and investors. Volatility will continue on the markets. The crisis in Asia and mergers in the banking sector will result in further market fluctuations. Municipality Finance will place special emphasis on following the path it has already chosen. The company's objective is to lower municipalities' financial costs through a joint funding system, as well as to maintain a high credit rating. Municipality Finance Ltd. will offer an important channel for fulfilling the financial needs of municipalities.

Personnel and administration

The company's personnel numbered fourteen at the end of 1997. According to the Articles of Association, the Board of Directors comprises at least four and at most six members. On February 4, 1997 the Annual General Meeting appointed a Company Board.

The Board of Directors:

Mr. Simo Lämsä, **Chairman**
Managing Director,
The Local Government Pensions Institution

Mr. Pekka Alanen
Deputy Managing Director,
Association of Finnish Local Authorities

Ms. Marja Kauppila
Credit Manager,
The Local Government Pensions Institution

Ms. Raija Peltonen
Chairman of the Municipal Council,
Municipality of Hartola
Director of Finance, Peltonen Ski Oy

Mr. Seppo Perttula
Deputy Managing Director,
The Local Government Pensions Institution

Ms. Leena Siikanen-Toivio
City Manager, City of Toijala

The company has a 12-member Advisory Council, the function of which is to supply advice and recommendations, and to guide and direct the company in matters connected with its operating conditions and their

The Advisory Council:

Mr. Arto Laitinen, Chairman
Manager, Municipal Finance
Association of Finnish Local Authorities

Ms. Christel von Martens
Deputy Chairman, Development Manager
Association of Finnish Local Authorities

Mr. Håkan Fant
Auditor, Oy Audiator Ab

Ms. Riitta Hallberg
Municipal Secretary, City of Viitasaari

Ms. Maija-Liisa Havia
Finance Director, City of Jyväskylä
Member since February 10, 1998

Mr. Aaro Honkola
City Treasurer, City of Seinäjoki

Mr. Hannu Horto
Finance Director, City of Kotka

Ms. Marjatta Keisu
Municipal Manager, Municipality of Liminka

Mr. Tapio Korhonen
Finance Director, City of Helsinki

Mr. Mika Mäkinen
Financing Manager, City of Turku
Member until February 10, 1998

Mr. Karl-Gustaf Lindström
Controller, Municipality of Kirkkonummi

Mr. Simo Paassilta
Municipal Manager, Municipality of Halikko

Mr. Matti Tölli
City Treasurer, City of Kemi

The auditors of the company are Arthur Andersen Kihlman Oy, Authorised Public Accountants. Mr. Erkki Mitro, APA, as the auditor with the main responsibility and Mr. Jaakko Pohtio, APA and as the deputy auditor Mr. Eero Prepula, APA, Charted Public Finance Auditor.

PROFIT AND LOSS ACCOUNT

(FIM 000's)

	1 January- 31 December 1997			1 January- 31 December 1996		
INTEREST INCOME						
Claims on credit institutions		583			2 238	
Claims on the public and public sector entities		431 015			525 081	
Debt securities		16 462			30 642	
Other interest income		2 454	450 514		898	558 859
NET INCOME FROM LEASING OPERATIONS			73			180
INTEREST EXPENSES						
Liabilities to credit institutions		9 764			5 687	
Debt securities issued to the public		419 458			567 385	
Other interest expenses		4 058	-433 280		-29 284	-543 788
NET INCOME FROM FINANCIAL OPERATIONS			17 307			15 251
COMMISSION INCOME			116			444
COMMISSION EXPENSES			-3 638			-4 589
NET INCOME FROM SECURITIES TRANSACTIONS AND FOREIGN EXCHANGE DEALING						
Net income from securities transactions						
Debt securities		-98			1 891	
Net income from foreign exchange dealing		134	36		365	2 256
OTHER OPERATING INCOME			32			11
ADMINISTRATIVE EXPENSES						
Staff costs						
Salaries	3 476			2 971		
Pension costs	606			508		
Social security costs	262			130		
Other staff-related costs	330	4 674		284	3 893	
Other administrative expenses		4 521	-9 195		3 867	-7 760
DEPRECIATION			-705			-562
OTHER OPERATING EXPENSES			-3 225			-2 599
NET OPERATING PROFIT			728			2 452
INCREASE IN VOLUNTARY PROVISIONS						
Increase in fund for general banking risks			-680			-2 200
DIRECT TAXES			-36			-96
PROFIT FOR THE FINANCIAL YEAR			12			156

BALANCE SHEET

(FIM 000's)

ASSETS	31 DECEMBER 1997		31 DECEMBER 1996	
Liquid assets				
Cash in hand		7		3
Claims on credit institutions and central banks				
Claims on credit institutions				
Repayable on demand	1 172		533	
Other	123 000	124 172	8 701	9 234
Claims on the public and public sector entities		7 037 596		6 154 090
Leasing assets		718		553
Debt securities				
On public sector entities	331 797		219 572	
Other	390 642	722 439	40 619	260 191
Shares and participations		59		60
Tangible assets				
Machinery and equipment	1 660		1 510	
Other tangible assets	653	2 313	444	1 954
Other assets				
Cash items in the process of collection		1		2
Accrued income and prepayments				
Interest	199 173		219 307	
Other	3 074	202 247	1 856	221 163
TOTAL ASSETS		8 089 552		6 647 250

BALANCE SHEET

(FIM 000's)

LIABILITIES	31 DECEMBER 1997		31 DECEMBER 1997	
Liabilities:				
Liabilities to credit institutions and central banks				
Credit institutions				
Other		352 572		189 631
Debt securities issued to the public				
Bonds	7 065 904		5 421 192	
Other	330 893	7 396 797	611 013	6 032 205
Other liabilities				
Cash items in the process of collection		4		–
Accrued expenses and deferred income				
Interest	173 549		198 848	
Other	115 782	289 331	176 410	375 258
Voluntary provisions				
Fund for general banking risks		10 499		9 819
Equity capital:				
Restricted equity:				
Share capital	38 000		38 000	
Reserve fund	2 335	40 335	2 335	40 335
Distributable equity:				
Profit/Loss brought forward	2		-154	
Profit for the financial year	12	14	156	2
TOTAL LIABILITIES		8 089 552		6 647 250
OFF-BALANCE SHEET COMMITMENTS				
Irrevocable commitments given in a favour of a customer		251 450		252 155

SOURCE AND APPLICATION OF FUNDS

(FIM 000's)

SOURCE OF FUNDS	**1997**	**1996**
Funds generated from operations		
Profit for the year	12	156
Depreciation on fixed assets	944	1 132
Change in reserves	680	2 200
Change in liabilities		
Short-term liabilities	-366 043	415 781
Long-term domestic liabilities	256 959	-982 097
Long-term foreign liabilities	1 550 694	-323 155
Total	1 443 246	-885 983
APPLICATION OF FUNDS		
Change in receivables		
Cash and receivables from domestic banks	114 942	4 019
Lending to customers	1 185 422	583 411
Public bond issues	-301 917	-1 187 700
Other domestic receivables	200 140	-2 416
Foreign receivables	11 782	-11 551
Change in investments		
Trading assets	231 410	-273 471
Fixed assets and other assets	1 467	1 725
Total	1 443 246	-885 983

NOTES ON THE ACCOUNTS ON 31 DECEMBER 1997

1. Debt securities under assets in the balance sheet and debt securities issued to the public under liabilities, itemized.

Assets:	
Certificates of deposit	323,491,829
Treasury bills	24,900,408
Municipal bonds	199,922,435
Other bonds	174,125,193
Liabilities:	
Bonds	7,065,904,481
Others	330,892,949

2. Maturity breakdown of claims and liabilities on the basis of remaining maturity

	0-3 months	3-12 months	1-5 years	over 5 years
Claims on credit institutions	124,171,837	–	–	–
Claims on the public and public sector entities	–	766,291,145	3,984,306,275	2,286,998,363
Debt securities	196,384,851	358,325,085	148,257,814	19,472,115
Liabilities to credit institutions	–	–	156,342,200	196,230,000
Debt securities issued to the public	223,536,425	1,162,920,517	5,117,324,135	893,016,353

3. Assets and liabilities broken down into items denominated in domestic and foreign currency

	FIM	Foreign currency
Claims on credit institutions	124,169,542	2,295
Claims on the public and public sector entities	6,247,075,094	790,520,689
Debt securities	722,439,865	–
Liabilities to credit institutions	43,430,000	309,142,200
Debt securities issued to the public	3,516,406,794	3,880,390,636

4. Claims on the public and public-sector entities broken down by sectors

Corporations	676,203,290
Public sector entities	6,339,260,788
Non-profit organizations	22,131,705

All lending to corporations, public sector entities and non-profit organizations is guaranteed by a municipality or a city.

5. All debt securities under assets in the balance sheet are transferable.

6. Municipality Finance Ltd. does not have any non-performing nor other zero interest assets.

7. Municipality Finance Ltd. has no debentures nor other claims of less priority in comparison with the debtor's other debts.

8. Municipality Finance Ltd. has not granted any loans or guarantees to the members of the Board, to the Managing Director or to the auditors.

9. Leasing

Machinery and equipment	717,915

10. All debt securities in the Municipality Finance Ltd. balance sheet are transferable.

11. The total amount of the difference between the market value and a lower book value of "Debt securities": FIM 934,631.

12. Tangible assets in the balance sheet

	Tangible assets
Book value at the beginning of the accounting period	1,954,171
+ acquisition costs during the accounting period	1,062,620
– depreciation made during the accounting period	704,538
Book value at the end of the accounting period	2,312,253

13. Municipality Finance Ltd. has no shares in real estates nor in real estate corporations.

14. Municipality Finance Ltd. has not acquired the ownership of assets, which were given as security for claims.

15. Commitments and security given

Pledged bonds to the Local Government Pensions Institution	4,420,860,012
Pledged debt securities to the Local Government Pensions Institution	53,920,064
Pledged bonds to the Municipal Guarantee Board	2,630,449,933
Pledged debt securities to the Municipal Guarantee Board	372,104,484

16a) Total amount of the nominal value and the lower book value of liabilities

Bonds	9,371,701
Others	2,207,051

16b) Total amount of the book value and the lower nominal value of liabilities

Bonds	14,263,082

17. Municipality Finance Ltd. has not issued convertible debentures nor option linked bond issues.

18. Municipality Finance Ltd. has no debt of less priority in comparison with other debt.

19. There have been no changes in various items under equity capital during the accounting period.

20. The business area of Municipality Finance Ltd. is to operate as a credit institution. The company's market area is Finland.

21. Net income on leased assets

Rental income	312,971
Planned depreciation	-239,950
Total	73,021

22. Other operating income and operating expenses in the profit and loss account itemized as follows:

Other operating income	
Other income	31,897
Other operating expenses	
Rental expenses	751,070
Other expenses	2,474,131

23. Municipality Finance Ltd. has not got any credit losses nor guarantee losses.

24. Off-balance sheet commitments and liabilities

Binding stand-by facilities	251,450,000

	Underlying securities For hedging purposes
Interest rate derivatives	
Forward rate contracts	123,000,000
Written options	150,000,000
Interest rate swaps	1,634,204,883
Currency derivatives	
Forward rate contracts	47,879,600
Interest rate and currency swaps	4,667,239,349

	Credit value of contracts
Interest rate derivative contracts	48,462,000
Currency derivative contracts	413,545,000

25. Municipality Finance Ltd. had no leasing payments.

26. The company is subject to the Local Government Officials' and Municipal Employees' Pensions Act.

27. Municipality Finance Ltd. asset management services
Municipality Finance Ltd. provides its Municipal Bond customers with free safe custody, which includes the custody of the physical securities by the company and payment of interest and principal directly to customers' accounts.

28. Municipality Finance Ltd. had 14 full-time employees during the accounting period.

29. The shares of Municipality Finance Ltd. have not been divided into different kinds of shares.

30. Municipality Finance Ltd. has no capital investments.

31. The Local Government Pensions Institution has a 100 % holding in Municipality Finance Ltd.

32. Municipality Finance Ltd. is not part of any consolidated corporation nor does it have any affiliate companies.

33. Liabilities to the Local Government Pensions Institution (the owner).

Accrued expenses	2,740,228

34. Municipality Finance Ltd. does not own shares in any consolidated corporation nor in any affiliate company.

35. Items denominated in foreign currencies
Receivables and liabilities have been converted into Finnish markkas at the Bank of Finland middle rate on the balance sheet date. Exchange rate differences arising in the valuation process are included under 'Net income from foreign exchange operations' in the Profit and Loss Account.

36. Depreciation principles
Machinery and equipment are depreciated according to a plan on the straight-line principle over five years, computer hardware and software straight-line over four years, and other long-term expenses straight-line over ten years. The planned depreciation was made on leased equipment, based on the length of the relevant leasing agreements.

KEY INDICATORS DESCRIBING THE FINANCIAL DEVELOPMENT OF MUNICIPALITY FINANCE LTD.

	1997	1996	1995	1994	1993
Turnover, FIM million	451	562	672	647	634
Net Operating Profit / Loss	0.7	2.5	1.2	0.2	- 0.2
% of turnover	0.2	0.5	0.2	-	-
Return on equity % (ROE)	1.4	4.8	2.5	-	-
Equity ratio %	0.6	0.8	0.6	0.6	0.6
Yield-expense ratio %	1.0	1.2	1.1	1.0	1.0

Turnover consists of both income from interests, leasing operations, commissions, securities trade, currency operations and of the total value of other operating income.

Net operating profit / loss can directly be seen in the profit and loss account.

Return on equity ratio (ROE) is calculated as follows:

$$\frac{\text{Net operating profit / loss - taxes}}{\text{Equity capital + voluntary provisions (average of year beginning and year end)}} \times 100$$

Equity ratio is calculated as follows:

$$\frac{\text{Equity capital + voluntary provisions}}{\text{Balance sheet total}} \times 100$$

Yield - expense ratio is calculated as follows:

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

RESULT FOR THE ACCOUNTING PERIOD AND DISTRIBUTION OF PROFIT

The financial statements show a profit of FIM 11,500.63.
The Board of Directors proposes that the profit of the year be retained under non-restricted equity capital and that no dividend be distributed.

Helsinki, 4 February 1998
MUNICIPALITY FINANCE LTD.

Mr. Simo Lämsä
Chairman of the Board

Mr. Pekka Alanen
Member of the Board

Ms. Marja Kauppila
Member of the Board

Ms. Raija Peltonen
Member of the Board

Mr. Seppo Perttula
Member of the Board

Ms. Leena Siikanen-Toivio
Member of the Board

Mr. Nicholas Anderson
Managing Director

AUDITORS' REPORT

To the shareholders of Municipality Finance Ltd.

We have audited the accounting, the financial statements and the corporate governance of Municipality Finance Ltd. for the period 1 January –31 December 1997. The financial statements, which include the report of the Board of Directors, income statement, balance sheet and notes to the financial statements have been prepared by the board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors, the Managing Director and the Deputy Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of the company' s result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors, the Managing Director and the Deputy Managing Director can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies' Act.

Helsinki, 5 February 1998
ARTHUR ANDERSEN KIHLMAN OY
Authorised Public Accountants

Erkki Mitro
Authorised Public Accountant

Jaakko Pohtio
Authorised Public Accountant