1999
ANNUAL REPORT

KUNTARAHOITUS
MUNICIPALITY FINANCE

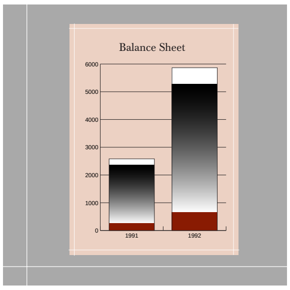
MUNICIPALITY FINANCE 10 YEARS

MUNICIPALITY FINANCE LTD

1989: Municipality Finance was established.

1990: The company started its operations.

1991: The first presentation in Japan



1992: The company's balance sheet increased significantly.

1993: Municipal Bonds were launched onto the markets.

1994: Municipality Finance celebrated after having moved to Kalevankatu. The company is currently located in Yrjönkatu.

1995: Municipality Finance on Municipal Markets

1996: Kotkan Energia Oy, a power plant and client

1997: The first bond issue on the Japanese retail markets

1998: Bond issues on the Swiss capital markets

1999: A joint Nordic road show in Switzerland

KUNTARAHOITUS
MUNICIPALITY FINANCE

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MUNICIPALITY FINANCE 1999

In 1999 it was 10 years since Municipality Finance Plc was established. The company started its operations at the beginning of 1990. During the past decade the company has gained a strong and stable position as the representative of Finnish municipalities on the domestic and international capital markets.

The year 1999 was financially successful for Municipality Finance. The company continued to fulfil actively its main objective, which is to provide market-based funding for the municipal sector at the lowest possible cost. The company's lending increased further during 1999. The company provided approximately 50% of all new municipal loans in 1999. The company's loan portfolio totalled EUR 1,546 million *(FIM 9,192 million)*. The company's balance sheet has also increased steadily and it stood at EUR 2,013 million *(FIM 11,969 million)* at the end of the year.

In 1999 Municipality Finance raised funds by issuing bonds on the domestic and international capital markets. The company launched two bond issues on the Swiss financial markets. Additionally, the company signed loan agreements with the European Investment Bank and the Council of Europe Development Bank. Total funding at the end of the financial year was EUR 1,941 million *(FIM 11,541 million)*.

Municipal Bonds and Treasury Bills are important forms of domestic funding for Municipality Finance. In 1999 the company launched four new Municipal Bond issues, the latest of which ended in January 2000.

In order to enhance healthy and open competition on the financial markets Municipality Finance made an announcement that it will establish two interest rate funds together with the German DekaInvest. The funds, Euro Money Market Fund and Euro Bond Fund, are targeted at professional investors. The funds will start operating during the first half of 2000.

Nordic co-operation was active in 1999. Municipality Finance arranged together with its Nordic co-operation partners the first joint presentation in Switzerland. Additionally, Municipality Finance, Kommuninvest i Sverige and the Norwegian Kommunalbanken gave the seventh consecutive joint presentation in Japan.

Municipality Finance continued its active role as a municipal financial consultant. The company made presentations during visits to various municipalities around Finland.

The company's personnel numbered 17 at the end of 1999. Nicholas Anderson is the Managing Director and Juha Heinonen the Deputy Managing Director of Municipality Finance.

In the picture Municipality Finance's staff.
Behind (from the left): Raija House, Toni Heikkilä, Marjo Träskbäck, Sinikka Huitu, Jukka Reijonen, Jaana Palmroos, Riitta Jämsä, Matti Kanerva and Katriina Hartikka.

Front (from the left): Leena Roininen-Himberg, Heli Iiskola, Marjo Tomminen, Nicholas Anderson and Juha Heinonen.
Absent: Riikka Levonen and Anu Pääkkönen.

REVIEW OF THE MANAGING DIRECTOR

Mr. Nicholas Anderson

Central governments – and local governments as well – are free to raise debt to finance their budget within the limits set by themselves. They are able to take advantage of their right to tax residents and rely on the general credit-worthiness of the whole country to secure the best ratings and the lowest cost of funding.

Debt is required to maintain and develop the most important basic services such as health care, education, social welfare, care of the young and elderly, social housing, basic utilities and, finally, security. In some OECD countries, central governments have agreed with local governments that the provision of some or most of these basic services are delegated to local government. Local governments are then responsible to invest in and maintain the necessary infrastructure with income from various combinations of taxation, government grants, charges, other income and debt.

Local governments have their own joint funding agencies

Most cities, municipalities and their associated entities are too small to enter directly into the capital markets. Individual municipalities do not have the volume or the resources to deal with all market participants. Municipalities are not always able to get the best rating because they are regarded to be too small by the rating agencies.

Only the very largest cities and regions, from the major European countries, have the size necessary for regular successful issues in the institutional markets. Within Europe, the debt of the municipal governments is modest when compared to that of central governments. The debt of the most central governments, with the exception of Germany, UK, France, Spain and Italy, is small compared to the current optimal size necessary for efficient use of the capital markets.

It is only natural that municipalities have created public funding agencies to take advantage of joint efficiencies. In order to establish a credible and secure rating, municipalities must come together to form a joint funding system. Municipal and public funding agencies are found throughout Europe, the United States, in Australia and in Asia. In many countries, they have existed for over one hundred years and are still strong and important participants in the markets.

They are organized to achieve cost savings for their owner members through organisation efficiencies, by creating a more competitive environment and through joint guarantee systems that enable the whole group to benefit from a stronger credit rating than the individual parts.

Municipalities provide the basic services

The basic services belong to the public domain and fall under the umbrella of public interest, irrespective of whether they are provided by local or central government. European Union governments and the European Commission have maintained consistently that these basic services fall within the public domain and within the public interest. Naturally, there are different shades of political opinion on what services should be subject to free competition and what services can be produced by the private sector. However, the range of alternative views held by the vast majority of mainstream politicians is somewhat narrow. Differences between political parties on such questions are more a difference of emphasis rather than of substance.

Municipal Funding Agencies are municipal agents

The Municipal Funding Agencies perform financial functions that are lawfully performed by each of the member owners. The agencies use financial software that minimizes interest rate risks and other similar exposures. They standardize documentation and give financial training and advise, on a comprehensive range of financial products. The logic of having skilled professionals in the State Treasury applies with equal force to the municipal sector.

The Nordic Municipal Funding Agencies do not introduce new activities or more risky activities into the municipal system. Furthermore, they do nothing more than what their owner members already perform.

Under EU regulations, State Aid occurs, inter alia, when governments grant financial guarantees and share capital to a commercial business without the expectation of receiving a fair market return. The Amsterdam Declaration and other documents widely circulated inside the EU, like for example the Cohen Report from Holland, and decisions from the Commission show conclusively that Nordic Municipal Funding Agencies operating within their narrow definition are operating within the public domain and in the public interest.

Municipal Funding Agencies stimulate competition

In many countries, the existence of Municipal Funding Agencies actually stimulates competition for municipal finance. In fact, it seems to be the main objective of the free market to remove competition and strive for higher margins to maximize profits. With the current high number of bank mergers, small and medium size municipalities are seeing less interest from banks to bid for their financing. Many banks are closing down unprofitable offices, turning away from small marginal clients in remote areas and concentrating on new more profitable financial products like insurance and investment funds. They are spending more time and resources on more profitable larger clients and on developing proprietary trading for their own account. Against this background it can be claimed that the role of the municipalities in stimulating competition is essential for the viability of local communities and their long-term stability. Smaller countries with less populated, less privileged and remote regions suffer a considerable economic disadvantage when the private sector pulls away. Local businesses and local residents need to have the provision of basic financial services. If the private sector cannot provide them then the public sector may step in.

Nordic Municipal Funding Agencies are not ordinary banks

Nordic Municipal Funding Agencies are not like ordinary banks. Municipal Funding Agencies are risk-averse organizations that mainly provide the basic financial services to their owner members. Most of them are supervised with the same regulations as ordinary banks and investment banks. These regulations were originally designed for controlling and monitoring the risks undertaken by international and active commercial banks. Governments want to be sure that the financial and payments systems do not break down due to excessive risk taking. Moral hazard, poor management and the ability to move money to less regulated financial markets means that regulators must have adequate tools to carry out efficient supervision.

The Nordic Municipal Funding Agencies occupy a special limited position within the whole sector in that they are the only agencies that are functioning within the narrowest definition of agency business. They are providing limited financial services to their owner members and are not crossing national boundaries in their lending business. Furthermore, they do not seek to maximize profits but only to cover costs and create reserves for possible future contingencies. There can be no doubt that they are operating in the public domain and in the general economic interest of their respective countries.

MUNICIPAL SECTOR ON CHANGING FINANCIAL MARKETS

Mr. Aaro Honkola
Finance Director, City of Seinäjoki
Chairman of the Advisory Council, Municipality Finance Plc

The municipal sector and the service production systems of municipalities went through a major crisis during the exceptionally severe recession at the beginning of the 1990's. Municipalities were faced with a new situation where unemployment increased sharply, tax revenues decreased and measures were needed to reorganise public finances, including cuts in state grants. Possibilities for tax increases were limited and it was not feasible to make quick changes in service production methods. Municipalities had to find new operational models, intensify service production and take care of municipal finance.

Now it can be stated that the municipal sector performed rather well in reorganising public finances. The municipal sector has proven to be flexible and able to react to changing circumstances. Production of basic services in municipalities has remained on the level meeting the standards of Nordic welfare states. Similarly, employees working for the municipal sector have been taken care of, and municipal finances are on a satisfactory level.

Major changes on financial markets had an essential effect on the economic crisis. The banking sector was the first to suffer from the consequences of recession. Credit losses incurring from the bankruptcy wave of companies led to structural changes in the Finnish banking sector, the results of which can still be seen. Relations between municipalities and the banking sector changed. Municipalities started to pay more attention to cash returns, loan costs, loan portfolio structures, free competition and risk management. The traditional banking sector had to take a whole new approach to municipalities and it had to take into account the requirements of tightening competition. This resulted in lower credit costs and increased cost-efficiency in the municipal sector.

Also Municipality Finance Plc was established at that time. The company entered in competing for municipalities' finance needs, which had a substantial effect on the development of municipal funding activities and specifically on the development of loan markets. At the same time, the municipal sector was able to benefit from the know-how and professional skills of Municipality Finance's personnel. Deregulation and real competition have brought clear cost savings for municipalities. This development has made it possible to direct new resources to service production. For example the funding alternatives offered by the Council of Europe Development Bank and the European Investment Bank through Municipality Finance have provided a useful finance alternative for Finnish municipalities. Especially small and medium-sized municipalities and cities now have an alternative way of funding in competitive conditions. They are also able to benefit from funding raised on international capital markets.

A significant change in municipal funding took place when the Municipal Guarantee Board was established in 1996. As the guarantee system was developed also operational policies were defined more clearly and a new system was created, in which the municipal sector's excellent credit standing could benefit funding. Municipalities were unanimous concerning the need for developing a guarantee system, and a total of 421 municipalities became members of the Guarantee Board short after its establishment.

Municipality Finance Plc has developed its funding operations also on domestic capital markets. The company's Municipal Bonds targeted at private and institutional investors are an important form of funding. They provide a risk free investment alternative with a reasonable yield for municipalities to invest their extra cash reserves. The new money market and bond funds to be established by Municipality Finance and Deka Investment Management GmbH provide also new investment opportunities for municipalities.

It is forecasted that the Finnish economy will continue growing. It is estimated that the GDP will grow by approximately 4%, unemployment will decrease further and the inflation level will remain low. All this will create growth expectations also for the development of municipal finance. Behind the figures describing the development of national economy remains the fact that there are still huge differences between municipalities, which means that there are different investment needs in different parts of Finland.

The future prospects of local governments look bright. Therefore, municipalities are able to enhance various development projects and make more investments. Municipal investments are expected to step up, which means that municipalities will make new necessary investments that were postponed during the recession. This will be necessary in order to secure Finland's competitive edge also in the future. A requirement for municipal investments is to have functional and efficient financial markets that provide competitively priced funding for municipalities. In that way local governments can efficiently produce such basic welfare services that residents expect to get and what they need.

The Advisory Council of Municipality Finance seeks to develop the company's operations through its own activities. The function of the Advisory Council is to supply advice and recommendations, and to guide and direct the company in matters connected with its operating conditions and their development. Thus, the Advisory Council helps the company to get cost-efficient and competitive funding for the municipal sector and to offer risk-free investment opportunities with a reasonable yield on tightening international financial markets.

The Advisory Council of Municipality Finance comprises 15 members. The function of the Advisory Council is to supply advice and recommendations, and to guide and direct the company in matters connected with its operating conditions and their development. Mr. Aaro Honkola is the Chairman of the Advisory Council.

A JOINT FUNDING SYSTEM OF MUNICIPALITIES

Finnish municipalities' joint funding activities got started at the beginning of the 1990's when the Local Government Pensions Institution together with the Finnish municipal sector established Municipality Finance Plc to carry out the municipal sector's joint funding operations on capital markets. The main objective of Municipality Finance owned and guaranteed by the Local Government Pensions Institution was to benefit from the municipal sector's excellent credit ratings and to provide cost-efficient finance for Finnish municipalities. The company's debt carried the same credit ratings as the Republic of Finland.

Municipality Finance has been wholly owned by the Local Government Pensions Institution from the very beginning. All funding of Municipality Finance raised prior to 2 December 1996 is still guaranteed by the Local Government Pensions Institution.

As the operations of Municipality Finance expanded it was appropriate to differentiate joint funding activities of the municipal sector from the basic functions of the Local Government Pensions Institution. The basic functions include the managing of the municipal sector's pension system and its related investment activities. This was actualised on the municipal sector's initiative in summer 1996 when the Act on the Municipal Guarantee Board came into force.

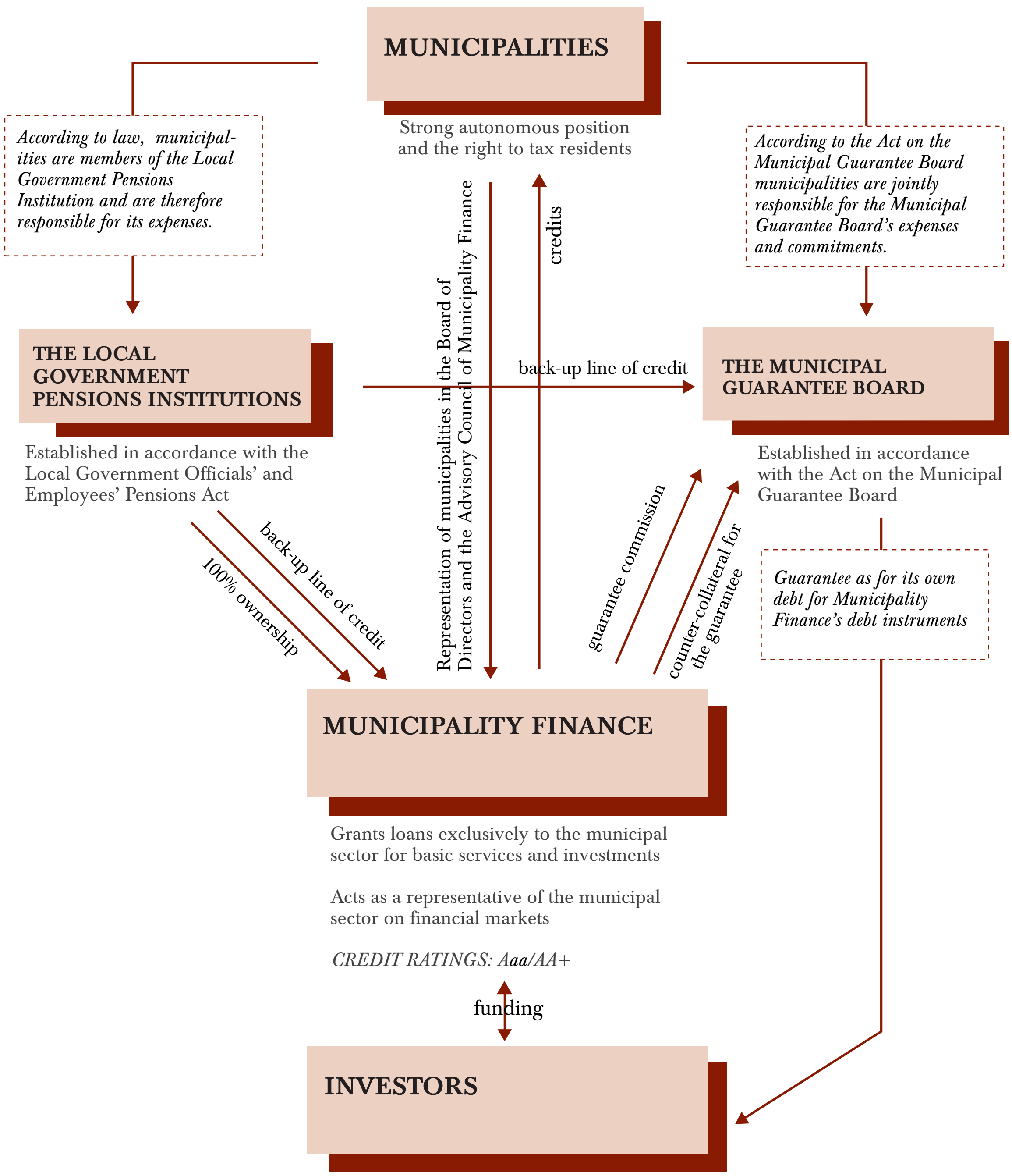
The Municipal Guarantee Board is an institution under public law. It started its operations in December 1996 and replaced the Local Government Pensions Institution as the guarantor of the municipal sector's joint funding. Municipal Housing Finance Plc, a credit institution providing funding for social housing, was included in the same system.

The objective of the Guarantee Board is to secure and develop joint funding of its member municipalities. It aims at securing cost-efficient funding for municipalities based on the municipal sector's excellent credit standing. To carry out this objective the Guarantee Board can, according to section 1 of the Act on the Municipal Guarantee Board, grant guarantees for such funding of credit institutions owned or controlled by municipalities, which will be used for lending to the municipal sector. Guarantees can also be granted for funding of organisations engaging in renting out or constructing social housing, and maintaining related services.

The Guarantee Board has 421 member municipalities representing over 98% of the total population of Finland. The Guarantee Board's expenses are covered with income from its activities. The liquidity of the Guarantee Board is safeguarded by a fund, which consists of guarantee commissions collected by the Guarantee Board and of a back-up line of credit provided by the Local Government Pensions Institution. The Guarantee Board collects guarantee commissions based on fair market prices on guarantees granted to Municipality Finance. The Guarantee Board also requires that a sufficient counter-collateral be given by Municipality Finance for its guarantees. Municipalities with strong autonomous position and the right to tax residents bear jointly the ultimate responsibility for the Guarantee Board's expenses and commitments.

Municipalities and regions within the EU countries have intensified co-operation in the area of funding by establishing joint funding systems. Joint funding activities of the Finnish municipal sector are part of the public sector and within the municipal domain.

Being a part of the Finnish municipal sector's joint funding system Municipality Finance fulfils its special task in a clearly defined area when providing finance for the member municipalities of the Guarantee Board. The company cannot provide general banking services and it cannot have any other credit customers than Finnish municipalities, municipal federations and municipality-controlled entities whose loans are guaranteed by a municipality. Municipalities benefit from the system by getting cost-efficient finance for basic services and investments.


MUNICIPALITIES
Strong autonomous position and the right to tax residents
According to law, municipalities are members of the Local Government Pensions Institution and are therefore responsible for its expenses.
According to the Act on the Municipal Guarantee Board municipalities are jointly responsible for the Municipal Guarantee Board's expenses and commitments.
Representation of municipalities in the Board of Directors and the Advisory Council of Municipality Finance
credits
THE LOCAL GOVERNMENT PENSIONS INSTITUTIONS
Established in accordance with the Local Government Officials' and Employees' Pensions Act
back-up line of credit
THE MUNICIPAL GUARANTEE BOARD
Established in accordance with the Act on the Municipal Guarantee Board
100% ownership
back-up line of credit
guarantee commission
counter-collateral for the guarantee
Guarantee as for its own debt for Municipality Finance's debt instruments
MUNICIPALITY FINANCE
Grants loans exclusively to the municipal sector for basic services and investments
Acts as a representative of the municipal sector on financial markets
CREDIT RATINGS: Aaa/AA+
funding
INVESTORS

MUNICIPALITY FINANCE'S INTEREST RATE FUNDS

Municipality Finance Plc and Deka Investment Management GmbH have jointly planned to start offering interest rate funds. In October 1999 a preliminary announcement was made concerning the establishment of two new interest rate funds, those of Euro Money Market Fund and Euro Bond Fund. The objective of these funds is to offer cost-efficient investments with a high credit standing to professional investors. DekaInvest will act as an investment company and Municipality Finance as a broker of fund units.

DekaInvest uses a Bull and a Bear to symbolise its operations. These symbols are also used on the New York Stock Exchange to describe rising or falling share prices.

Finnish municipalities, municipal federations and institutions, which are wholly owned by municipalities or under their control can invest in these funds through Municipality Finance. Also other professional institutional investors, such as pension insurance companies and church organisations, are able to invest in these funds. New interest rate funds will be targeted at such municipalities, municipal federations and professional investors that want to minimise credit risks of their investments. Private investors cannot invest in these funds.

Investments made through Euro Money Market Fund and Euro Bond Fund are denominated either in euro or in national currencies of the Euro area countries. The funds are not subject to any currency risks. The funds follow asset movements in capital markets and other significant market changes when making investment decisions. The funds aim at increasing yields through diversification. A part of the investments is made in the rapidly developing debt instrument markets of European companies and funding agencies.

All investment instruments available in the funds have a very high credit standing. The funds invest for example in domestic and international government bonds, commercial papers, debt instruments and floating rate notes if their credit standing meets the funds' standards. Investments can also be made in bonds issued by supranational organisations.

The funds do not charge any trading or exchange fees. Therefore, they are inexpensive investment alternatives for investors. Upon request investors can get a monthly report which contains information about the names and amounts of all instruments the funds have traded in during the reporting period.

Municipality Finance chose DekaInvest as a fund management company because of its large size and cost-efficient organisational structure. DekaInvest is the second largest fund management and investment company in Germany. It has operated in the German public sector since 1956 and the company is wholly owned by the German public sector. DekaInvest is part of the Deka Corporation. The fund capital managed by the Corporation totals over DEM 200 billion.

With the new funds Municipality Finance aims at increasing healthy competition on the domestic investment markets. Euro Money Market Fund and Euro Bond Fund will start operating during the first half of 2000.

NORDIC CO-OPERATION

Municipality Finance Plc works actively with its Nordic co-operation partners. In Sweden the company's co-operation partner is Kommuninvest i Sverige, in Denmark KommuneKredit and in Norway Kommunalbanken. The objective of co-operation is to develop each organisation's operations and to guarantee competitive funding and lending for each country's municipal sector.

The main objective of the Nordic co-operation is to protect the interests of each country's municipal sector on the capital markets. By working together and appearing together in public the Nordic municipal financial institutions and funding agencies are better equipped to compete against much bigger European funding agencies. Close co-operation enables the Nordic countries to have more influence e.g. on such decisions made by the EU that are related to each country's municipal finance.

Nordic co-operation was active also in 1999. Municipality Finance and its Nordic partners gave the first joint presentation in Switzerland. In Japan the partners had a seventh consecutive joint presentation, in which Municipality Finance participated together with Kommuninvest i Sverige and the Norwegian Kommunalbanken that was there for the first time. Additionally, the representatives of the Nordic companies had regular meetings in which matters related to financial operations of each country's municipal sector were discussed.

EMAC

EMAC, the European Municipal Advisory Consortium, is the Nordic local government funding agencies' joint platform for training and advisory services at both national and international level.

EMAC commenced operations in 1999 as an organisation for informal co-operation between the Nordic credit institutions. Work is currently taking place to draft a formal description of EMAC's activities and the co-operation agreements which will control participation between those involved. This work is scheduled for completion early in 2000.

EMAC got off to a flying start and priority had to be given to practical activities rather than organisational issues. Interest in the Nordic model, building up a financial infrastructure from a municipal perspective with democracy, transparency and local self-determination as the keystones, exceeded all expectations and work with concrete assignments looks set to increase dramatically in 2000.

As coordinator, EMAC has begun work on the Estonia Municipal Finance Assistance Programme, a two-year project sponsored by the World Bank in Estonia, while for the World Bank in the Philippines we have developed a training programme for fourteen top civil servants from the country's ministry of finance.

In Lithuania we have commenced work on a municipal development programme, collaborating with the Swedish Association of Local Authorities and other organisations to provide training for the country's local authorities.

Following a direct request from the UN Global Forum conference in 1996, EMAC has been involved in the project group for the year 2000 conference on the same theme, thus assuring itself a prominent place in the programme.

In a joint initiative from the Nordic associations of local authorities and the municipal credit institutions, EMAC planned a seminar in Brussels in February 2000 entitled "European Funding Agencies with special reference to the Nordic Countries". EMAC also co-ordinated participation in the Euromoney Conference in Berlin in March 2000, where both Kommuninvest and Municipality Finance of Finland were involved in panel debates.

KUNTARAHOITUS
MUNICIPALITY FINANCE
www.munifin.fi

www.kommuninvest.se

www.kommunekredit.dk

Kommunalbanken
www.kommunalbanken.no

REVIEW OF OPERATIONS IN 1999

The year 1999 was successful in financial terms for Municipality Finance Plc. At the end of the financial year the company's balance sheet stood at EUR 2,013 million *(FIM 11,969 million)*, which is EUR 474 million *(FIM 2,818 million)* more than the respective figure in 1998. The company's loan portfolio totalled EUR 1,546 million *(FIM 9,192 million)* and long-term funding EUR 1,835 million *(FIM 10,910 million)* at the end of 1999.

Since December 1996 all funding of Municipality Finance has been guaranteed by the Municipal Guarantee Board. The Act on the Municipal Guarantee Board came into force on 1 July 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. Guarantees can also be granted for funding of organisations engaging in renting out or constructing social housing, and maintaining related services. Municipality Finance's all funding guaranteed by the Local Government Pensions Institution ended on 2 December 1996. Thus, all funding since 2 December 1996 has been guaranteed by the Municipal Guarantee Board.

The company's capital adequacy ratios have always been excellent. At the end of 1999 the company's capital adequacy ratio was 45%.

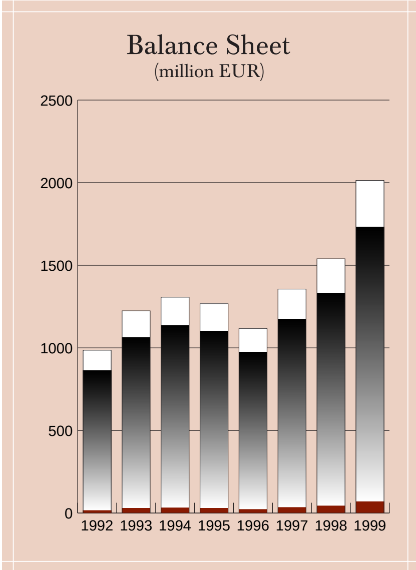
The company's capital adequacy ratios in the years 1995–1999 were as follows:

31.12.1995	45 %
31.12.1996	44 %
31.12.1997	24 %
31.12.1998	84 %
31.12.1999	45%

There have not been any non-performing loans, nor credit losses in the company's history.

Municipality Finance is wholly owned by the Local Government Pensions Institution.

At the end of 1999 the company's share capital stood at EUR 10.6 million *(FIM 63 million)*. Own funds including tier 1 and 2 capital totalled EUR 35.3 million *(FIM 209.9 million)*.



	Moody's Investors Service	Standard & Poor's
Municipality Finance Plc		
-Local Government Pensions Institution's guarantee	Aaa	AAA
-Municipal Guarantee Board's guarantee	Aaa	AA+
The Republic of Finland	Aaa	AA+

High credit ratings will be increasingly important for Municipality Finance to ensure cost-efficient funding, since the number of issuers will grow and competition for investors will become more fierce as a result of euro and the European Monetary Union. Municipality Finance's good credit rating means that the Finnish municipal sector's creditworthiness is excellent and its debt level is low.

Lending increased

The lending of Municipality Finance increased substantially in 1999. New loans granted by Municipality Finance to the member municipalities, municipal federations and municipality-controlled entities of the Municipal Guarantee Board totalled EUR 479 million *(FIM 2,848 million)* at the end of 1999. The total amount of loans granted in 1998 was EUR 388 million *(FIM 2,307 million)*. All new loans were denominated in euro. Loans granted to municipalities have already for many years been denominated in markka or euro.

Municipality Finance's loan portfolio totalled EUR 1,546 million *(FIM 9,192 million)* in 1999. The total of loans which finally matured during the financial year totalled EUR 259 million *(FIM 1,540 million)*.

The amount of municipal commercial paper programmes totalled EUR 507 million *(FIM 3,014 million)* at the end of 1999. Trading in municipal paper totalled EUR 440 million *(FIM 2,616 million)* during the financial year.

The book value of leased property stood at EUR 71,000 *(FIM 422,000)* at the end of the financial year.

Funding from domestic and international markets

Municipality Finance raises funds by issuing bonds on the domestic and international capital markets. To raise domestic funding Municipality Finance has a programme totalling EUR 800 million for the issuance of bonds. It is possible to issue bonds with various maturity dates under this programme. Municipal Bonds and other bonds in the programme can total EUR 500 million at the maximum, and the value of short-term debt instruments (KVS or Treasury Bills) EUR 300 million at the maximum. In May 1999 the KVS part of the Programme was changed and it is now called the Treasury Bill Programme. The main organisers of the T-Bill Programme are MeritaNordbanken and Barclays Capital. T-Bills are also offered through Deutsche Bank, Aktia Savings Bank and Municipality Finance.

Municipal Bonds issued under the Municipal Bonds Programme in 1999:

Date of issue	Maturity date	Nominal value (EUR)	Coupon
12.4.1999	12.4.2002	7,661,000	3.00%
20.9.1999	20.9.2002	15,453,000	3.70%
20.9.1999	20.9.2006	5,295,000	4.60%
10.12.1999	10.12.2003	16,128,000	4.20%

Municipality Finance has a Medium Term Note Programme listed on the London Stock Exchange for long-term foreign currency funding. As of May 1999 the Programme was denominated in euro. At the same time the limit of the Programme was raised from FIM 8 billion to EUR 1.5 billion.

Municipality Finance grants also such loans to the Finnish municipal sector that are funded by the European Investment Bank and the Council of Europe Development Bank. The company has a Global Loan Agreement with EIB for EUR 194 million *(FIM 1,153 million)*. These credits granted by EIB are offered to the municipal sector for projects of infrastructure, environmental protection and energy production. Co-operation has recently been extended to cover health care projects and education.

Municipality Finance and the Council of Europe Development Bank have signed a financing agreement for EUR 100 million *(FIM 595 million)*. A new financing agreement for EUR 100 million *(FIM 595 million)* was concluded in January 2000. These credits can be offered to the municipal sector for projects of developing basic social infrastructure, health care, environmental protection and modernising community structures.

The amount of domestic and international long-term funding totalled EUR 429 million *(FIM 2,551 million)* in 1999. The respective amount of long-term funding a year earlier was EUR 489 million *(FIM 2,907 million)*.

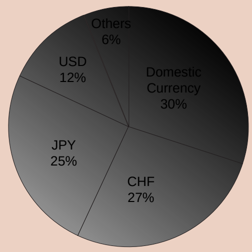
In 1999 the company raised short-term domestic funding by issuing Treasury Bills totalling EUR 449 million *(FIM 2,670 million)*. The amount of all short-term funding totalled EUR 106 million *(FIM 630 million)* at the end of 1999.

Total funding at the end of the financial year was EUR 1,941 million *(FIM 11,541 million)* of which 35% was denominated in domestic currencies (i.e. in markka and other euro area currencies) and 65% in foreign currencies.

Operational result

Municipality Finance's operational result before provisions and taxes was EUR 719,000 *(FIM 4,27 million)* in 1999. Net income from financial operations was EUR 4,1 million *(FIM 24,4 million.)* The company's net income from securities transactions and foreign currency operations was negative by EUR 48,000 *(FIM 285,000)*. Municipality Finance has made short-term investments in debt securities in case funds have not been immediately onlent to municipalities. The profits gained or losses incurred from the sales of these debt securities have been entered under the item "Net income from securities transactions" in the profit and loss account. Short euribor interest rates remained in the range of

Long-term Funding by Currency



"Domestic Currency":
FIM, EUR, ITL, DEM

"Others"
DKK 1%, GBP 2%, AUD 3%

approximately 1% in 1999. Short euribor interest rates have gone up from early summer. Thus some losses resulted from the sales of debt securities towards the end of the financial year.

Risk management

All of the risks of Municipality Finance have been minimised and the company is fully hedged against foreign currency risks. The company is subject to only minute interest rate risks in domestic currency. Risks are hedged mainly with interest rate swaps, currency rate swaps and forward rate contracts. The company makes derivative contracts solely for hedging purposes. Financial risks are lowered further through standardising loan terms and dates when loans are drawn down.

The company uses risk management software for monitoring counterparty and market risks. Rating requirements and internal risk limits have been set for counterparties. The counterparties of interest rate swaps denominated in domestic currencies 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, municipality federations and municipality-controlled entities whose loans are guaranteed by a municipality.

The same prudent risk management policies are followed for investment activity. The majority of liquid assets is always invested in Finnish government treasury bills, bonds or bank CDs.

The Board of Directors of Municipality Finance is responsible for the company's risk management by setting general guidelines for risk management. The Managing Director together with the board of management is responsible for executing practical measures related to risk management. The company's risk position based on given limits is regularly reviewed in the Board of Directors meetings as well as in the board of management meetings. The company reports regularly on its activities to the Bank of Finland and the Financial Supervision Authority.

Outlook for the year 2000

Since the beginning of 1999 Municipality Finance has used euro in all money market transactions. The company's T-Bill and Municipal Bond issues are denominated in euro and municipal commercial paper programmes have been converted into euro. Also new loan agreements are made in euro. Other funding is still raised either in euro or in foreign currencies depending on investors' interest.

Municipality Finance converted the company's accounting into euro in August 1999.

Municipality Finance will continue its active role as a representative of the Finnish municipal sector on capital markets. The company will provide both long and short-term funding for its municipal customers. In addition to its main business area the company aims at developing functional and competitive investment alternatives for both retail investors, as well as wholesale and institutional investors. Municipality Finance and DekaInvest have jointly planned to start offering two new interest rate funds, Euro Money Market Fund and Euro Bond Fund, which will start operating during the first half of 2000.

Municipality Finance is a small and young organisation with no decentralised operations. Therefore, the company had from the very beginning good facilities for avoiding potential software and other problems concerning the year 2000. The company prepared for the year 2000 by updating computer software and checking the hardware. The turn of the millennium caused no problems for Municipality Finance. Similarly, there were no signs of interruptions nor problems in connections between the company and its co-operations partners.

Personnel and administration

The company's personnel numbered 17 at the end of 1999. According to the Articles of Association, the Board of Directors comprises at least four and at most six members. On 4 March 1999 the Annual General Meeting appointed a Company Board. A total of 11 Board meetings were held in 1999.

The company has a 15-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 development. The council met twice during 1999.

A board of management assists the Managing Director in matters concerning the company's daily business operations, such as the implementation of new funding arrangements, questions related to risk management, lending prospects and issues of financial administration. The board of management comprises the following members: Mr. Nicholas Anderson, Managing Director; Mr. Juha Heinonen, Deputy Managing Director; Mr. Jukka Reijonen, Finance Director and Ms. Marjo Tomminen, Director, Financial Administration.

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
Mr. Ari Huotari
Director, Investments,
The Local Government Pensions Institution (member since 1 December 1999)
Ms. Marja Kauppila
Lawyer, The Local Government Pensions Institution (until 24 September 1999)
Mr. Mika Mäkinen
Finance Director, City of Lahti
(member since 19 October 1999)
Ms. Raija Peltonen
Chairman of the Municipal Council, Municipality of Hartola, Director of Finance, Peltonen Ski Oy
Mr. Erkki Pekkarinen
Finance Director, The Local Government Pensions Institution (until 14 October 1999)
Ms. Leena Siikanen-Toivio
City Manager, City of Toijala

The Advisory Council:

The Advisory Council comprised the following members on 31 December 1999:

Mr. Aaro Honkola, Chairman,
Finance Director, City of Seinäjoki
Ms. Maija-Liisa Havia
Finance Director, City of Jyväskylä
Mr. Hannu Horto
Finance Director, City of Kotka
Ms. Aila Hulkkonen
City Treasurer, City of Riihimäki
Ms. Marjatta Keisu
Municipal Manager, Municipality of Liminka
Mr. Tapio Korhonen
Finance Director, City of Helsinki
Mr. Martti Lipponen
Deputy City Manager, City of Vantaa
Mr. Voitto Maksimainen
Controller and Planning Director, City of Joensuu
Mr. Vesa Matikainen
Finance Director, City of Lappeenranta
Mr. Simo Paassilta
Municipal Manager, Municipality of Halikko
Mr. Matti Pelttari
City Manager, City of Rovaniemi
Mr. Markku Rahikkala
City Manager, City of Nokia
Mr. Kari Salmi
City Manager, City of Lahti
Ms. Kristina Wikberg
Director of Swedish activities,
Association of Finnish Local Authorities
Mr. Stig Östdahl
City Manager, City of Uusikaarlepyy

The auditors of the company are Arthur Andersen Oy, Authorised Public Accountants.

BALANCE SHEET

ASSETS		31 December 1999		31 December 1998
	thousand EUR	thousand FIM	thousand EUR	thousand FIM
Liquid assets	1	6	2	14
Debt securities eligible for refinancing with central banks	203 547	1 210 238	130 840	777 942
Claims on credit institutions				
Repayable on demand	736	4 379	158	942
Other	15 720	93 467	4 659	27 700
Claims on the public and public sector entities	1 546 495	9 195 039	1 332 158	7 920 650
Leasing assets	71	423	119	707
Debt securities				
On public sector entities	49 285	293 033	41 942	249 378
Other	24 567	146 071	808	4 804
Shares and participations	10	59	10	59
Intangible assets	140	831	185	1 100
Tangible assets				
Other tangible assets	359	2 133	291	1 728
Accrued income and prepayments	172 430	1 025 222	28 277	168 124
TOTAL ASSETS	**2 013 361**	**11 970 901**	**1 539 449**	**9 153 148**

BALANCE SHEET

LIABILITIES		31 December 1999		31 December 1998
	thousand EUR	thousand FIM	thousand EUR	thousand FIM
LIABILITIES				
Liabilities to credit institutions and central banks				
Credit institutions				
Other	234 352	1 393 395	150 905	897 241
Debt securities issued to the public				
Bonds	1 600 782	9 517 818	1 223 245	7 273 082
Other	105 851	629 364	97 249	578 215
Other liabilities	7 207	42 855	178	1 060
Accrued expenses and deferred income	28 432	169 049	31 841	189 324
Subordinated liabilities	16 819	100 000	16 819	100 000
APPROPRIATIONS				
Voluntary provisions	4 719	28 055	4 014	23 869
EQUITY CAPITAL				
Share capital	10 596	63 000	10 596	63 000
Other restricted reserves				
Reserve fund	393	2 335	393	2 335
Capital loans	4 205	25 000	4 205	25 000
Profit brought forward	4	22	3	14
Profit for the financial year	1	8	1	8
TOTAL LIABILITIES	**2 013 361**	**11 970 901**	**1 539 449**	**9 153 148**
OFF-BALANCE SHEET COMMITMENTS				
Irrevocable commitments given in a favour of a customer				
Other	66 376	394 657	74 743	444 401

PROFIT AND LOSS ACCOUNT

		1 January– 31 December 1999				1 January– 31 December 1998		
		thousand EUR		thousand FIM		thousand EUR		thousand FIM
Interest income		81 518		484 682		91 200		542 249
Net income from leasing operations		6		38		6		33
Interest expenses		-77 435		-460 405		-86 263		-512 897
NET INCOME FROM FINANCIAL OPERATIONS		4 089		24 315		4 943		29 385
Dividends income		1		3		-		-
Commission income		-		-		2		13
Commission expenses		-749		-4 452		-843		-5 014
Net income from securities transactions and foreign exchange dealing								
Net income from securities transactions	-60		-358		605		3 595	
Net income from foreign exchange dealing	13	-47	75	-283	-23	582	-134	3 461
Other operating income		4		26		2		9
Administrative expenses								
Staff costs								
Salaries and fees	789		4 692		661		3 928	
Staff-related costs								
Pension costs	136		809		117		697	
Other staff-related costs	52		311		55		326	
Other administrative expenses	687	-1 664	4 080	-9 892	835	-1 668	4 963	-9 914
Depreciation and write-downs on tangible and intangible assets		-142		-846		-135		-800
Other operating expenses		-773		-4 596		-622		-3 699
NET OPERATING PROFIT		719		4 275		2 261		13 441
PROFIT BEFORE APPROPRIATIONS AND TAXES		719		4 275		2 261		13 441
Appropriations		-704		-4 186		-2 249		-13 370
Income taxes		-14		-81		-11		-63
PROFIT FOR THE FINANCIAL YEAR		**1**		**8**		**1**		**8**

To avoid rounding differences, equivalent markka values of 1999 have been calculated using full values of euro items, not thousands.

NOTES TO THE ACCOUNTS ON 31 DECEMBER 1999

Notes to the accounts concerning the accounting principles applied

Municipality Finance Plc has balanced the accounts in accordance with laws, following the decisions, rules and regulations given by the Ministry of Finance and the Financial Supervision Authority. The company reports regularly on its operations to the Financial Supervision Authority and the Bank of Finland. The profit and loss account and the balance sheet have been drawn up in accordance with the regulations of 30 June 1998 set by the Financial Supervision Authority.

Receivables and liabilities denominated in foreign currencies have been converted into Finnish markkas at the Bank of Finland middle rate on the balance sheet date. The fixed and confirmed conversion rates of the euro countries have been used for currency conversions. Exchange rate differences arising in the valuation process are included under the item “Net income from foreign exchange dealing” in the profit and loss account.

All of the company’s debt securities are classified as “Current assets”. Debt securities in transaction inventory have been entered in the accounts using the market value on the balance sheet date.

Machinery and equipment are depreciated according to a plan on the straightline principle over five years, computer hardware and software straightline over four years, and other longterm expenses straightline over ten years. The planned depreciation was made on leased equipment, based on the length of the relevant leasing agreements.

Derivative contracts are made solely for hedging purposes. The exchange rate valuations of the contracts are entered under “Accrued income” or “Accrued expenses” in the balance sheet. The difference between annual interest income received from and interest expenses paid for the derivative contracts is entered in the accounts to make an adjustment to the interest expenses of the hedged liability from the financial year from which the expenses have accrued.

The company practice of making entries of commissions resulting from borrowing: If the amount of a loan on a subscription date is smaller or bigger than the amount the company is obliged to pay back on a maturity date, the amount of debt on the subscription date is entered in the balance sheet, rectified with the direct commissions resulting from borrowing.

Differencies between issue price and nominal values are broken down on a time-basis for the maturity of debt.

Notes to the profit and loss account

		EUR	*FIM*
1.	Interest income, broken down as follows:		
	Claims on credit institutions	187,069	1,112,262
	Claims on the public and public sector entities	72,181,095	429,169,302
	Debt securities	8,350,256	49,648,368
	Other interest income	799,319	4,752,535
	Interest expenses, broken down as follows:		
	Liabilities to credit institutions	7,752,115	46,091,983
	Debt securities issued to the public	68,789,427	409,003,360
	Subordinated liabilities	548,588	3,261,756
	Capital loans	137,147	815,439
	Other interest expenses	207,340	1,232,788

2. Net income from leasing, broken down as follows:

	EUR	*FIM*
Rental income	41,324	245,701
Planned depreciation	-34,947	-207,785
	6,377	37,916

3. Net income from securities transactions, broken down as follows:

	EUR	*FIM*
Net income from transactions in debt securities	-60,184	-357,838

4. Total values of securities held as current assets purchased or sold during the financial year:

	EUR	*FIM*
Debt securities purchased	1,070,687,827	6,366,020,734
Debt securities sold	204,768,123	1,217,495,972

5. Other operating income

	EUR	*FIM*
Other income from the ordinary business of the credit institution	4,364	25,947

Other operating expenses, broken down as follows:

	EUR	*FIM*
Rental expenses	160,211	952,571
Other expenses arising from the ordinary business of the credit institution	612,737	3,643,169

6. The profit and loss account item “Depreciation and writedowns on tangible and intangible assets” consists of only planned depreciation.

7. Municipality Finance Plc has not got any loan losses nor guarantee losses.

8. Municipality Finance Plc has no extraordinary income, nor extraordinary expenses.

9. Appropriations, broken down as follows:

	EUR	*FIM*
Change in other voluntary provisions	704,000	4,185,794

10. Municipality Finance Plc has no obligatory provisions.

11. The company has not combined items in the profit and loss account in accordance with section 8. paragraph 4 of the Decision of the Ministry of Finance.

12. The business area of Municipality Finance Plc is to operate as a credit institution. The company’s market area is Finland.

Notes to the balance sheet

13. The balance sheet item “Debt securities eligible for refinancing with central banks”, broken down as follows:

	EUR	*FIM*
Government bonds	35,574,376	211,515,635
Banks’ certificates of deposit	167,973,077	998,722,563

14. The balance sheet item “Claims on credit institutions” does not contain any claims on central banks.

15. The balance sheet item “Claims on the public and public sector entities” is broken down by sectors according to the official sector classification of Statistics Finland.

	EUR	*FIM*
Enterprises	196,606,095	1,168,966,757
Public sector entities	1,321,270,581	7,855,918,132
Nonprofit organizations	28,617,843	170,153,968

All lending to enterprises, public sector entities and nonprofit organizations is guaranteed by a municipality or a city. No specific loan loss provisions were made for claims on the public and public sector entities.

16. Municipality Finance Plc does not have any nonperforming nor other zero interest assets.

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

18. Municipality Finance Plc has no debt securities, debentures, nor other subordinated claims to the debtor's other debts.

19.

Leasing assets	*EUR*	*FIM*
Machinery and equipment	71,157	423,080

20. The total book value of securities entered under the balance sheet items "Debt securities" and "Debt securities eligible for refinancing with central banks" is EUR 277,399,304 *(FIM 1,649,341,364).*

	Quoted, EUR	*Others, EUR*
Debt securities		
Securities held as current assets	0	277,399,304
Other	0	0

The total amount of the difference between the market value and the lower book value of securities, which are hold as current assets and which are entered under the balance sheet items "Debt securities" and "Debt securities eligible for refinancing with central banks" is EUR 17,855 *(FIM 106,161).*

The total amount of the book values of assets recorded in the balance sheet as "Debt securities" and "Debt securities eligible for refinancing with central banks", broken down as follows:

	EUR	*FIM*
Municipal commercial papers	43,922,267	261,149,941
Certificates of deposit	167,973,077	998,722,563
Other bonds	65,503,960	389,468,860

21. Municipality Finance Plc has 1 650 shares in HPY Holding Plc. The book value of the shares is EUR 9,906 *(FIM 58,900).* The shares were sold in January 2000 at EUR 64,020 *(FIM 380,646).*

22. The balance sheet item "Tangible assets" Machinery and equipment, computer hardware and capitalized computer software

	EUR	*FIM*
Purchase price at the beginning of the financial year	553,827	3,292,906
+ increases during the financial year	224,325	1,333,776
- transfers between groups	51,297	304,998
- planned depreciation during the financial year	139,135	827,259
+ accumulated depreciation in respect of transfers	34,250	203,641
- accumulated depreciation at the beginning of the financial year	263,251	1,565,219
Book value at the end of the financial year	358,719	2,132,847

23. The item “Intangible assets” consists of other longterm expenditure.

24. No land and water areas, buildings nor shares and participations in real estate corporations were entered under the balance sheet item “Tangible assets”.

25. Municipality Finance Plc does not own any of its own shares nor the shares in the parent company.

26. No entries were made under the balance sheet item “Other assets”.

27. The item “Accrued income and prepayments”, broken down as follows:

	EUR	*FIM*
Interest	27,318,960	162,431,160
Other	145,111,272	862,792,443

28. The company has not combined items in the balance sheet in accordance with section 8, paragraph 4 of the Decision of the Ministry of Finance.

29. The total amount of the difference between the nominal value and the lower book value of liabilities:

	EUR	*FIM*
Bonds	1,729,421	10,282,670
Other	859,007	5,107,424

The total amount of the difference between the book value and the lower nominal value of liabilities:

	EUR	*FIM*
Bonds	57,039	339,138
Other	0	0

30. The total amounts of the book values of liabilities recorded in the balance sheet under the item “Debt securities issued to the public”, broken down as follows:

	EUR	*FIM*
Bonds	1,600,782,088	9,517,818,084
Other	105,851,417	629,363,946

31. Other liabilities, broken down as follows:

	EUR	*FIM*
Cash items in the process of collection	10,102	60,064
- Derivatives	7,000,000	41,620,110
- Other	194,667	1,157,437

32. Accrued expenses and deferred income, broken down as follows:

	EUR	*FIM*
Interest	27,729,922	164,874,629
Other	702,202	4,175,104

33. Municipality Finance Plc has no obligatory provisions.

34. Subordinated liabilities
The company has issued a debenture of EUR 16,818,792.65 *(FIM 100,000,000)*. The nominal interest rate of the loan is based on 6 months euribor rate. The loan has no maturity date and the principal can be paid back only if the Financial Supervision Authority grants permission based on a written application submitted by Municipality Finance.

35. Changes in various items under “Equity capital” during the financial year.

	EUR Share capital	Reserve fund	Capital loans
Book value at the beginning of the financial year	10,595,839	392,652	4,204,698
+ increases for the financial year	0	0	0
Book value at the end of the financial year	10,595,839	392,652	4,204,698

	FIM Share capital	Reserve fund	Capital loans
Book value at the beginning of the financial year	63,000,000	2,334,600	25,000,000
+ increases for the financial year	0	0	0
Book value at the end of the financial year	63,000,000	2,334,600	25,000,000

36. The shares of Municipality Finance Plc have not been divided into various types of shares.

37. There are not any nondistributable items in nonrestricted equity.

38. The company did not launch any share issues or issues of options and convertible bonds during the financial year.

39. The Local Government Pensions Institution has a 100% holding in Municipality Finance Plc.

40. The company has a capital loan of EUR 4,204,698,16 *(FIM 25,000,000)*. The interest rate of the loan is based on 6 months euribor rate. The company has agreed to pay interest only if the sum to be paid can be used for profit distribution in accordance with the balance sheet of the company's previously confirmed financial year. The loan contains no cumulative right to the interest. The loan has no maturity date and it can be paid back only on the condition that the restricted capital and other nondistributable assets in the balance sheet of the company's previously confirmed financial year have a full coverage. It is also required that the Financial Supervision Authority has granted permission for paying back the loan. Accrued interest at the end of the financial year has been entered under "Interest expenses" in the balance sheet.

41. The company has not combined asset items in the balance sheet in accordance with section 8, paragraph 4 of the Decision of the Ministry of Finance.

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

	EUR 0–3 months	3–12 months	1–5 years	over 5 years
Debt securities eligible for refinancing with central banks	140,854,456	33,934,310	22,777,601	5,981,085
Claims on credit institutions	16,456,464	0	0	0
Claims on the public and public sector entities	67,638,777	201,461,266	826,929,542	450,464,933
Debt securities	49,141,073	8,823,044	15,887,735	0
Liabilities to credit institutions	0	19,458,086	81,161,684	133,732,368
Debt securities issued to the public	186,039,439	300,893,250	603,443,753	616,257,064

	FIM 0–3 months	3–12 months	1–5 years	over 5 years
Debt securities eligible for refinancing with central banks	837,482,564	201,764,247	135,429,467	35,561,917
Claims on credit institutions	97,845,693	0	0	0
Claims on the public and public sector entities	402,161,907	1,197,834,294	4,916,699,787	2,678,342,869
Debt securities	292,179,549	52,459,436	94,464,185	0
Liabilities to credit institutions	0	115,692,524	482,565,458	795,136,552
Debt securities issued to the public	1,106,140,272	1,789,030,021	3,587,913,625	3,664,098,112

Municipality Finance Plc has no other deposits than fixed term deposits.

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

	EUR In-currencies	Foreign currency
Debt securities eligible for refinancing with central banks	203,547,452	0
Claims on credit institutions	16,430,993	25,471
Claims on the public and public sector entities	1,546,494,519	0
Debt securities	73,851,852	0
Liabilities to credit institutions	179,058,893	55,293,244
Debt securities issued to the public	480,491,654	1,226,141,851
Subordinated liabilities	16,818,793	0

	FIM In-currencies	Foreign currency
Debt securities eligible for refinancing with central banks	1,210,238,192	0
Claims on credit institutions	97,694,248	151,444
Claims on the public and public sector entities	9,195,038,857	0
Debt securities	439,103,172	0
Liabilities to credit institutions	1,064,635,832	328,758,700
Debt securities issued to the public	2,856,873,642	7,290,308,388
Subordinated liabilities	100,000,000	0

Notes to the accounts concerning income taxation

44. The company's voluntary provisions include deferred tax liabilities totalling EUR 1,321,193 *(FIM 7,855,455)*. Income taxes arise solely from the company's ordinary business operations. The company has no revaluations having an effect on income taxation.

Notes to the accounts concerning collateral, contingent liabilities and derivative contracts

45. Liabilities and collateral

	EUR	*FIM*
Pledged bonds to the Local Government Pensions Institution	369,851,641	2,199,037,998
Pledged debt securities to the Local Government Pensions Institution	52,120,470	309,894,241
Pledged bonds to the Municipal Guarantee Board	1,159,539,892	6,894,311,122
Pledged debt securities to the Municipal Guarantee Board	133,420,000	793,279,297

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

47. Municipality Finance Plc had no leasing payments. The company has not sold any assets nor leased them back.

48. Off-balance sheet commitments

	EUR	*FIM*
Binding standby facilities	66,376,465	394,656,539

49. The total values and the equivalent credit values of the underlying instruments pertaining to interest rate and currency derivative commitments and other derivatives outstanding on the balance sheet date.

	Values of underlying instruments For hedging purposes	
	EUR	*FIM*
Interest rate derivatives		
Forward rate contracts	4,500,000	26,755,785
Written options	25,228,189	150,000,000
Interest rate swaps	632,351,136	3,759,789,120
Currency derivatives		
Interest rate and currency swaps	1,544,017,762	9,180,312,728

	Credit value of contracts	
	EUR	*FIM*
Interest rate derivative contracts	11,043,000	65,658,696
Currency derivative contracts	187,428,000	1,114,396,282

50. Municipality Finance Plc has no sales receivables arising from the selling of assets on behalf of customers, nor accounts payable arising from the purchasing of assets on behalf of customers.

51. Municipality Finance Plc has not given any other contingent liabilities.

Notes to the accounts concerning the staff and members of governing and supervisory bodies

52. Municipality Finance Plc had 17 fulltime employees during the financial year. The amount of salaries, fees, pension costs and other staff-related costs in respect of the managing director, deputy managing director and the members of the board of directors totalled EUR 281,133 *(FIM 1,671,541)* during the financial year.
Salaries and fees were not paid on the basis of the company's financial performance. The company has not granted any loans, nor guarantees to the members of the board of directors, the managing director, deputy managing director, auditors and their deputies.
The company did not make any pension commitments in respect of members of the board, managing director, deputy managing director, auditor or his deputy.

Holdings in other undertakings

53. Municipality Finance Plc has 1,650 shares in HPY Holding Plc. The book value of the shares is EUR 9,906 *(FIM 58,900)*. The shares were sold in January 2000 at the price of EUR 64,020 *(FIM 380,646)*.

Other notes to the accounts

54. Asset management services offered by Municipality Finance Plc.
Municipality Finance Plc 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.

55. Municipality Finance Plc is a public listed company.

56. Municipality Finance Plc is not part of any consolidated corporation, nor does it have any affiliate companies.

KEY INDICATORS DESCRIBING THE FINANCIAL DEVELOPMENT OF MUNICIPALITY FINANCE PLC

	1999	1998	1997	1996	1995
Turnover, *EUR million*	82	92	76	95	113
Turnover, *FIM million*	488	546	451	562	672
Net operating profit, *EUR million*	0.7	2.3	0.1	0.4	0.2
Net operating profit, *FIM million*	4.2	13.4	0.7	2.5	1.2
% of turnover	0.9	2.5	0.2	0.5	0.2
Profit before appropriations and taxes, *EUR million*	0.7	2.3	0.1	0.4	0.2
Profit before appropriations and taxes, *FIM million*	4.2	13.4	0.7	2.5	1.2
% of turnover	0.9	2.5	0.2	0.5	0.2
Return on equity % (ROE)	3.8	17.2	1.4	4.8	2.5
Return on assets % (ROA)	-	0.2	-	-	-
Equity ratio %	0.9	1.2	0.6	0.7	0.6
Yield-expense ratio	1.2	1.7	1.0	1.2	1.1

The key indicators of Municipality Finance Plc are not directly comparable to the corresponding figures of other credit institutions. The company's operational objective is not to maximise profits but to lower municipalities' finance costs through a joint municipal funding system.

Turnover consists of both net income from interests, leasing operations, dividends income, commissions, securities transactions, foreign exchange dealing and of the total value of other operating income.

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

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

$$\frac{\textit{Net operating profit} - \textit{taxes}}{\substack{\textit{Equity capital + voluntary provisions minus deferred tax liabilities} \\ \textit{(average of year beginning and year end)}}} \times 100$$

Equity ratio is calculated as follows:

$$\frac{\textit{Equity capital + voluntary provisions minus deferred tax liabilities}}{\textit{Balance sheet total}} \times 100$$

Yield-expense ratio is calculated as follows:

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

RESULT FOR THE ACCOUNTING PERIOD AND DISTRIBUTION OF PROFIT

The financial statements show a profit of EUR 1,366.84 *(FIM 8,196.86)*.

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, 9 February 2000

MUNICIPALITY FINANCE PLC

Mr. Simo Lämsä
Chairman of the Board

Mr. Pekka Alanen
Member of the Board

Mr. Ari Huotari
Member of the Board

Mr. Mika Mäkinen
Member of the Board

Ms. Raija Peltonen
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 Plc

We have audited the accounting, the financial statements and the corporate governance of Municipality Finance Plc for the period 1 January – 31 December 1999. The financial statements, which include the report of the Board of Directors, income statement, balance sheet and notes to the accounts 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.

We have read through the company's semi-annual report published during the financial year. In our opinion the report has been prepared in accordance with all rules and regulations governing the preparation of interim reports.

Helsinki, 11 February 2000

ARTHUR ANDERSEN OY,
Authorised Public Accountants
Mr. Erkki Mitro, Authorised Public Accountant

Kunta-obligaatiot®

Municipal Bonds Sales
Tel. +358-9-6803 5680
Bulevardi 3, 00120 Helsinki, Finland

MUNICIPALITY FINANCE PLC

Yrjönkatu 9, 00120 Helsinki, Finland
P.O. Box 744, 00101 Helsinki, Finland
Tel. +358-9-6803 5666, Telefax +358-9-6803 5669
www.munifin.fi