2001
Annual Report

Kuntarahoitus
MUNICIPALITY FINANCE

Municipality Finance offers funding on market terms to municipalities, municipal federations and organizations owned or controlled by those, and housing corporations that serve the public good, by raising funds on the Finnish and international capital markets at a very competitive cost.

The activities of Municipality Finance are based on precisely defined operating policies and the excellent credit-worthiness of the Finnish municipalities. Our aim is to safeguard the current strong credit worthiness and to utilise it to the best of our ability, in order to create competition and thus keep the financing cost of the municipalities at a competitive level.

We are not looking to maximise profits and only small positive margin is charged over the cost of funds. According to the operation policies set by the board of directors, sufficient own funds has to be generated through own operations to enable possible growth of the balance sheet.

Kuntarahoitus
MUNICIPALITY FINANCE

Municipality Finance Plc's Annual Report 2001

Managing Director's review

The new Municipality Finance Plc started operating on May 1, 2001. The company has made a good start.

The main thing was that the merger between Municipal Housing Finance Plc and the old Municipality Finance Plc took place without any negative effects on customer service. This called for enormous effort and flexibility from the personnel, in combining and dovetailing the two companies' various processes. For this the staff deserve a huge vote of thanks.

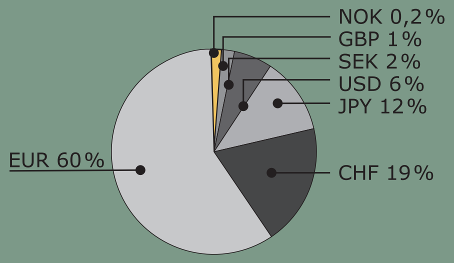
The merger met with an extremely warm reception from Municipality Finance's customers and investors and from international banking business. International investors, in particular, viewed the combination of two credit institutions with a partly overlapping operating concept as a rational move.

The merger clarified Municipality Finance's position on funding markets and brought considerable benefits of scale in this area. These benefits are also reflected in the combination of the two companies' risk management resources. Cooperation with the Municipal Guarantee Board and the Board´s guarantee provide a firm foundation for the new company's funding.

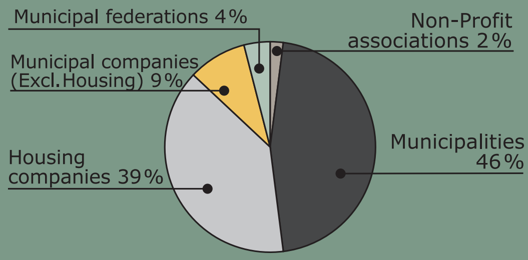
The fears expressed during the planning stage about the possible effects of the merger have faded. Municipality Finance continues to be a credit institution with a broad operating base throughout the municipal sector, which lends mostly to small and medium-sized municipalities.

In 2002, the company will be able to fully utilize its greater resources and the best practices of both merging companies. In future, staff input will be focused yet more clearly on customers.

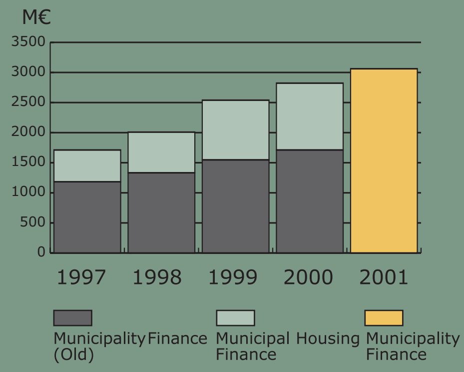
Long-term funding portfolio by currency December 31, 2001



Lending by borrower types December 31, 2001



Growth of lending stock 1997–2001



Financial markets

Generally speaking, the markets expect interest rates to start rising in 2002. Many forecasts predict an economic upturn in mid-year. However, growing uncertainty has been expressed recently about the timing and strength of this upturn.

The slow pace of recovery in the USA means that Europe will have longer to wait for its own revival, which always comes somewhat later. In any case, the US's earlier recovery will mean a still stronger dollar against the euro.

Competition between banks and credit institutions in the municipal sector will get keener. It has already led to an appreciable cut in margins, but the present low rate of interest has raised the cost of long-term funding even among institutions with high credit ratings. This will cause pressures to up the margins on lending.

Municipal finances

There is a considerable fluctuation range in prognoses for Finnish GDP in 2002, between something over one per cent to nearly three per cent.

The 2002-2004 period is expected to be a difficult one for the municipal sector. Corporate tax revenues will be far lower than in 2001. At the same time, public sector expenditure is expected to rise, and all this will force municipalities to borrow more.

Internal migration to growth centres will sustain the pressure on investment there, in both public building and housing production. The direction taken by housing production, and its quality, will be affected crucially by the decisions made in 2002 on the terms of new ARAVA (government) lending, and by the new legislation on partial ownership.

Helsinki, February 8, 2002

Pekka Averio
Managing Director

Chairman of the Board´s Review

Municipality Finance – strong partner for the municipal sector.

The merger between Municipality Finance Plc and Municipal Housing Finance Plc created a credit institution that understands the needs of the municipal sector. The new, stronger Municipality Finance will be able to fulfil its basic mission even more efficiently amid ever keener competition, also ensuring competitive centralized funding for municipalities through an independent channel.

The company offers a reasonably priced way of organizing funding and a gateway to international capital markets. Its services are used by municipalities large and small, but it is probably most useful to small and medium-sized local authorities that find it harder to operate on the markets alone.

Growing need for loans

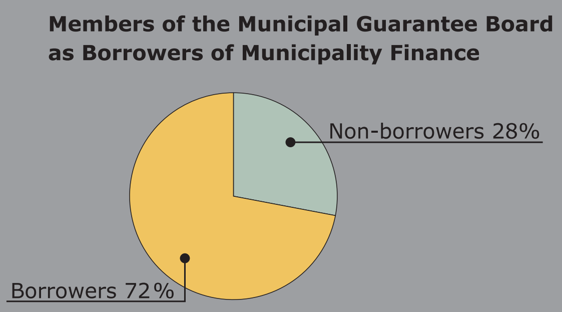
The municipalities will face a real challenge in dealing with their financing in coming years, as their revenues from corporate tax will decrease.

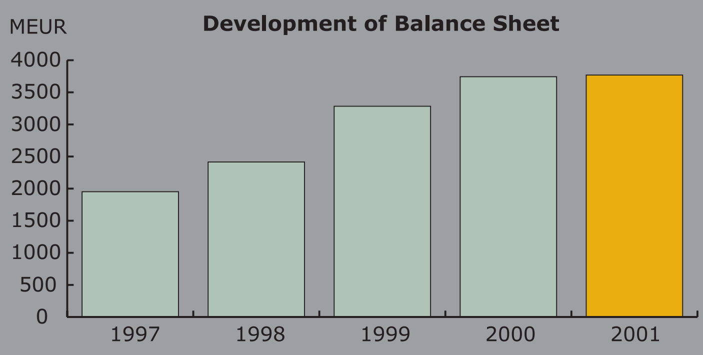
The Association of Finnish Local and Regional Authorities estimate predicts a fall of revenues in corporate tax from EUR 2.4 billion in 2001 to 1.5 billion in 2002, and again to 1.2 billion in 2003. Tax revenues overall will decrease by about 2.4% in 2002 and a further 1.7% in 2003.

Judging by market trends, the creation of a stronger Municipality Finance came at just the right time, as the increasingly stringent financial situation over the next few years will increase the municipalities' need for outside financing.

Profitable operations - the precondition for competitiveness

The Municipality Finance balance sheet total per December 31, 2001 was EUR 3,769 million. The com-





pany's clientele covers nearly three quarters of the part of the municipal sector that it targets. Its strength in matters of funding is illustrated by the very high Aaa and AA+ credit ratings granted to its long term funding by Moody's Investors Service and Standard & Poor's.

To safeguard its competitiveness and development over the long term, Municipality Finance must show a profit on its business operations. However, maximum profit is not its purpose, and it does not intend to expand its market share at the cost of profitability.

Providing municipalities with competitive financing calls first and foremost for successful funding. Thanks to the benefits of scale brought by the merger, Municipality Finance has better potential for this than ever before.

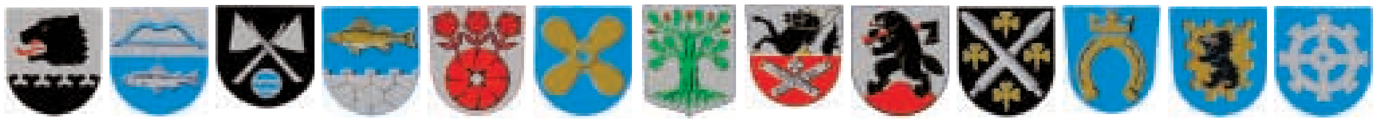
Combining the resources of the two companies will also help to make the Municipality Finance organization and operating methods even more cost-efficient. This is essential on a market that operates at very low profit margins and amid an increasingly demanding environment where it also has to compete with international financiers.

On behalf of the Board of Directors of Municipality Finance Plc, I should like to thank the personnel for the tremendous work they did in creating the new company. My thanks are also due to the company's customers and interest groups for their encouraging response to the new Municipality Finance.

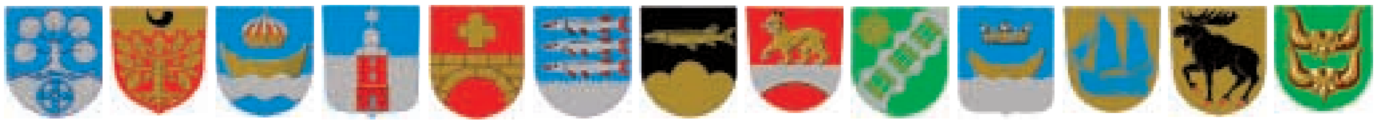
Helsinki, February 8, 2002

Risto Parjanne
Chairman of the Board

Municipality Finance Plc – owned

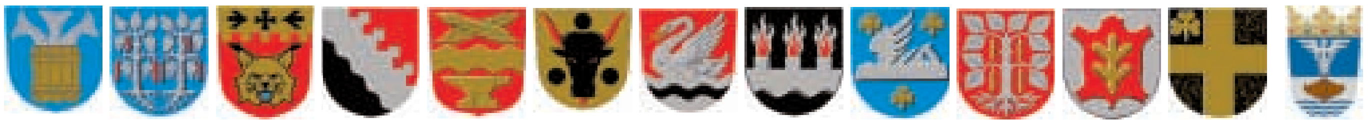


Alahärmä | Alavus | Anjalankoski | Artjärvi | Askola | Dragsfjärd | Ekenäs | Elimäki | Eno | Enonkoski | Espoo | Eura | Forssa

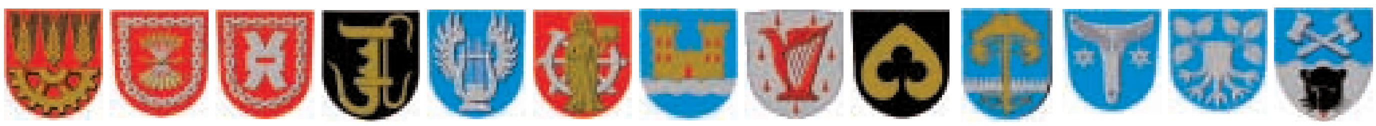


Haapavesi | Halikko | Hamina | Hanko | Hattula | Haukipudas | Haukivuori | Heinola | Heinävesi | Helsinki | Himanka | Hirvensalmi | Huittinen

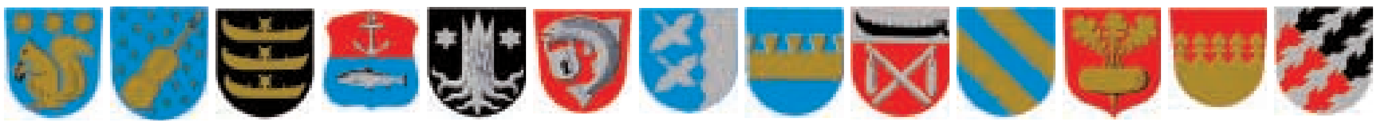
Hyvinkää | Hämeenkoski | Hämeenkyrö | Hämeenlinna | Ii | Iisalmi | Iitti | Ikaalinen | Ilmajoki | Ilomantsi | Imatra | Inari | Isokyrö



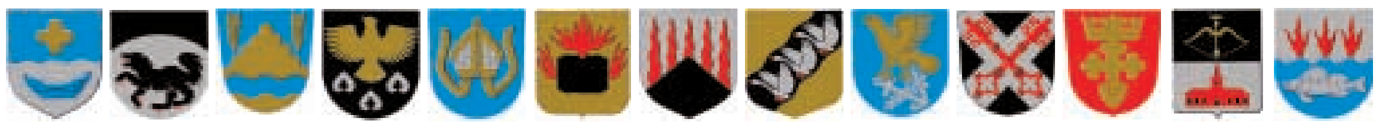
Jaala | Jalasjärvi | Janakkala | Joensuu | Jokioinen | Joroinen | Joutseno | Juankoski | Jurva | Juuka | Juupajoki | Juva | Jyväskylä



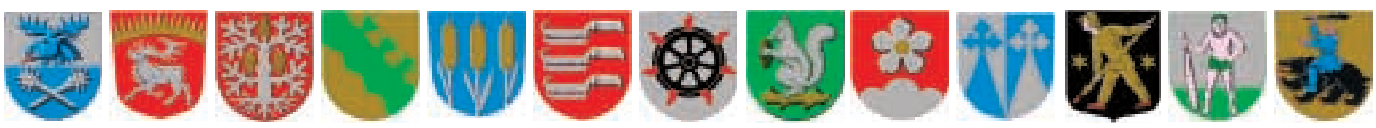
Jyväskylän mlk | Jämsä | Jämsänkoski | Jäppilä | Järvenpää | Kaarina | Kajaani | Kangasala | Kangaslampi | Kankaanpää | Kannus | Karttula | Kauhajoki



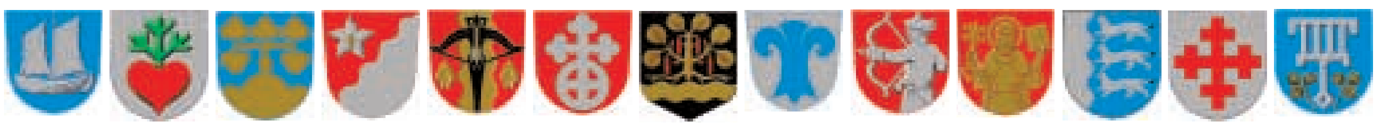
Kauniainen | Kaustinen | Keitele | Kemi | Kemijärvi | Keminmaa | Kempele | Kerava | Keuruu | Kihniö | Kiikala | Kimito | Kinnula



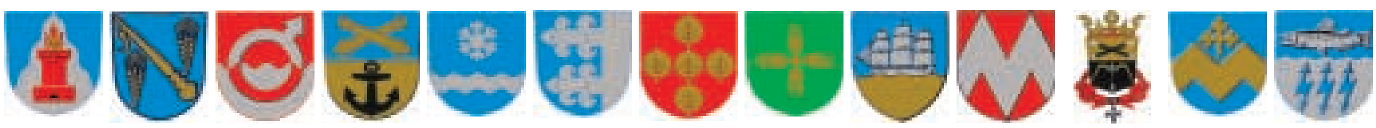
Kirkkonummi | Kittilä | Kiukainen | Kiuruvesi | Kokemäki | Kokkola | Kolari | Korpilahti | Kotka | Kouvola | Kruunupyy | Kuopio | Kuortane



Kurikka | Kuusamo | Kuusankoski | Kuusjoki | Kälviä | Kärkölä | Lahti | Laihia | Lammi | Lapinjärvi | Lapinlahti | Lappeenranta | Lapua



Larsmo | Laukaa | Lehtimäki | Lemi | Lempäälä | Lemu | Leppävirta | Lestijärvi | Lieksa | Lieto | Liminka | Liperi | Lohja



Lohtaja | Loimaa | Loppi | Loviisa | Lumijoki | Maalahti | Masku | Mellilä | Merikarvia | Miehikkälä | Mikkeli | Mouhijärvi | Muhos

by the Finnish municipalities

Board of Director's report

The new Municipality Finance Plc was created in a merger between Municipal Housing Finance Plc and the old Municipality Finance Plc.

The company thus created started operating on May 1, having obtained the permit required to operate as a credit institution from the Ministry of Finance on April 26, 2001.

The shareholder's meetings of the merging companies approved the merger on March 7, 2001.

The new Municipality Finance's first financial year was thus May 1 – December 31, 2001, i.e. eight months long.

The Municipality Finance's financial statements for the above period showed a net operating profit of EUR 1.8 million. Net operating profit for January 1 – April 30, 2001 was EUR 522,200 for Municipal Housing Finance and EUR 449,161 for the old Municipality Finance.

Municipality Finance's net operating profit for the whole calendar year is thus EUR 2.8 million, against EUR 3.2 million in 2000*. EUR 856,055 in one-off merger costs have been fully charged against profits.

The Municipality Finance balance sheet total on December 31, 2001 was EUR 3.8 billion, up EUR 26.4 million on the previous year's figure.

Increase in lending

Municipality Finance's loan portfolio stood at EUR 3.1 billion on December 31, 2001, up 8% in the end of 2000.

The company's standing as a financier of municipal and social housing production remained strong. Total of EUR 432.7 million in long-term loans were granted by the new Municipality Finance between May 1 and December 31, 2001.

Over the whole calendar year, EUR 555.7 million in new loans were withdrawn, compared with EUR 590.6 million in 2000. Demand for loans concentrated on the end of the year, when there was a distinct increase, compared with the same period in 2000.

Lending trends were affected by rising tax revenues among municipalities and the caution shown by non-profit housing producers, specifically in launching social housing projects, while awaiting the renewed interest subsidy terms effective from the beginning of 2002.

To cover their need for short-term borrowing, the municipalities can sign a municipal commercial paper credit limit agreement with Municipality Finance allowing them to issue such papers via the company. These programmes totalled EUR 693.1 million at the end of the year. The municipalities made considerable use of this financing option, issuing altogether EUR 543 million worth of municipal commercial papers during the financial year and EUR 772.5 million during the calendar year (EUR 517 million in 2000).

There was keen competition in providing financing for municipalities, municipal federations and entities owned by them. Particularly in the case of large loans, the growing interest of foreign financial institutions in the Finnish market has led to tougher competition. Municipality Finance held onto its market share in the competitive tendering in which it took part.

Funding

One of the main principles is to diversify Municipality Finance's funding into several major capital markets. All funding is guaranteed by the Municipal Guarantee Board, so the debt instruments it issues are weighted as zero-risk under Finnish law for capital adequacy calculation purposes.

* The comparison figures given in these financial statements refer to the combined data of both merged companies (Municipal Housing Finance Plc and Municipality Finance Plc).

During 2001, Municipality Finance set up the following funding programmes:

- International funding, EMTN programme, EUR 1 billion.
- Domestic debt programme, EUR 500 million.
- Treasury Bill Programme (KVS programme), EUR 300 million.

Municipality Finance issued three Municipal Bonds totalling EUR 65.8 million during 2001.

The decision was taken to change over to the book-entry system from the beginning of 2002 in issuing Municipal Bonds as it has proved both functional and reliable. Competition has cut the costs of related services, so the decision is also justified financially.

Municipality Finance called for tenders for the planned outsourcing of Municipal Bond coupon redemption services. As a result, it signed a cooperation agreement with Nordea Bank Finland Plc under which Municipal Bond customers will be able to use Nordea's 400 plus branches to redeem the interest and principal of old Municipal Bonds in bearer form from the beginning of 2002 onwards.

In some ten years, ownership of Municipal Bonds has spread all over Finland, so Municipality Finance felt a need to provide its clientele with a close-hand service through a partner with a nationwide coverage.

Some of the loans granted by Municipality Finance were funded through the credit lines with the European Investment Bank (EIB) and Council of Europe Development Bank (CEB). The company has Global Loan Agreements totalling EUR 194 million with the EIB and EUR 200 million with the CEB. Both were utilized during the year.

Municipality Finance raised a total of EUR 151 million long-term funding during the financial year, and EUR 236 million during the calendar year (EUR 1 billion in 2000).

The year-on-year decrease resulted from the fact that the merging companies had raised advance funding in 2000 in view of the upcoming merger. Consolidating the two companies' balance sheets also meant that they had less overall need for funding.

Short-term funding under the T-Bill programme totalled EUR 188.1 million on December 31, 2001, compared with EUR 101.1 million a year earlier. A total of some EUR 610.3 million was issued under the programme during the financial year, and EUR 835 million during the calendar year.

Short-term funding under the T-Bill programme was used actively as a way of financing municipal commercial papers and to safeguard overall liquidity.

On the date of closing, total funding stood at EUR 3.6 billion, 62% of this in euros and 38% in other currencies.

Risk management

Municipality Finance has minimised its risk taking. Market-related risks are hedged mainly with interest rate swaps, currency swaps and forward rate contracts. The company uses risk management software to monitor its counterparty, interest rate and currency risks. It has set credit rating criteria and internal risk limits for its contract counterparties.

Several simultaneous methods are used to manage interest rate risks, ranging from conventional duration analysis to value-at-risk analysis, calculated using 99% probability over ten days, as recommended by the BIS.

The company is fully protected against currency risks. In principle, all funding in foreign currencies is converted into euros through derivative contracts.

Every effort is made to reduce refinancing risk by matching funding and lending maturities, and by spreading funding activities over several capital markets.

At the end of the year, the company's refinancing risk, calculated using average lending and funding maturities, was 2.9 years.

The company has access to altogether EUR 217 million in arrangements to safeguard its liquidity.

Derivative contracts are used solely for hedging purposes. The Company´s lending is zero-risk weighted in capital adequacy calculations, because it grants loans directly to Finnish municipalities and municipal federations. Other entities are granted loans only with a guarantee or a deficiency guarantee from a municipality or municipal federation, or with a State deficiency guarantee.

Risk management is the responsibility of the Board of Directors, which decides on the general principles to be followed. The Managing Director is in charge of the practical execution of risk management measures, together with the Board of Management. The company's risk positions vis-à-vis risk limits set are reviewed regularly by the Board of Directors and by the Board of Management.

Municipality Finance reports on its activities regularly to the Financial Supervision Authority, the Bank of Finland, the European Central Bank and the Municipal Guarantee Board.

Capital adequacy and own funds

Municipality Finance's capital adequacy ratio on December 31, 2001 was 84.05%.

Neither the new company nor the companies that merged to form it have ever had any non-performing loans or credit losses.

At the end of 2001, share capital stood at EUR 16.5 million. Own funds totalled EUR 82.3 million.

Credit ratings

The company's long-term funding has the following credit ratings

Moody's Investors Service **Aaa**
(last confirmed 21.12.2001)

Standard & Poor's **AA+**
(last confirmed 10.12.2001)

Its short-term funding enjoys the highest ratings possible:

Moody's Investors Service **P1**
(last confirmed 21.12.2001)

Standard & Poor's **A-1+**
(last confirmed 10.12.2001)

For the purpose of capital adequacy calculations at banks and credit institutions, Municipality Finance Plc's debt obligations, guaranteed by The Municipal Guarantee Board or the Local Government Pensions Institution, are categorized as zero-risk weighted in Finland.

Operating result

The new Municipality Finance showed a net operating profit of EUR 1.8 million for its first financial year. It made voluntary provisions totalling almost EUR 1.8 million, and showed a profit of EUR 1,569.49. This takes account of EUR 582,899 in merger-related costs that are included in full in the financial statements.

The combined net operating profit for January 1 – December 31, 2001, comprising the merged companies' profits for January 1 – April 30 and the new company's profits for May 1 – December 31, totals EUR 2.8 million, including EUR 856,055 in merger-related costs. In 2000, profit before appropriations and taxes came to EUR 3.2 million.

Prospects for 2002

Prospects for both the global economy and Finland's municipal economy in 2002 are somewhat uncertain.

In Finland the municipalities wish to avoid excessive deficits. Forecasts by bodies such as the

Capital adequacy in 1997–2001 (%)

	1997	1998	1999	2000	2001
Municipality Finance Plc (old)	24	84	45	38	
Municipal Housing Finance Plc	227	109	114	63	
Municipality Finance Plc				49*	84

*Old Municipality Finance Plc and Municipal Housing Finance Plc combined.

Association of Finnish Local and Regional Authorities predict a decline in municipal tax revenues, which will raise the municipalities' need for financing in 2002.

Competition among suppliers of financing to municipalities and non-profit housing entities will continue keen. As well as Finnish financial institutions, foreign financiers are now interested in offering the municipal sector financial services.

Demand for the company's housing production loans will be affected by new government decisions on arrangements for financing social housing production, cost trends in housing construction and developments in market interest rates. How housing producers react in practice to the changes made in the interest subsidy system for rental and right-of-occupancy housing at the beginning of 2002 will only become clear when the government decides on the conditions for new ARAVA government-subsidized loans as an alternative to interest subsidized loans. Government decisions on 'old' ARAVA loans still outstanding will also affect demand for Municipality Finance loans. The new bill on part-ownership currently before Parliament, involving government interest subsidy and supplementary guarantees, is due to be introduced in March 2002.

Especially long-term funding is expected to get more difficult and expensive in the near future, as investors are unwilling to lock in return for over 10 years at historically low interest rates. The rising cost of long-term funding will create pressures to increase the margin on lending by credit institutions.

The current uncertainty on the markets will drive investors to look for safe investments. This trend naturally favours Municipality Finance's investment products.

Now that the merger process is over, the company can make good use of the two merged parties' best operating models. Staff inputs will be focused more concentratedly on work with our clientele and customer contacts.

Personnel and administration

The personnel of the merged companies continue to work as employees of the new company with unchanged status and no loss of seniority. During the financial year Municipality Finance had 25 full-time employees, two of whom were on maternity leave, and four part-time employees.

Total salaries, fees, pension costs and other staff-related costs paid out during the financial year for the Managing Director, his Deputy, and members of the Board of Directors came to EUR 246,774 compared with EUR 714,212 for the calendar year. The figures include the officers of both merged companies.

The Board of Directors comprises **Risto Parjanne** (Managing Director, The Association of Finnish Local and Regional Authorities) as Chairman, **Timo Honkala** (Deputy Mayor, City of Helsinki) as Vice Chairman, and **Juhani Alanen** (Deputy Mayor, City of Mikkeli), **Esa Katajamäki** (Director of Finance and Planning, City of Oulu). **Jouko Lehmusto** (Director of Administration, City of Turku), **Kari Nars** (Chairman, Council of Europe Development Bank), Espoo, **Raija Peltonen** (Council Chairwoman, Municipality of Hartola), and **Seppo Perttula** (Deputy Managing Director, Local Government Pensions Institution) as members.

Birgitta Kantola submitted her resignation from the Board on October 1, 2001.

The company's Managing Director is **Pekka Averio** and the Deputy Managing Director **Jukka Reijonen** (funding and treasury). Both belong to the Board of Management, which also includes Credit Director **Harri Hiltunen** (lending, marketing, communications), Director, Financial Administration **Marjo Tomminen** (finance and personnel administration) and Director **Jarkko Vuorenmaa** (back-office and IT management).

The company auditors are Arthur Andersen Oy with Jarmo Lohi, Authorized Public Accountant, as responsible auditor.

Profit and loss account

1,000 EUR		Pro forma*	Pro forma*
	1 May–31 Dec 2001	**1 Jan–31 Dec 2001**	**1 Jan–31 Dec 2000**
Interest income	123,247	188,171	173,794
Net income from leasing operations	2	2	4
Interest expenses	-116,731	-178,276	-163,584
NET INCOME FROM FINANCIAL OPERATIONS	6,518	9,897	10,214
Commission income	2	3	21
Commission expenses	-1,305	-1,768	-1,447
Net income from securities transactions	50	223	-242
Net income from foreign exchange dealing	1	8	-103
Net income from securities transaction and foreign exchange dealing	51	231	-345
Other operating income	0	2	13
Administrative expenses			
Staff costs			
Salaries and fees	-888	-1,511	-1,643
Staff-related costs			
Pension costs	-149	-233	-238
Other staff-related costs	-62	-139	-213
Other administrative expenses	-840	-1,445	-1,731
Total administrative expenses	-1,939	-3,328	-3,825
Depreciation and write-downs on tangible and intangible assets	-238	-336	-264
Other operating expenses	-1,269	-1,910	-1,199
NET OPERATING PROFIT	1,820	2,791	3,168
PROFIT BEFORE APPROPRIATIONS AND TAXES	1,820	2,791	3,168
Appropriations	-1,793	-2,740	-1,890
Income taxes	-25	-46	-377
PROFIT FOR THE FINANCIAL YEAR	2	5	901

* The comparison figures given in these financial statements refer to the combined data of both merged companies (Municipal Housing Finance Plc and Municipality Finance Plc).

Balance sheet

1,000 EUR		Pro forma*
ASSETS	**31 Dec 2001**	**31 Dec 2000**
Liquid assets	2,727	4
Debt securities eligible for refinancing with central banks	96,447	231,505
Claims on credit institutions		
Repayable on demand	544	642
Other	6,972	8,140
Claims on the public and public sector entities	3,061,728	2,822,430
Leasing assets	23	43
Debt securities		
On public sector entities	112,952	126,305
Other	298,784	341,446
Shares and participations	1,157	1,063
Intangible assets	266	201
Tangible assets		
Other tangible assets	765	870
Other assets	131,738	45,157
Accrued income and prepayments	54,909	164,770
TOTAL ASSETS	**3,769,012**	**3,742,576**

		Pro forma*
LIABILITIES	**31 Dec 2001**	**31 Dec 2000**
LIABILITIES		
Liabilities to credit institutions and central banks		
Credit institutions		
Other	413,597	323,932
Debt securities issued to the public		
Bonds	3,009,415	3,142,230
Other	188,064	101,135
Other liabilities	1,913	9,163
Accrued expenses and deferred income	68,217	81,056
Subordinated liabilities	33,819	33,819
APPROPRIATIONS		
Voluntary provisions	18,223	15,482
EQUITY CAPITAL		
Share capital	16,522	16,406
Other restricted reserves		
Reserve fund	277	393
Capital loans	18,050	18,050
Profit brought forward	913	9
Profit for the financial year	2	901
TOTAL LIABILITIES	**3,769,012**	**3,742,576**
OFF-BALANCE SHEET COMMITMENTS		
Irrevocable commitments given in favour of a customer	166,258	84,681

* The comparison figures given in these financial statements refer to the combined data of both merged companies (Municipal Housing Finance Plc and Municipality Finance Plc).

Off-Balance Sheet Commitments

LIABILITIES AND COLLATERAL	Book value in final accounts (1,000 EUR) 31 Dec 2001	31 Dec 2000
Pledged bonds to the Local Government Pensions Institution	185,573	235,172
Pledged debt securities to the Local Government Pensions Institution	2,500	2,815
Pledged bonds to the Municipal Guarantee Board	2,064,493	1,849,008
Pledged debt securities to the Municipal Guarantee Board	386,039	560,817
IRREVOCABLE COMMITMENTS TO CUSTOMERS		
Irrevocable commitments given in favour of a customer	166,258	84,681

INTEREST RATE AND CURRENCY DERIVATIVE COMMITMENTS AND OTHER DERIVATIVES OUTSTANDING

	Values of underlying instruments (1,000 EUR) For hedging purposes 31 Dec 2001	31 Dec 2000
Interest rate derivatives		
Futures and forwards	5,500	210,000
Written options	0	25,228
Interest rate swaps	2,992,034	2,694,636
Currency derivatives		
Interest rate and currency swaps	1,435,100	1 391,533
Share derivatives	65,189	72,180

	Credit value of contracts (1,000 EUR) (without netting) 31 Dec 2001
Interest rate derivative contracts	55,714
Currency derivative contracts	185,038
Share derivatives contracts	12,061

BREAKDOWN OF INTEREST RATE SWAPS AND CURRENCY SWAPS USING THE COUNTERPARTY'S CREDIT RATING

Credit equivalents are calculated by using mark to market valuations and netting

	Nominal value 1,000 EUR	Credit equivalent 1,000 EUR
AAA	1,335,129	26,483
AA	2,326,194	49,222
A	831,000	5,496

Notes to the Accounts on 31 December 2001

Notes to the accounts concerning the accounting principles applied

The new Municipality Finance Plc started operating on May 1, 2001. The company's first financial year was thus May 1 – December 31, 2001. In the notes to the accounts, data concerning the profit and loss account are presented for the period May 1 – December 31, 2001, while the comparison data are from the calendar year January 1 – December 31, 2001. The comparison data refers to the consolidated figures of the merged companies (Municipal Housing Finance Plc and the old Municipality Finance Plc) for January 1 – April 30, 2001 and the figures of the new company for May 1 – December 31, 2001.

Municipality Finance Plc balances its accounts in compliance with the relative laws and decisions and regulations issued by the Ministry of Finance and the Financial Supervision Authority. The company reports regularly on its operations to the Financial Supervision authority, the Bank of Finland and the European Central Bank. The profit and loss account and the balance sheet have been drawn up in accordance with models approved by the Financial Supervision authority on June 30, 1998.

The company's accounts have been drawn up in euros. Receivables and liabilities in foreign currencies have been converted into euros at the middle rate quoted by the European Central Bank on the balance sheet date. The approved fixed conversion rates have been used for currency conversions for the euro countries. Exchange rate differences arising in the valuation process are included under the item 'Net income from foreign exchange dealing'.

Debt securities to be held up to maturity are entered under 'Fixed assets'. The difference between the acquisition price and the nominal value of debt securities is accrued under 'Interest income'. The company's other debt securities are entered under 'Current assets'. The company does not have a trading reserve.

Derivatives contracts are made only for hedging purposes. The exchange rate valuations of the contracts are entered under 'Accrued income' or 'Accrued expenses'. The difference between annual interest income received and interest expenses paid is entered in the accounts as an adjustment to interest expenses from the hedged liability for the financial year in which the expenses occurred.

Machinery and equipment are depreciated according to plan over five years using the straight-line method. IT equipment and software straight-line over four years, and other long-term expenses straight-line over ten years. Real estate is depreciated straight-line over 25 years. The planned depreciation was made on leased equipment, based on the length of the relevant leasing agreements.

The company practice in making entries of commissions resulting from borrowing is as follows: If the amount of a loan on a subscription date is less or more than the amount the company is required to repay on the maturity date, the amount of debt on the subscription date is entered in the balance sheet, adjusted by direct commissions resulting from borrowing. Differences between the issue price and nominal values are broken down on a time basis over the maturity of the debt.

Notes to the profit and loss account

All amounts in euros	Financial result 1 May – 31 Dec 2001	Pro forma 1 Jan – 31 Dec 2001
1. Interest income, broken down as follows:		
– Claims on credit institutions	335,299	474,981
– Claims on the public and public sector entities	104,037,619	157,604,479
– Debt securities	18,329,091	29,164,373
– Other interest income	545,265	926,708
Interest expenses, broken down as follows:		
- Liabilities to credit institutions	10,073,711	15,587,561
- Debt securities issued to the public	96,006,820	147,256,456
– Subordinated liabilities	1,229,867	1,884,052
– Capital loans	610,965	952,173
– Other interest expenses	8,809,320	12,595,522
2. Net income from leasing, broken down as follows:		
– Rental income	15,105	22,657
– Planned depreciation	- 13,449	- 20,173
	1,656	2,484
3. Net income from securities transactions, broken down as follows:		
– Net income from transactions in debt securities	3,179	154,262
– Net income from transactions in shares and participations	47,400	69,121
4. Total values of securities held as current assets purchased or sold during the financial year:		
– Debt securities purchased	809,012,263	1,328,136,266
– Debt securities sold	89,600,000	335,590,824
5. Other operating income		
– Other income from the ordinary business of the credit institution	50	1,670
Other operating expenses, broken down as follows:		
– Rental expenses	222,811	316,066
– Other expenses arising from the ordinary business of the credit institution	1,046,322	1,594,513

6. The profit and loss account item "Depreciation and write-downs 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.

	Financial result	Pro forma
9. Appropriations, broken down as follows:		
– Change in other voluntary provisions	1,793,000	2,740,442

10. Municipality Finance Plc has not made any 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 December 31, 2001

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

– Government bonds	61,534,926
– Banks' certificates of deposit	34,911,583

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.

Enterprises	1,470,331,956
Public sector entities	1,535,652,033
Non-profit organizations	55,744,041

All lending to enterprises, public sector entities and non-profit organizations is guaranteed by a municipality or a municipal federation or the state. No specific loan loss provisions were made for claims on the public and public sector entities.

16. Municipality Finance Plc does not have any non-performing 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 claims subordinated to the debtor's other debts.

19. Leasing assets

Machinery and equipment	23,208

20. The total book value of securities entered under 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 508,182,290.

	Quoted	Others
Debt securities		
Securities held as current assets	39,044,557	399,008,441
Other	22,490,369	47,638,923

The total amount of the difference between the estimated market value and the lower book value of securities held as current assets and entered under balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 4,259,458.

The total amount of the difference between the acquisition cost and the lower nominal value of securities held as fixed assets and entered under the balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 758,953.

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' breaks down as follows:

Municipal commercial papers	103,527,783
Certificates of deposit	34,911,583
Other bonds	369,742,924

21. Shares and participations

	Quoted	Others
Shares held as current assets	0	1,156,655
Others	0	0

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

Purchase price at the beginning of the financial year	736,525
+ Acquisitions during the financial year	105,417
– Disposals during the financial year	61,414
– Planned depreciation during the financial year	102,227
+ Accumulated depreciation from disposals at the beginning of the financial year	25,369
– Accumulated depreciation at the beginning of the financial year	296,536
Book value at the end of the financial year	407,134

23. The item "Intangible assets" broken down as follows:

– Intangible assets	183,835
– Other long term expenditure	82,275

24. Land and water areas and buildings entered under the balance sheet item 'Tangible assets'

Used by the company	
Acquisition cost at beginning of period	349,457
+ Additions during period	25,933
– Planned depreciation during period	6,239
– Accumulated depreciation at beginning of period	11,257
Book value at end of period	357,894

25. Municipality Finance Plc does not own any of its own shares and does not belong to any group.

26. The balance sheet item "Other assets" broken down as follows:

Derivatives	131,738,462

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

– Interest	54,223,929
– Other	684,606

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:

Bonds	11,662,750
Other	1,677,070

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

Bonds	261,482
Other	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:

Bonds	3,009,414,528
Other	188,064,317

31. Other liabilities, broken down as follows:

– Cash items in the process of collection	
– Other	1,913,261

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

– Interest	67,121,258
– Other	1,095,857

33. Municipality Finance Plc has no obligatory provisions.

34. Subordinated liabilities

Municipality Finance Plc has issued a Euribor-based debenture of EUR 17,000,000. The loan has no maturity date. The issuer is entitled to repay the loan on May 18, 2006. In the issuer's enforcement and dissolution procedures, the loan principal and unpaid interest are subordinated to commitments which do not include any such priority condition. The debenture cannot be converted into shares.

Furthermore, the company has issued a debenture of EUR 16,818,792.65. The nominal interest rate on the loan is based on the 6-month Euribor. The loan has no maturity.

The principal of both loans can be paid back only if the Financial Supervision authority grants permission following an application from Municipality Finance.

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

	Share capital	Reserve fund
Book value 30 Apr 2001	16,406,059	392,652
+ Increases during the financial year	115,941	
- Decreases during the financial year		115,941
Book value 1 May 2001	16,522,000	276,711

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

37. There are not any non-distributable items in non-restricted equity.

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

39. Ten largest shareholders in terms of voting rights and the number of shares held, their proportion of all Municipality Finance shares and of all votes attached to them, and the total number of shareholders. No-one may exercise more than fifteen (15) per cent of the total votes represented at a General Meeting.

	number	**percentage**
1. Local Government Pensions Institution	7,021,850	42.50
2. City of Helsinki	1,925,000	11.65
3. City of Espoo	651,750	3.94
4. City of Turku	440,000	2.66
5. VAV Asunnot Oy	412,500	2.50
6. City of Oulu	385,000	2.33
7. City of Tampere	343,750	2.08
8. City of Joensuu	272,250	1.65
9. City of Kuopio	228,250	1.38
10. The Association of Finnish Local and Regional Authorities	202,125	1.22

The total number of shareholders is 258.

40. Capital loans

Principles concerning repayment of capital certificates and yield paid on them comply with section 38 of the Act on Credit Institutions. The capital loans (worth EUR 1,345,503.44) cannot be recalled, but the company may repay them with permission from the Financial Supervision Authority on condition that the company's own funds do not fall below the minimum level. Interest can be paid insofar as profit distribution in the credit company is possible and distributable funds are adequate and the Board of Directors of the credit company so decides. Entitlement to pay interest is not carried over to future financial periods if no interest is paid for earlier periods. The Board of Directors has decided that no interest shall be paid for the year 2001.

The company has issued a EUR 12,500,000 capital loan. The interest rate is based on the 6-month Euribor. The company has agreed to pay interest only if the sum to be paid can be used for profit distribution according to the approved balance sheet for the company's previous financial year. The loan contains no cumulative right to interest. The loan has no maturity date, but the borrower can repay the loan on the call date, which is October 12, 2007. The loan can be repaid on condition that the restricted capital and other non-distributable assets on the approved balance sheet for the company's previous financial year provide full coverage. The Financial Supervision authority must also have granted permission for repayment of the loan. Accrued interest at the end of the financial year has been entered under 'Interest expenses' in the balance sheet.

In addition, the company has a EUR 4,204,698.16 capital loan. The interest rate is based on the 6-month Euribor. The company has agreed to pay interest only if the sum to be paid can be used for profit distribution according to the approved balance sheet for the company's previous financial year. The loan involves no cumulative right to the interest. The loan has no maturity date and can be paid back only on condition that the restricted capital and other non-distributable assets on the approved balance sheet for the company's previous financial year provide full coverage. The Financial Supervision authority must also have permission for repayment of 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

	0–3 months	3–12 months	1–5 years	over 5 years
Debt securities eligible for refinancing with central banks	34,911,583	0	34,995,364	26,539,562
Claims on credit institutions	7,232,847	283,289	0	0
Claims on the public and public sector entities	39,723,667	352,550,278	1,036,865,504	1,632,588,582
Debt securities	96,093,753	98,355,982	201,031,830	16,254,217

	0–3 months	3–12 months	1–5 years	over 5 years
Liabilities to credit institutions	0	0	161,369,524	252,227,489
Debt securities issued to the public	245,121,530	274,060,903	1,295,367,726	1,382,928,686

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.

	In-currencies	Foreign currency
Debt securities eligible for refinancing with central banks	96,446,509	0
Claims on credit institutions	7,507,620	8,516
Claims on the public and public sector entities	3,061,728,031	0
Debt securities	411,735,782	0
Other assets	131,738,462	0
Liabilities to credit institutions	332,712,976	80,884,036
Debt securities issued to the public	1,891,638,949	1,305,839,896
Subordinated liabilities	33,818,793	0
Other liabilities	1,913,261	0

Notes to the accounts concerning income taxation

44. The company's voluntary provisions include deferred tax liabilities totalling EUR 5,284,538. 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

Pledged bonds to the Local Government Pensions Institution	185,573,214
Pledged debt securities to the Local Government Pensions Institution	2,500,000
Pledged bonds to the Municipal Guarantee Board	2,064,493,155
Pledged debt securities to the Municipal Guarantee Board	386,038,526

46. The company´s pension cover is arranged via an outside employment pension insurance company.

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

48. Off-balance sheet commitments

– Irrevocable commitments given in favour of a customer 166,258,127

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
Interest rate derivatives	
Futures and forwards	5,500,000
Interest rate swaps	2,992,034,151
Currency derivatives	
Interest rate and currency swaps	1,435,099,827
Share derivatives	65,189,486

	Credit value of contracts (without netting)
Interest rate derivative contracts	55,714,409
Currency derivative contracts	185,038,497
Share derivatives contracts	12,060,657

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 rent commitments worth EUR 226,124 to be paid during the next financial period and a total of EUR 790,774 to be paid later.

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

Notes to the accounts concerning members of the administrative and supervisory bodies

53. During the financial year Municipality Finance Plc had 25 full-time employees, two of whom were on maternity leave, and four part-time employees.

Total salaries, fees, pension costs and other staff-related costs paid out during the financial year for the Managing Director, his Deputy, and members of the Board of Directors came to EUR 246,774 compared with EUR 714,212 for the calendar year. The figures include the officers of both merged companies. An executive agreement will be signed with the Managing Director in 2002 that will include additional pension benefit.

Salaries and fees were not paid on the basis of the company's financial performance.

The company did not grant any credits or sureties for members of the Board, the Managing Director, his Deputy or the auditor or the deputy auditor.

The company has not made pension commitments to members of the Board, the Managing Director, his Deputy or the auditor or the deputy auditor.

Holdings in other undertakings

54. Municipality Finance Plc has no holdings in other undertakings.

Other notes to the accounts

55. 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.

56. Municipality Finance Plc is a public limited liability company.

57. 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

Municipality Finance Plc (new)	1 May – 31 Dec, 2001	Pro forma 2000	Pro forma 1999
Liikevaihto, milj. euroa	123	173	124
Net operating profit, EUR million	1.8	3.2	3.1
% of turnover	1.5	1.8	2.5
Profit before appropriations and taxes, EUR million	1.8	3.2	3.1
% of turnover	1.5	1.8	2.5
Return on equity (ROE), %	5.6	7.1	9.9
Return on assets (ROA), %	0.1	0.1	0.2
Equity ratio, %	1.3	1.2	1.0
Yield-expense ratio	1.4	1.5	1.6
Capital adequacy ratio, %	84.1	48.8	63.2
Headcount 31 Dec	24	26	26
Municipal Housing Finance Plc		**1998**	**1997**
Turnover, EUR million		37	25
Net operating profit, EUR million		2.1	2.0
% of turnover		5.8	7.9
Profit before appropriations and taxes, EUR million		2.1	2.0
% of turnover		5.8	7.9
Return on equity (ROE), %		20.1	21.9
Return on assets (ROA), %		0.3	0.4
Equity ratio, %		1.3	1.6
Yield-expense ratio		2.3	2.5
Capital adequacy ratio, %		109.1	226.6
Headcount 31 Dec		8	7
Municipalicity Finance Plc (Old)		**1998**	**1997**
Turnover, EUR million		92	76
Net operating profit, EUR million		2.3	0.1
% of turnover		2.5	0.2
Profit before appropriations and taxes, EUR million		2.3	0.1
% of turnover		2.5	0.2
Return on equity (ROE), %		17.2	1.4
Return on assets (ROA), %		0.2	0.0
Equity ratio, %		1.2	0.6
Yield-expense ratio		1.7	1.0
Capital adequacy ratio, %		84	24
Headcount 31 Dec		17	14

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 maximize 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:

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

Return on assets ratio (ROA) is calculated as follows:

$$\frac{\text{Net operating profit - taxes}}{\text{Balance sheet total (average of year beginning and year end)}} * 100$$

Equity ratio is calculated as follows:

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

Yield-expense ratio:

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

Capital adequacy ratio is calculated as follows:

$$\frac{\text{Own funds}}{\text{Risk weighted assets and off-balance sheet items}} * 100$$

Financial result for the year and disposal of profits

The company's financial statements show a profit of EUR 1,569.49. The Board of Directors proposes that this profit be retained under non-restricted equity capital and that no dividend be paid out.

Helsinki, February 8, 2002

MUNICIPALITY FINANCE PLC

Risto Parjanne
Chairman of the Board of Directors

Timo Honkala
Vice Chairman of the Board of Directors

Juhani Alanen
Board member

Esa Katajamäki
Board member

Jouko Lehmusto
Board member

Kari Nars
Board member

Raija Peltonen
Board member

Seppo Perttula
Board member

Pekka Averio
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 May – 31 December 2001. 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.

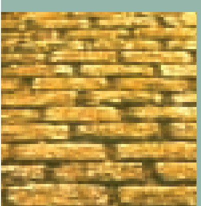
We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The purpose of our audit of corporate governance is to examine that 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 and the Act on credit institutions.

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, 13 February 2002

ARTHUR ANDERSEN OY
Authorised Public Accountants

Jarmo Lohi
Authorised Public Accountant



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