Municipality Finance Plc
ANNUAL REPORT 2002

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.

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MUNICIPALITY FINANCE

Managing Director's review

In 2002 Municipality Finance concentrated on developing its core business and customer service in both funding and lending.

Considering trends on funding and lending markets, it is clearer than ever that the merger of the old Municipality Finance and Municipality Housing Finance came at exactly the right moment. The new Municipality Finance is a stronger player on the funding market, and can also serve its borrowers more comprehensively.

Lending to municipalities still growing

Municipality Finance lending continued brisk all year and the company maintained its strong standing as a lender to the municipal sector and non-profit housing corporations. It won altogether EUR 774 million of the offers it made, i.e. about 37%.

EUR 770 million in loans were withdrawn during the year, that is, nearly 40% more than in 2001. Loans were granted to borrowers in 173 municipalities. The entire Municipality Finance loan portfolio grew by 11%, to EUR 3.4 billion.

The growth of the loan portfolio derived from the municipalities' increasing need to cover their investments by borrowing. The weak competitiveness of the State housing loan system (ARAVA) amid low market interest rates also made loans from Municipality Finance and other financial institutions serving the municipal sector more attractive as municipalities converted their ARAVA loans into cheaper loans on market terms.

Municipality Finance lending is likely to continue growing in 2003 despite declining municipal investment. According to an Association of Finnish Local and Regional Authorities estimate, borrowing by municipalities (excluding municipal federations) will increase by 10-15% in 2003.

Funding is the biggest challenge in 2003

Municipality Finance achieved the targets set for funding in 2002, though acquiring competitive long-term funding on international capital markets became more challenging with interest rates so low.

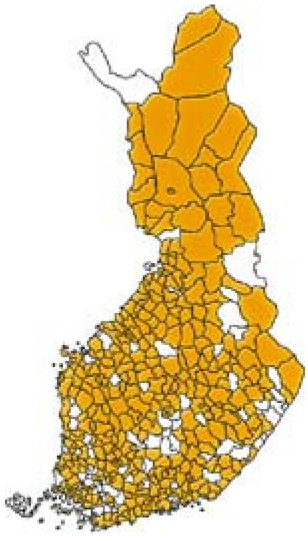
Municipality Finance's estimated need for funding in 2003 is around EUR 1 billion. The year's biggest challenge will be to pursue its own and Finnish municipalities' interests on the international funding market, where Municipality Finance is still only a minor player. The fact that the Finnish municipal sector enjoys good credit ratings will be a crucial competitive asset, and remain the foundation of the company's funding operations.

Succeeding in such a challenging environment will mean increasing recognition of Municipality Finance internationally and actively collaborating with the Nordic and international partners.

Interest rates are not expected to start rising until the end of 2003 at the earliest. Before that, the European Central Bank may even cut the bank rate in view of the poor economic prospects for the euro zone. One element in this uncertainty is apprehension about future developments in the Iraq situation.

Helsinki, February 5, 2003

Pekka Averio
Managing Director



At the end of 2002 Municipality Finance had long-term loans outstanding in 342 municipalities, which represents 82 % of members of the Municipal Guarantee Board.

Chairman of the Board's review

Municipal finances were fairly well balanced in 2002, but have moved into deficit in 2003, a situation expected to continue over the next few years.

Growth in tax revenues came to a halt in 2002, and in 2003 a fall of well over five per cent is predicted.

Despite slower economic growth, the municipalities must be able to cope with their growing statutory obligations. Any hopes they may have of boosting their tax revenues by raising the municipal tax rate are somewhat undermined by the increase made in the earned income deduction in municipal taxation, for instance.

Bookings of corporate tax by municipalities fell nearly 40% in 2002. There were several causes, including poorer business performance and the municipalities' smaller share of revenues and VAT levies.

Investment can only fall so far

Municipal investment peaked in 2001. Though the total figure fell to only some EUR 2 billion in 2002, the municipalities' need for borrowing was growing at the same time.

Necessary maintenance and renovation investments and rising pressure for more services in municipalities with net migration inflow mean that investment can only be cut so far. The level is in fact unlikely to fall much over the next few years.

The municipalities' shrinking income base will naturally be felt at Municipality Finance. Already, demand for its loans has increased. At the same time, pressure is growing on the company to increase its funding on behalf of Finnish municipalities.

Municipality Finance safeguarding its competitiveness

Municipality Finance has proved its importance as an instrument of the municipalities. The company implements its mission as an active source of finance, creating competition merely by its existence. The financial institutions supplying municipalities in fact already operate on very narrow margins.

Municipality Finance's ability to continue serving the municipalities is tied up with the competitiveness of its financial products and other services. With support from its owners, profitable operations, internal development and a constant drive for greater efficiency will ensure Municipality Finance's future competitiveness.

There is a mood of anticipation in municipal housing construction. The present Government or at the latest the Government that assumes office after the elections in March must speed up social housing production by putting better terms for financing State-subsidized housing on its agenda.

On behalf of the Municipality Finance Board, I should like to thank our staff, customers and stakeholders for the contribution they have made to achieving the company's goals and ensuring its future development.

Helsinki, February 5, 2003

Risto Parjanne
Chairman of the Board

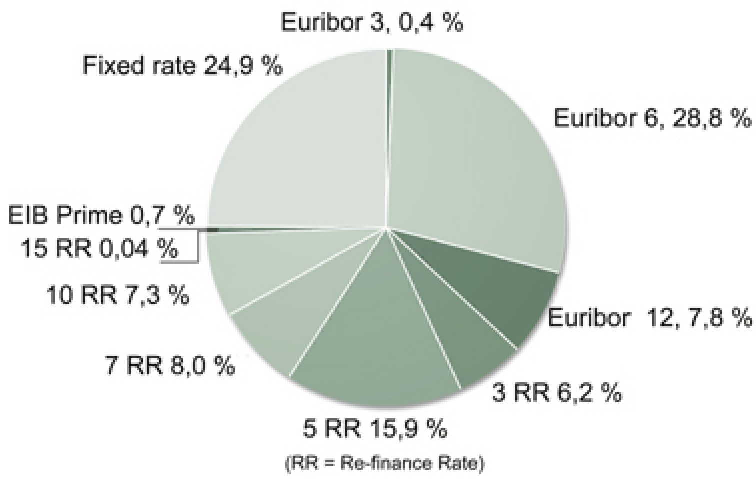
Board of Directors' report

2002 was the new Municipality Finance Plc's first full year of operation. The merger in 2001 between Municipal Housing Finance Plc and the old Municipality Finance Plc came exactly at the right time. Municipality Finance is now a stronger player on the funding market and the company can also serve its borrowers more comprehensively than before.

The new company created in the merger started operating on May 1, 2001. The first full financial year (January 1 – December 31, 2002) showed a net operating profit of EUR 3.1 million. The EUR 2.8 million written up for the 2001 calendar year comprised the new Municipality Finance's net operating profit of EUR 1.8 million for May 1 – December 31, 2001 and the net operating profit recorded by the merging companies for January 1 – April 30, 2001.

The Municipality Finance balance sheet total on December 31, 2002 was EUR 4,156.7 million, compared with EUR 3,769.0 million at the end of the previous year. This was an increase of 10%.

Lending



Lending portfolio by reference rate 31 Dec 2002

Long-term lending

Municipality Finance's borrowers are municipalities and municipal federations, organizations owned or controlled by them, and non-profit housing corporations.

The company's loan products comprise loans to municipalities, municipal federations and municipal enterprises, and housing loans for new production, renovations and acquisitions. Some Municipality Finance loans are refinanced by the European Investment Bank (EIB) or the Council of Europe Development Bank (CEB).

Municipal finances deteriorated in 2002, increasing the demand for long-term lending. Demand for housing loans was boosted by the conversion of State housing loans (ARAVA) into loans at market rates, partly because these rates were so low and partly because of structural problems with the ARAVA system. Requests for offers received by the company involved some 300 municipalities for a total of EUR 2.1 billion (2001: EUR 1.3 billion).

The changes made in 2002 in the interest subsidy system for housing production did not boost demand for interest-subsidized loans as much as expected. Construction of some 2,500 rental and right-of-occupancy units began with interest subsidy, compared with 3,700 in 2001.

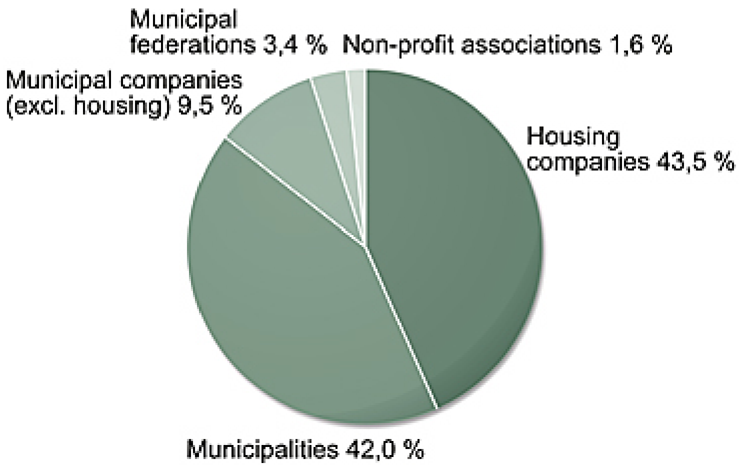
Municipality Finance lending continued to be brisk all year and the company maintained a strong standing as a lender to the municipal sector and non-profit housing corporations. It won altogether EUR 774 million (c. 37%) of the competitive offers it made. Municipalities and municipal federations accounted for EUR 381 million of this, municipal enterprises for EUR 74 million, and housing corporations for EUR 319 million.

The Municipality Finance loan portfolio stood at EUR 3,403.1 million at the end of 2002 (2001: EUR 3,061.7 million). Altogether EUR 770.0 million in loans was withdrawn (2001: EUR 555.7 million), an increase of 39%. As EUR 428.4 million in loans matured in 2002, this meant an 11% net increase in lending. Loans were granted to borrowers in 173 municipalities.

A customer satisfaction survey was commissioned in spring 2002, in which Municipality Finance customers assessed the company's products and services. Municipality Finance gained a consistently good rating of 5.5 (on a scale of 1-7) in the key areas surveyed, i.e. products and services, analysis of financial needs, and financing solutions and customer service and customer relations. Municipality Finance is judged necessary as an alternative to other financial institutions. Its loan and service provision is considered important, and much is expected of its future development.

Municipality Finance was felt to be a professional, dynamic and approachable company. Most customers believed its standing would strengthen in future.

There were no significant regional differences in the assessment of Municipality Finance's operations. Its products and services also won a consistently good rating in a comparison based on population.



Lending by borrower types 31 Dec 2002

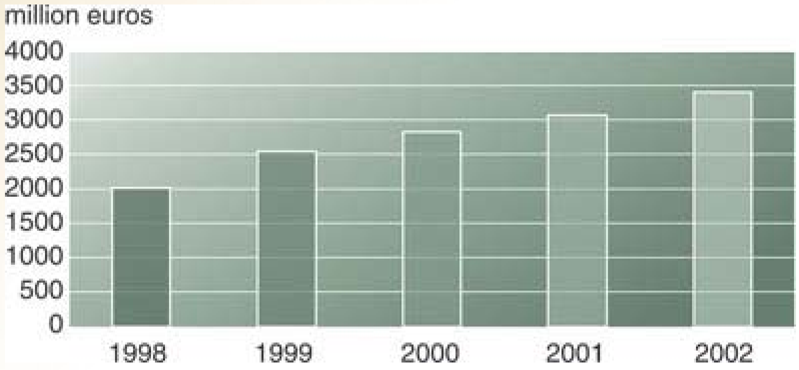
Short-term lending

Municipality Finance also supplies municipalities and municipal federations with municipal commercial paper to meet financial needs of under a year, which they can issue via Municipality Finance.

At the end of 2002, 243 municipalities and municipal federations were using the programme, which at that point totalled EUR 895.4 million. Customers acquired altogether EUR 651.5 million (2001: EUR 772.5 million) in short-term financing this way.

Changes were made in the programme during the year in order to simplify its use and administration.

In 2002 Municipality Finance began to offer municipal commercial paper to corporations controlled by municipalities and municipal federations. They can use it for instance to finance housing production during construction efficiently and flexibly, or to meet other current needs. Marketing of this product will get fully under way during 2003.



Total lending 1998-2002

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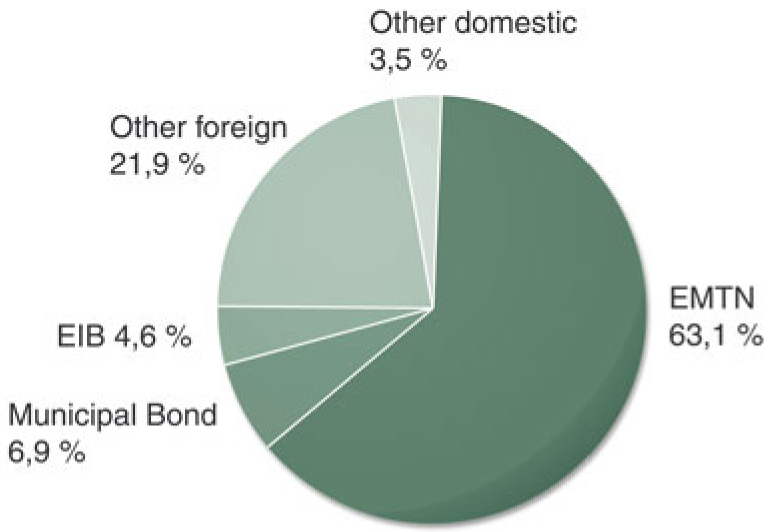
Funding

Municipality Finance acquired a total of EUR 715.9 million (2001: EUR 236.0 million) in long-term funding in 2002. This was much less than in 2001, partly because the merging companies had acquired considerable funding in advance in preparation for the merger and because they combined their balance sheets. When the books were closed the company's joint funding stood at EUR 3,983.4 million. Of this, 62% was in euros and 38% in other currencies.



Long-term funding sources 2002

Modes of funding

Most Municipality Finance funding is through the following debt programmes:

- International funding, EMTN programme, EUR 1.500 million
- Domestic debt programme, EUR 500 million
- Treasury Bill Programme (KVS programme), EUR 300 million.

In May Municipality Finance raised its EMTN programme from EUR 1,000 million to 1,500 million. The programme is listed on the London Stock Exchange.

Municipality Finance uses credit limits agreed with the European Investment Bank and Council of Europe Development Bank (CEB) as part of its refinancing.

Municipality Finance funding is guaranteed by the Finnish Municipal Guarantee Board, so the debt instruments it issues are weighted as zero-risk under Finnish law for capital adequacy purposes.

About 20% of all funding took place outside the programmes in 2002.

International funding

In 2002, more than 60% of the long-term international funding was secured through the EMTN programme. 67% of this funding was euro-denominated, with maturity ranging from 1 year to 30 years. An important part of the funding comprised structured loans issued in Japan, which allowed the company to offset the higher costs of euro-denominated funding.

After an interval of a few years, the company also issued an Uridashi bond in Japan within the EMTN programme. This Australiandollar bond was targeted at private investors. In addition, the company successfully issued a number of other bonds in Europe.

Domestic funding

Within its domestic debt programme Municipality Finance issued seven Municipal Bonds to a total subscription value of EUR 81.2 million during 2002. Five of these were targeted at the general public and two were index-tied loans for wholesale investors.

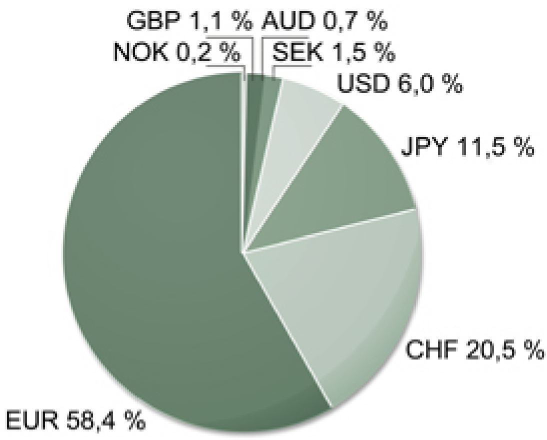
A change-over was made to the book-entry system from the beginning of 2002 in issuing Municipal Bonds, as it has proved both functional and reliable. Competition has cut the costs of related services, so the move was also justified financially.

Coupon redemption services for old bearer-form Municipal Bonds have been outsourced. Municipality Finance signed a cooperation agreement with Nordea Bank Finland Plc under which Municipal Bond customers have been able to redeem the interest and principal of Municipal Bonds at Nordea branches from the beginning of 2002 onwards.

Short-term funding

For short-term funding the company has a Treasury Bill programme (KVS). On December 31, 2002, issues of such current funding totalled EUR 276.5 million (2001: EUR 188.9 million). All in all, Municipality Finance debt instruments issued during the year totalled EUR 893.0 million.

Short-term funding is used to secure overall liquidity. It is also the main source of funding for municipal commercial paper.



Long-term funding by currencies 2002

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Risk management

Municipality Finance takes minimal risks. Market-related risks are hedged mainly with interest rate swaps, cross-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. Derivative contracts are used solely for hedging.

Risk management is efficiently arranged at Municipality Finance. The general principles are decided on by the Board of Directors and implemented by the Managing Director assisted by the Board of Management. Actual risk management and related supervisory functions are separate. The company’s risk standing is monitored regularly by the Board of Management and by the Board of Directors, on the basis of regular reporting on use of credit limits.

Several overlapping methods are used to manage interest rate risks, ranging from conventional duration analysis and sensitivity analysis to value-at-risk analysis, calculated using 99% probability over ten days, as recommended by the BIS. The resulting VAR figure based on historical analysis averaged EUR 937,198 during the year.

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

Loans can be granted to municipalities and municipal federations without separate collateral. For other loans, an absolute guarantee or deficiency guarantee issued by a municipality or a municipal federation, or a State deficiency guarantee, is acceptable. Because such security is required, the loans granted are calculated as zero-risk for purposes of calculating the company’s capital adequacy.
Every effort is made to reduce refinancing risk by coordinating funding and lending maturities, and by spreading funding over several different market areas.

At the end of the year, the company’s refinancing risk, calculated using average lending and funding periods, was 3.56 years.

The company has access to altogether EUR 100 million in arrangements to safeguard its liquidity.

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

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Capital adequacy and own funds

Municipality Finance’s capital adequacy on December 31, 2002 was 63.44%. Share capital stood at EUR 16.5 million and own funds at EUR 84.1 million.

Capital adequacy 1998-2002 (%)

	1998	1999	2000	2001	2002
Municipality Finance Plc			49*	84	63
Municipality Finance Plc (old)	84	45	38		
Municipal Housing Finance Plc	109	114	63		

*Old Municipality Finance Plc and Municipal Housing Finance Plc combined. The companies merged and the new Municipality Finance Plc started operating on May 1, 2001.

The company has not accumulated any non-performing assets or credit losses during its operations, and this also applies to the merging companies.

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Credit ratings

The credit ratings of the company’s long-term funding are as follows:

Moody's Investors Service	Aaa	(Verified 21 Dec 2001)
Standard & Poor's	AA+	(Verified 10 Dec 2001)

Its short-term funding enjoys the highest ratings possible:

Moody's Investors Service	P1	(Verified 21 Dec 2001)
Standard & Poor's	A-1+	(Verified 10 Dec 2001)

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Operating result

Municipality Finance’s financial performance was good, and it showed a net operating profit of EUR 3.09 million. It made voluntary provisions totalling EUR 3.06 million, and showed a profit for the year of EUR 2,566.02.

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, totalled EUR 2.79 million.

Net income from financial operations for the financial year was EUR 9.96 million (2001: EUR 9.90 million). This includes EUR –450,249 in reversals of capitalizations comprising accruable items entered in the balance sheet as accrued expenses and deferred income on nettings of interest rate swaps in 1997-1998. The aim here was to standardize the accounting practices of the merged companies.

The net income of EUR 205,018 (2001: EUR 231,805) from securities transactions and foreign exchange dealing comprised profits from the sale of negotiable instruments. Assets from advance funding were invested in these instruments before the money was issued in loans to customers.

Among expenses on fees, EUR 59,641 in management fees entered as deferred liabilities was released in order to standardize accounting practices.

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Other events in 2002

2002 was a busy and eventful year. The heavy demand for lending meant funding had to be successful in terms of both price and maturities. In the first half, procedures for the new company’s internal functions were created and adjusted, the most error-free and efficient administration of agreements was ensured throughout, and the organization was trimmed to meet the company’s needs in every respect.

Municipality Finance’s internal auditing was outsourced, and placed in the hands of the Suomen Tilintarkastuskeskus Oy authorized accounting company. Two internal audits were carried out in 2002, on funding and company reporting.

In March the company moved into new facilities in Aleksanterinkatu, Helsinki. This placed all operations under the same roof, with sufficient space to meet the company’s needs for several years forward. With the move, data security and the operational reliability of IT were also upgraded.

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Prospects for 2003

The main challenges to be faced in 2003 concern the maintenance of adequate funding, lending volumes and satisfactory profit margins on today’s tougher market. Funding is expected to remain demanding as regards both volume and target pricing.

The municipalities’ net margin for the year is expected to deteriorate to some EUR 1.0 billion. This will not be enough to cover their annual investments of around EUR 2 billion, or even the year’s EUR 1.6 billion in depreciations. Gross investment is expected to decrease, though the need remains great. The total loan portfolio of the municipalities and municipal federations is expected to rise some 10-15% a year between 2003 and 2006, with gross borrowing at around EUR 1.4 billion and net borrowing at EUR 0.7 billion this year. Companies and corporations controlled by municipalities and municipal federations are also big borrowers.

The maximum authorization for approval of interest-subsidized loans in the 2003 State Budget is EUR 670 million (2002: EUR 450 million). Changes in the various systems of State housing subsidy and trends in construction costs and interest rates will affect future demand for housing loans.

The company's most important targets for 2003 are as follows:

- to further develop profitable core business
- to prepare for IAS accounting
- and to further improve IT systems and data security.

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Personnel and administration

During the financial year Municipality Finance had an average of 27 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 381,567. The Board of Directors comprises the following:

- Risto Parjanne (Managing Director, Association of Local and Regional Authorities) as Chairman
- Timo Honkala (Deputy Mayor, City of Helsinki) as Vice Chairman,
- Juhani Alanen (Deputy Mayor, City of Mikkeli)
- Birgitta Kantola (Master of Laws , Helsinki)
- Esa Katajamäki (Director of Finance and Planning, City of Oulu)
- Jouko Lehmusto (Director of Administration, City of Turku)
- Kari Nars (D.Sc. (Econ & Bus.Adm.), Helsinki)
- Raija Peltonen (Municipal Manager, Municipality of Hartola)
- Seppo Perttula (B.Soc.Sc., Helsinki)

The company's Managing Director is Pekka Averio and the Deputy Managing Director Jukka Reijonen (Finance).

The Board of Management includes:

- Harri Hiltunen, Director, Credits and Marketing
- Marjo Tomminen, Director, Financial Administration
- Jarkko Vuorenmaa, Director, IT and Back-office

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

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Profit and loss

EUR	1 Jan - 31 Dec 2002	Pro forma* 1 Jan - 31 Dec 2001
Interest income	146 536 464.85	188 170 541.37
Net income from leasing operations	3 472.88	2 484.27
Interest expenses	-136 576 732.19	-178 275 764.67
NET INCOME FROM FINANCIAL OPERATIONS	**9 963 205.54**	**9 897 260.97**
Commission income	2 093.06	3 100.55
Commission expenses	-2 041 865.18	-1 767 686.72
Net income from securities transactions and foreign exchange dealing	205 018.18	231 805.14
Other operating income	0.00	1 670.33
Administrative expenses		
Staff costs		
Salaries and fees	-1 366 570.64	-1 511 117.90
Staff-related costs		
Pension costs	-233 780.33	-233 379.87
Other staff-related expenses	-106 004.48	-138 807.06
Other administrative expenses	-1 461 141.94	-1 444 713.03
Total administrative expenses	-3 167 497.39	-3 328 017.86
Depreciation and write-downs on tangible and intangible assets	-340 976.50	-336 561.83
Other operating expenses	-1 527 082.03	-1 910 579.58
NET OPERATING PROFIT	**3 092 895.68**	**2 790 991.00**
PROFIT BEFORE APPROPRIATIONS AND TAXES	**3 092 895.68**	**2 790 991.00**
Appropriations	-3 063 000.00	-2 740 442.30
Income taxes	-27 329.66	-45 627.20
PROFIT FOR THE FINANCIAL YEAR	**2 566.02**	**4 921.50**

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Balance sheet

EUR		
ASSETS	**31 Dec 2002**	**31 Dec 2001**
Liquid assets	3 359 282.11	2 727 515.69
Debt securities eligible for refinancing with central banks	384 680 395.26	325 476 072.70
Claims on credit institutions		
Repayable on demand	3 728 126.57	544 381.69
Other	83 052 712.24	6 971 754.43
Claims on the public and public sector entities	3 403 117 827.54	3 061 728 030.76
Leasing assets	3 034.56	23 207.65
Debt securities		
On public sector entities	91 597 328.05	112 952 270.58
Other	58 979 251.93	69 753 946.84
Shares and participations	24 219.06	1 156 654.56
Intangible assets	648 923.75	266 109.67
Tangible assets		
Other tangible assets	916 393.76	765 027.67
Other assets	65 557 225.16	131 738 462.46
Accrued income and prepayments	61 015 935.67	54 908 535.21
TOTAL ASSETS	**4 156 680 655.66**	**3 769 011 969.91**

LIABILITIES	**31 Dec 2002**	**31 Dec 2001**
LIABILITIES		
Liabilities to credit institutions and central banks		
Credit institutions		
Other	437 088 485.11	413 597 012.10
Liabilities to the public and public sector entities		
Other liabilities	114 341 630.00	0.00

Debt securities issued to the public		
Bonds	3 156 604 244.80	3 009 414 528.28
Other	275 395 441.64	188 064 317.14
Other liabilities	505 515.18	1 913 261.30
Accrued expenses and deferred income	81 874 037.12	68 217 115.30
Subordinated liabilities	33 818 792.65	33 818 792.65
APPROPRIATIONS		
Voluntary provisions	21 285 544.90	18 222 544.90
EQUITY CAPITAL		
Share capital	16 522 000.00	16 522 000.00
Other restricted reserves		
Reserve fund	276 711.01	276 711.01
Capital loans	18 050 201.60	18 050 201.60
Profit brought forward	915 485.63	910 564.13
Profit for the financial year	2 566.02	4 921.50
TOTAL LIABILITIES	**4 156 680 655,66**	**3 769 011 969,91**
Irrevocable commitments given in favour of a customer	160 316 094.00	166 258 127.00

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Off-balance-Sheet Commitments

Off-balance-Sheet commitments

Commitments and security given Book value in final accounts (EUR 1,000)	31 Dec 2002	31 Dec 2001
Bonds pledged to the Local Government Pensions Institution	70 148	185 573
Debt securities pledged to the Local Government Pensions Institution	0	2 500
Bonds pledged to the Municipal Guarantee Board	2 407 147	2 064 493
Debt securities pledged to the Municipal Guarantee Board	440 533	386 039
Irrevocable commitments given in favour of a customer		
Binding commitments	160 316	166 258

Total values and countervalues of the underlying instruments pertaining to derivative contracts outstanding on the balance sheet date

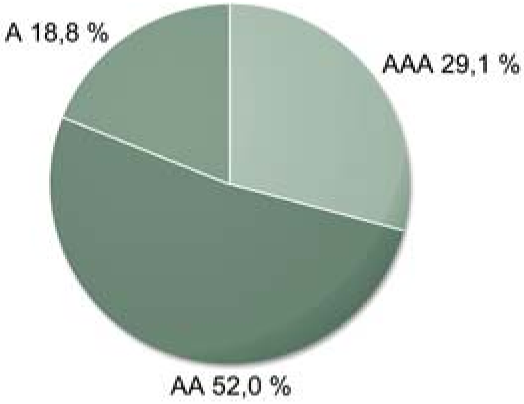
Values of underlying instruments (EUR 1,000) For hedging purposes	31 Dec 2002	31 Dec 2001
Interest-rate derivatives		
Futures and forwards	5 500	5 500
Interest-rate swaps	3 728 457	2 992 034
Currency derivatives		
Interest-rate and currency swaps	1 537 631	1 435 100
Share derivatives	103 209	65 189

Equivalent credit value of derivatives (EUR 1,000) (without netting)	31 Dec 2002	31 Dec 2001
Interest-rate derivative contracts	153 233	55 714
Currency derivative contracts	170 644	185 038
Share derivatives	8 770	12 061

Breakdown of interest-rate swaps, interest-rate and currency swaps and share derivatives using the counterparty's credit rating

Equivalent credit values have been calculated by using mark-to-market valuations and netting.

	Nominal value	Equivalent credit value	Nominal value	Equivalent credit value
1 000 EUR	**31 Dec 2002**	**31 Dec 2002**	**31 Dec 2001**	**31 Dec 2001**
AAA	1 337 416	27 417	1 335 129	26 483
AA	2 771 943	48 957	2 326 194	49 222
A	1 259 938	17 724	831 000	5 496



Derivative product risks according to rating categories (credit equivalent amounts)

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Notes to the accounts

Notes to the accounts concerning the accounting principles applied

Municipality Finance Plc balances its accounts in compliance with the relevant 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, the European Central Bank, the Municipal Guarantee Board and Statistics Finland. 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.

Municipality Finance Plc started operating on May 1, 2001 following the combination merger of Municipal Housing Finance Plc and Municipality Finance Plc. Data related to the profit and loss account, the notes to the accounts and the key indicators refer 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.

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

The breakdown of debt securities into those eligible and non-eligible for refinancing with central banks was defined more clearly in 2002. The figures for 2001 have been adjusted to correspond to the new breakdown.

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, adjusted by direct commissions resulting from borrowing, is entered in the balance sheet. Differences between the issue price and nominal values are broken down on a time basis over the maturity of the debt.

Derivative 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 and IT equipment and software straight-line over four years. Office renovation costs are entered under 'Other long-term expenses' and depreciated straight-line until the lease expires. 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.

Notes to the profit and loss account

All amounts in euros		**1 Jan - 31 Dec 2002**
1.	Interest income, broken down as follows:	
	- Claims on credit institutions	993 421
	- Claims on the public and public-sector entities	152 830 869
	- Debt securities	18 688 916
	- Other interest income	-25 976 741
	Interest expenses, broken down as follows:	

	- Liabilities to the public	802 893
	- Liabilities to credit institutions	14 254 626
	- Debt securities issued to the public	143 558 842
	- Subordinated liabilities	1 509 667
	- Capital loans	780 531
	- Other interest expenses	-24 329 827
2.	Net income from leasing, broken down as follows:	
	- Rental income	23 646
	- Planned depreciation	-20 173
		-----------------
		3 473
3.	Net income from securities transactions, broken down as follows	
	- Net income from transactions in debt securities	204 247
	- Net income from transactions in shares and participations	9 744
4.	Total values of securities held as current assets purchased or sold during the financial year:	
	- Debt securities purchased	1 168 510 000
	- Debt securities sold	89 000 000
5.	Other operating income	
	- Other income from the ordinary business of credit institution	2 093
	Other operating expenses	
	- Renting expenses	489 214
	- Other expenses from the ordinary business of credit institution	1 037 868
6.	The profit and loss account item 'Depreciation and writedowns on tangible and intangible assets' consists of planned depreciation only.	
7.	Municipality Finance Plc has not incurred any credit losses or guarantee losses.	
8.	Municipality Finance Plc has no extraordinary income or extraordinary expenses.	
9.	Appropriations, broken down as follows:	
	- Change in other voluntary provisions	3 063 000
10.	Municipality Finance Plc has not made any obligatory provisions.	
11.	Municipality Finance Plc has not combined any items in the profit and loss under section 8, subsection 4 of the Ministry of Finance decision.	
12.	Municipality Finance Plc operates as a credit institution. The company's market area is Finland.	

Notes to the balance sheet

		31 Dec 2002
13.	The balance sheet item 'Debt securities eligible for refinancing with central banks', broken down as follows:	
	- Government bonds	44 680 959
	- Banks' certificates of deposit	126 950 128
	- Other bonds	213 049 308

14. The balance sheet item 'Claims on credit institutions' does not include any claims on central banks.

15. The balance sheet item 'Claims on the public and public-sector entities' is broken down into sectors according to the official Statistics Finland classification system.

- Enterprises and housing corporations	1 803 513 227
- Public-sector entities	1 544 041 980
- Non-profit organizations	55 562 621

All lending to enterprises, public-sector entities and non-profit organizations requires a guarantee or a deficiency guarantee from a municipality or a municipal federation or a State deficiency guarantee. No specific credit loss provisions were made for claims on the public and public-sector entities.

16. Municipality Finance Plc does not have any non-performing or other zero-interest assets.

17. Municipality Finance Plc has no collateral assets acquired to secure claims.

18. Municipality Finance Plc has no debt securities, debentures or other claims subordinated to the debtor's other debts.

19. Leasing assets

Machinery and equipment	3 035

20. The total book value of securities entered under 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 535 256 975.

	Quoted	Others
Debt securities		
- Securities held as current assets	22 427 809	474 016 076
- Other	22 358 268	16 454 822

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 669 687.

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 585 113.

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' is broken down as follows:

- Municipal commercial papers	83 032 358
- Certificates of deposit	126 950 128
- Other bonds	325 274 489

21. Shares and participations

	Quoted	Others
- Shares held as current assets	0	24 219
- Others	0	0

22. The balance sheet item 'Tangible assets' consists of machinery and equipment.

Machinery and equipment	
Purchase price at the beginning of the financial year	780 528
+ Acquisitions during the financial year	409 032
- Disposals during the financial year	173 847
- Planned depreciation during the financial year	188 095
+ Accumulated depreciation from disposals at the beginning of the financial year	113 970
- Accumulated depreciation at the beginning of the financial year	373 394

	Book value at the end of the financial year	568 194
23.	The item 'Intangible assets' broken down as follows:	
	- Intangible assets	158 973
	- Other long-term expenditure	489 951
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	375 390
	+ Additions during period	0
	- Planned depreciation during period	9 695
	- Accumulated depreciation at beginning of period	17 496

	Book value at end of period	348 199
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	65 557 225
27.	The item 'Accrued income and prepayment', broken down as follows:	
	- Interest	60 360 569
	- Other	655 367
28.	The company has not combined any items in the balance sheet in accordance under section 8, subsection 4 of the Ministry of Finance decision.	
29.	Total difference between the nominal value and the lower book value of liabilities:	
	Bonds	10 526 498
	Other	1 788 332
	Total difference between the book value and the lower nominal value of liabilities:	
	Bonds	1 398 475
	Other	0
30.	Total book values of liabilities recorded in the balance sheet under the item 'Debt securities issued to the public', broken down as follows:	
	Bonds	3 156 604 245
	Other	275 395 442
31.	Other liabilities, broken down as follows:	
	- Cash items in the process of collection	0
	- Other	505 515
32.	Accrued expenses and deferred income, broken down as follows:	
	- Interest	81 224 191
	- Other	649 846

33. Municipality Finance Plc has no obligatory provisions.

34. Subordinated liabilities

Municipality Finance Plc has issued a Euribor-based EUR 17 000 000 debenture. 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 have any such priority condition. The debenture cannot be converted into shares.

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

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 1 Jan 2002	16 522 000	276 711
+ Increases	0	0
- Decreases	0	0
	---------------	---------------
Book value 31 Dec 2002	16 522 000	276 711

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

37. Non-restricted equity includes no non-distributable items.

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. At a general meeting of shareholders, each shareholder may exercise a maximum of 15% of the total votes represented at the 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, Vantaa	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 on December 31, 2002 was 258. On January 1, 2003 the municipalities of Raahe and Pattijoki merged to form the new Municipality of Raahe and the municipalities of Hamina and Vehkalahti merged to form the new Municipality of Hamina. All four were Municipality Finance Plc shareholders.

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 on earlier periods. The Board of Directors has decided that no interest will be paid on 2002.

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 involves 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.

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 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 any asset items in the balance sheet under section 8, subsections 4 of the Ministry of Finance decision.

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	97 229 068	70 315 329	166 020 863	51 115 135
Claims on credit institutions	86 225 456	555 383	0	0
Claims on the public and public-sector entities	48 992 078	298 483 384	1 108 889 318	1 946 753 048
Debt securities	67 041 589	36 878 524	37 149 045	9 507 422
Liabilities to the public	3 729 723	54 793 996	195 138 688	183 426 078
Liabilities to credit institutions	0	0	0	114 341 630
Debt securities issued to the public	395 949 842	521 294 278	1 124 007 359	1 390 748 207

Municipality Finance Plc has no deposits other 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	384 680 395	0
Claims on credit institutions	86 772 715	8 124
Claims on the public and public-sector entities	3 403 117 828	0
Debt securities	150 576 580	0
Other assets	65 557 225	0
Liabilities to the public	114 341 630	0
Liabilities to credit institutions	335 499 985	101 588 500
Debt securities issued to the public	2 005 010 902	1 426 988 784
Subordinated liabilities	33 818 793	0
Other liabilities	505 515	0

Notes to the accounts concerning income taxation

44. The company's voluntary provisions include deferred tax liabilities totalling EUR 6 172 808. The company pays income tax solely on its ordinary business operations. The company has no revaluations that affect 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	70 148 081
Pledged debt securities to the Local Government Pensions Institution	0
Pledged bonds to the Municipal Guarantee Board	2 407 146 843
Pledged debt securities to the Municipal Guarantee Board	440 533 008

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

47. Municipality Finance Plc receives no leasing payments. The company has not sold any assets or leased them back.

48. Off-balance sheet commitments

- Irrevocable commitments given in favour of a customer	160 316 094

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	3 728 457 280
Currency derivatives	
Interest-rate and currency swaps	1 537 631 029
Share derivatives	103 208 795

	Equivalent credit value of contracts (without netting)
Interest-rate derivative contracts	153 233 173
Currency derivative contracts	170 644 116
Share derivative contracts	8 770 221

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

51. Municipality Finance Plc has rent commitments worth EUR 314 844 to be paid during the next financial period and a total of EUR 645 710 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 27 employees, two of whom were on maternity leave in 2002 while three were 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 381 567. An executive agreement was signed with the Managing Director and the members of the Board of Management in 2002.

Municipality Finance Plc has an incentive scheme in which the goals and indicators are specified by the Board of Directors.

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

The company has not made pension commitments to members of the Board, the Managing Director, his Deputy, 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 provided by Municipality Finance Plc

Municipality Finance Plc provides its Municipal Bond customers with free safe custody, which includes the safekeeping of securities issued in paper form and payment of interest and principal directly into customers' accounts.

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

57. Municipality Finance Plc is not part of any consolidated corporation and does not have any associated companies.

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Key indicators

Key indicators describing the financial development of Municipality Finance Plc

Municipality Finance Plc (new)	**2002**	**2001 ***	**2000 ***	Comparison data * **1999 ***
Turnover, EURm	147	188	173	124
Net operating profit, EURm	3.1	2.8	3.2	3.1
% of turnover	2.1	1.5	1.8	2.5
Profit before appropriations and taxes, EURm	3.1	2.8	3.2	3.1
% of turnover	2.1	1.5	1.8	2.5
Return on equity (ROE), %	6.2	5.8	7.1	9.9
Return on assets (ROA), %	0.1	0.1	0.1	0.2
Equity ratio, %	1.2	1.3	1.2	1.0
Yield-expense ratio	1.4	1.4	1.5	1.6
Capital adequacy ratio, %	63.4	84.1	48.8	63.2
Head count, Dec 31	27	24	26	26

	Municipal Housing Finance Plc		**Municipality Finance Plc (old)**	
	1998	**1997**	**1998**	**1997**
Turnover, EURm	37	25	92	76
Net operating profit, EURm	2.1	2.0	2.3	0.1
% of turnover	5.8	7.9	2.5	0.2
Profit before appropriations and taxes, EURm	2.1	2.0	2.3	0.1
% of turnover	5.8	7.9	2.5	0.2
Return on equity (ROE), %	20.1	21.9	17.2	1.4
Return on assets (ROA), %	0.3	0.4	0.2	-
Equity ratio, %	1.3	1.6	1.2	0.6
Yield-expense ratio	2.3	2.5	1.7	1.0
Capital adequacy ratio, %	109.1	226.6	84	24
Head count, Dec 31	8	7	17	14

These key indicators are not directly comparable with those related to other credit institutions. The objective of the company's operations is not to maximize profit but to lower municipalities' financial costs by providing a joint municipal funding system. The comparison data above refer to the combined data on the merged companies (Municipal Housing Finance Plc and Municipality Finance Plc).

Total turnover comprises both net income from interest, leasing operations, commissions, securities transactions and foreign exchange dealing, and other operating income. Net operating profit is entered as in the profit and loss account. Profit before appropriations and taxes is entered in the profit and loss account.

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

Return on assets ratio (ROA) = $$\frac{\text{Net operating profit minus taxes}}{\text{Balance sheet total (average of year beginning and year end)}} * 100$$

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

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

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Financial result for the year and disposal of profits

The company's financial statements show a profit of EUR 2,566.02. The Board of Directors proposes that this profit be carried over under unrestricted equity and that no dividend be paid out.

Helsinki, February 5, 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

Birgitta Kantola
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 administration of Municipality Finance Plc for the period January 1 – December 31, 2002. The financial statements drawn up by the Board of Directors and the Managing Director comprise a Board report on operations, and a profit and loss statement, balance sheet and notes to the financial statements. Based on our audit, we express the following opinion on these financial statements and the administration.

The audit has been conducted in accordance with generally accepted auditing standards. In our audit we have examined the bookkeeping and the accounting principles, contents and presentation to a degree sufficient to obtain reasonable assurance about whether the financial statements are free from material misstatements and deficiencies. As regards the administration, we have examined the compliance of actions taken by the Board of Directors, the Managing Director and the Deputy Managing Director with the provisions of the Finnish Companies Act and the Act on Credit Institutions.

In our opinion, the financial statements have been drawn up in accordance with the Accounting Act and other rules and regulations regarding the preparation of financial statements. The financial statements present a true and fair view of the company's performance and financial position as referred to in the Accounting Act. The financial statements can be adopted and the members of the Board of Directors, the Managing Director and the Deputy Managing Director can be released from liability for the period audited by us. The Board of Directors' proposal regarding the result complies with the Companies Act.

Helsinki, February 5, 2003

ARTHUR ANDERSEN OY
Authorized Public Accountants

Jarmo Lohi
Authorized Public Accountant, Chartered Public Finance Auditor