Kuntarahoitus

MUNICIPALITY FINANCE

Annual Report 2003

Municipality Finance Vision:

The most active and attractive cooperation partner in financial services to municipal sector.

Municipality Finance Mission:

To ensure top-value financial services for the municipal sector.

To be proactive and efficient and grow both sustainably and profitably.

Kuntarahoitus
MUNICIPALITY FINANCE

Managing Director's review

2003 was a good year for Municipality Finance. The company achieved its targets for financial performance. In balance sheet terms, Municipality Finance Plc is Finland's fourth biggest credit institution. In October, Standard & Poor's (S&P) raised the company's credit rating in long-term funding to the best category, AAA.

The new strategy which was started to develop in spring 2003 was approved towards the end of the year. Its aim is to maintain the company's status as the most important financing partner in the municipal sector in the future. The new strategy underlines the importance of active customer work. We thus listen to our customers and try to develop our products to suit a variety of needs.

Emphasis on customer work

Our new strategy is based on an assessment of our operating environment, the changes that will take place in the future and the challenges posed and targets set for us by these changes. The importance of customer work is emphasized, as we have to know our customers and identify their needs.

Municipality Finance serves a multifaceted clientele throughout Finland. One major challenge in the near future will be the division of services offered between the central government and the municipalities, and it will largely determine the outlook for the local government economy. There are also different trends among municipalities: the financing needs of municipalities in the south may be very different from those in the north.

In order to be as good as possible at what we do, we need an expert, professionally skilled staff. This is a major challenge in the process of developing products on the basis of our expertise and strengths. Apart from these factors, service efficiency and speed are key characteristics and will also be our competitive trump cards as we aim at long-term partnerships with our customers.

Best credit ratings for Municipality Finance

In October, Standard & Poor's (S&P) raised the company's credit rating in long-term funding to its best category — AAA. Municipality Finance is the only credit institution in Finland to have the best credit ratings from both S&P and Moody's, i.e. the same ratings as the State of Finland.

These AAA/Aaa credit ratings are an important achievement. For a smaller specialised funding agency like us, best credit ratings will open doors to the right cooperation partners and investors on the international financial market.

We believe our top ratings will increase investor interest in the company, as we have now achieved the level that major international investors often require of their cooperation partners. This will improve our standing in terms of funding and the competition.

Municipal Bonds will continue to be our main instrument in domestic funding. Apart from the Euromarket and Japan, our international funding will concentrate on Switzerland and aim at the wider Asian financial market.

Profits to augment our own funds

2003 went according to plan for Municipality Finance. The profit for the financial year was EUR 4.0 million, against EUR 3.1 million in 2002. Our good performance is a result of our prudent operating policy, which focuses on avoiding risks. The profit and the capital loan issued towards the end of the year will be used to augment our own funds. Company lending portfolio increased by eight per cent in 2003.

I would like to express my warm thanks for the success of the past year to Municipality Finance's staff and partners.

Helsinki, February 5, 2004

Pekka Averio
Managing Director

Chairman of the Board's review

As in 2003, the local government economy may continue to show a deficit over the next few years, measured by the difference between current expenditure and revenues, though state subsidies should improve the situation.

The basic services programme and budget can be expected to improve the balance between municipalities' responsibilities and their funding.

However, it might take time before any noticeable acceleration of growth in the private sector is reflected in local government, and therefore support can not be expected from this sector at this time.

Increasing need for borrowing in municipalities

It is our view that the need for borrowing in the municipal sector will increase and that municipalities will take out more loans. Municipal sector borrowing currently totals EUR 14 billion overall, EUR 5 billion of this being in the hands of municipalities. A majority of the nine billion granted to municipal corporations has gone into housing production.

The sums are not alarming, although indebtedness has increased rapidly in some municipalities. The municipalities will take care of their responsibilities to the financial institutions, and the borrowing needs and financial arrangements of Municipality Finance's customers will increase.

Municipality Finance's lending focuses on municipalities or municipally owned companies. In financing its customers, Municipality Finance has to compete keenly with other financial institutions. It is important for the municipal sector that the competitiveness of the municipalities' joint funding system will be safeguarded in the future, too.

International credit rating institutions have carefully investigated the feasibility of the guarantee system and how it could be used in various crisis scenarios. The fact that both Standard & Poor's and Moody's have given Municipality Finance their best ratings is a distinct sign of confidence in our guarantee system.

Profitability more important than growth

Competition is extremely tough in international funding, calling for a reliable player and good customer relations. The Municipality Finance strategy demands efficient operations to allow funding to take place profitably in terms of business economy.

Margins of the loans granted to our customers are kept low by the competition. It is not Municipality Finance's target to increase its market share but to be a reliable, efficient and profitable financial institution with good service capabilities.

With funding from us, our customers have been able to invest significantly in municipal service provision and improvements in their basic infra structures. This is important, as the public have repeatedly expressed their strong support for municipal welfare services and their maintenance.

On behalf of the Municipality Finance Board, I thank our customers, cooperation partners and staff for a successful year.

Helsinki, February 5, 2004

Risto Parjanne
Chairman of the Board

Board of Directors' report

Balance sheet and operating result

The Municipality Finance balance sheet total on December 31, 2003 was EUR 4,643.6 million, compared with EUR 4,156.7 million at the end of the previous year, an increase of 12%. The company's long-term lending totalled EUR 3,687.1 million, an increase of 8% on the end-2002 figure.

The trend in the operating result was good. Profit for the financial year January 1 – December 31, 2003 before appropriations and taxes came to EUR 4.0 million (2002: EUR 3.1 million). Net income from financial operations totalled EUR 11.5 million (2002: EUR 10.0 million).

Net income from securities transactions and foreign exchange dealing, totalling some EUR 24,000 (2002: EUR 205,000), comprise profits from the sale of negotiable instruments. Assets from advance funding will be invested in these instruments before the money is granted as loans to customers.

Capital adequacy and own funds

Municipality Finance's capital adequacy on December 31, 2003 was 51.97% (2002: 63.44%)

	2003	2002	2001	2000	1999
Municipality Finance Plc	52	63	84	49*	
Municipality Finance Plc (old)				38	45
Municipal Housing Finance Plc				63	114

* Municipality Finance Plc (old) and Municipality Housing Finance Plc combined. The companies were merged and the new Municipality Finance Plc started operating on May 1, 2001.

The company has not had any non-performing claims or credit losses during its operations.

The company's share capital totalled EUR 16.5 million on December 31, 2003. Its own funds came to EUR 92.4 million (2002: EUR 84.1 million). The company repaid a capital loan of EUR 4.2 million on December 11, 2003, and replaced it with a new capital loan of EUR 10 million. The interest rate on the new loan is linked to the 6-month Euribor. The loan has no maturity date. The loan may not be repaid before December 10, 2010.

Credit ratings

In October, Standard & Poor's (S&P) raised the credit rating of the company's long-term funding to AAA category. The credit ratings of the company's long-term funding are now the best possible:

Moody's Investors Service	Aaa	(verified December 21, 2001)
Standard & Poor's	AAA	(verified October 3, 2003)

The credit ratings of the company's short-term funding have been verified as the best possible:

Moody's Investors Service	P1	(verified December 21, 2001)
Standard & Poor's	A-1+	(verified December 10, 2001)

Lending

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, renovation and acquisitions. Some Municipality Finance loans are refinanced by the European Investment Bank (EIB) or the Council of Europe Development Bank (CEB).

The company maintained its strong standing as a financier for municipalities and municipal federations in particular. It won agreements worth EUR 680 million in the competitive tendering it participated in, i.e. some 40%. Municipalities and municipal federations accounted for EUR 507 million of the competitive offers won, municipal enterprises for EUR 50 million and housing corporations for EUR 123 million. Tenders were requested in some 280 municipalities, and new loans were granted to borrowers in close on 190 municipalities.

The Municipality Finance loan portfolio totalled EUR 3,687.1 million at the end of 2003 (2002: EUR 3,403.1 million), a net increase of 8%. Altogether EUR 691.0 million in loans was withdrawn (2002: EUR 770 million).

The numbers of competitive offers won and loans withdrawn decreased by some 10% from year 2002. In 2002, lending increased as a result of active conversion of State housing loans (ARAVA loans) into market-rate loans because market rates fell substantially below the regulated ARAVA rate. The pace of such conversions was expected to slow down as the Government reduced the rates on State-subsidized loans, and this was indeed the case.

Demand for housing loans granted by the company in 2003 was also reduced by the fact that there were fewer starts in State-subsidized social housing production. Interest-subsidized construction began on a total of only some 2000 rental, part-owned and right-of-occupancy units, against some 2500 in 2002. Low interest rates and extended borrowing periods have shifted housing demand from rental housing towards owner-occupied housing, while the production costs of subsidized housing construction have weakened the profitability of rental housing investments.

Municipality Finance's customers favoured Euribor-rates and fixed interest rates for the whole loan period on loans withdrawn in 2003. In a low-interest situation, customers also converted Euribor-loans into fixed interest loans in order to hedge against rising interest rate.

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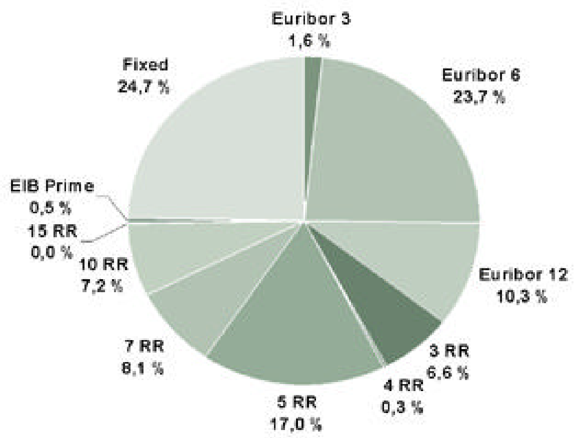
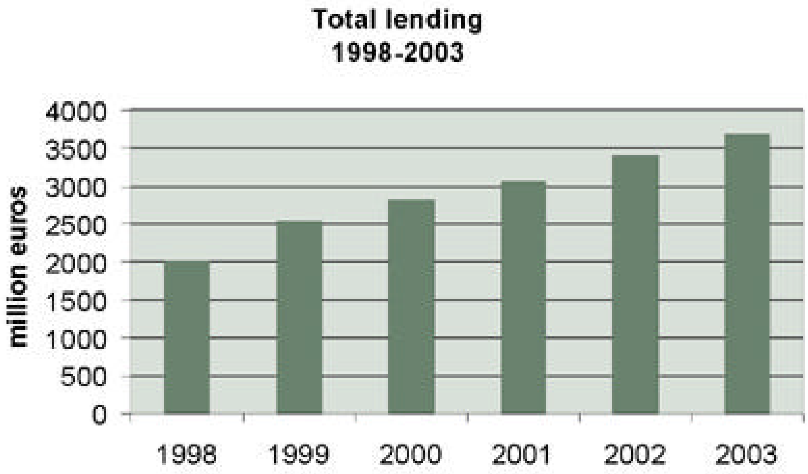


Lending portfolio by reference rate
December 31, 2003

Short-term lending

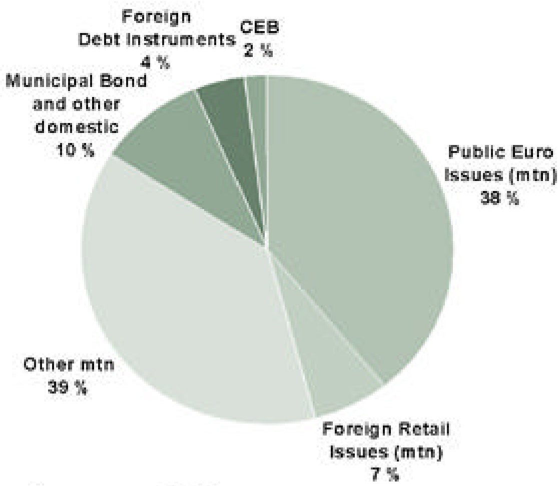
In order to meet their short-term funding needs, municipalities and enterprises controlled by municipalities or municipal federations may issue municipal commercial papers via Municipality Finance.

At the end of 2003, municipal commercial papers had been issued by 242 municipalities, municipal federations and municipal enterprises. Altogether, programmes totalled EUR 953 million at the end of the year. Customers used municipal commercial papers to raise EUR 796.3 million in short-term funding, an increase of 22% on 2002 (2002: EUR 651.5 million).



Funding

Municipality Finance acquired a total of EUR 1,265.0 million (2002: EUR 715.9 million) in long-term funding in 2003. When the books were closed, the company's funding stood at EUR 4,386.0 million (2002: EUR 3,983.4 million). Of this, 64% (2002: 62%) was in euros and 36% (2002: 38%) in other currencies.



Long-term funding sources 2003

Modes of funding

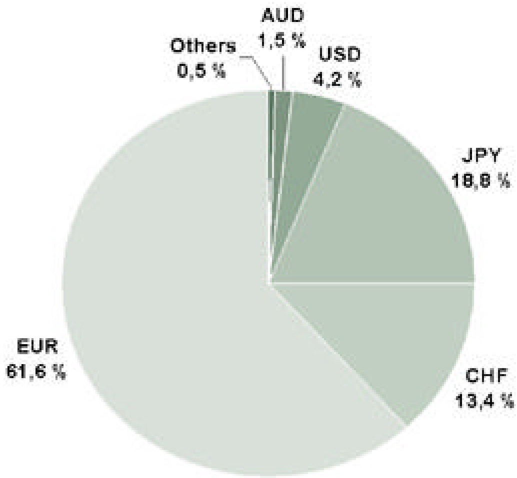
Municipality Finance's funding relies on activity on several major capital markets. Most of it is acquired through the following debt programmes:

EMTN programme	EUR 2 250 000 000
Domestic debt programme	EUR 500 000 000
Treasury Bill programme	EUR 500 000 000

The Euro Medium Term Note (EMTN) programme is an international debt programme for the issue of debt instruments. In May, it was raised from EUR 1,500 million to EUR 2,250 million. The programme is listed on the London Stock Exchange. The Treasury Bill programme was raised from EUR 300 million to EUR 500 million.

Municipality Finance uses credit limits agreed with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) as part of its refinancing. A credit limit of EUR 50 million was signed with the EIB in March and a limit of EUR 50 million with the CEB in September.

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



Long-term funding by currencies 2003

International funding

2003 was an exceptionally active year in international funding. More than 80% of all long-term funding was issued under the EMTN programme. A total of some 100 arrangements were made during the year. A public benchmark loan of EUR 500 million was issued on the international financial market in April, and four Uridashi loans targeted at private investors were issued in Japan. These loans, denominated in Australian dollars, were issued within the EMTN programme.

There has been a trend towards structured arrangements on the funding market. Japanese investors showed a keen interest in debt instruments issued by Municipality Finance. A large portion of the company's funding in the past year was through structured yen-denominated arrangements totalling EUR 439 million. The loan period is mostly 20-30 years, but it is in general possible to repay the debt prematurely in 1-2 years. In the name of caution, these arrangements are recorded in risk calculations and funding plans as falling due on a such call date.

Some 10% of 2003 funding took place outside the programmes in 2003.

Domestic funding

Within the domestic debt programme, Municipality Finance issued 11 Municipal Bonds in 2003, to a total nominal value of EUR 124 million. Nine of these were targeted at the general public and two were index-linked loans for wholesale investors.

Inputs were made in expanding the distribution network for Municipal Bonds in 2003. Agreements have thus been made with nine different parties, among them Nordea, local cooperative banks and savings banks. Via their branch network, these sell Municipal Bonds to their customers. Municipality Finance also set up its own www. kuntaobligaatio.fi website only in Finnish for Municipal Bond subscriptions on a real time basis.

Short-term funding

For short-term funding, the company has a Treasury Bill programme. On December 31, 2003, issues of such current funding totalled EUR 247.3 million (2002: EUR 275.4 million). Short-term funding is used to secure overall liquidity.

Risk management and internal audit

The general principles of risk management are decided by the Board of Directors and implemented by the Managing Director assisted by the Management Board. Actual risk management and related supervisory functions are separate. The company's risk standing is monitored regularly by the Management Board and by the Board of Directors, on the basis of regular reporting including limits for market and credit risks. Derivative contracts are used solely for hedging. The company is also hedged against exchange rate risks. All funding in foreign currencies is converted into euros through derivative contracts.

Credit risk

A credit risk means that the counterparty may not be able to answer for its commitment to the credit institution.

Loans can be granted only 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, all loans granted are calculated as zero-risk for the purpose of calculating the credit institution's capital adequacy.

Credit risks are also caused by financial and investment instruments, interest rate and currency futures and forwards, and interest rate and exchange rate swaps. In terms of credit risk evaluation, principles and limits approved by the Board of Directors and based on external ratings are applied when choosing counterparties. Counterparty risk is monitored using the current value method; an equivalent credit value is calculated for the instruments to act as a basis for the limits set.

Market and financial risk

A market risk means that the company suffers a loss when the market price or its volatility follow a trend unfavourable to it. Market risks include those related to interest rates, exchange rates, share prices and other prices.

Financial risk means the eventuality that the company cannot handle payment obligations arising from implementation of derivatives or other financial operations

The Municipality Finance Board of Directors has set limits on the following market risks:
- currency position
- refinancing risk/sustainability of financing
- refinancing gap
- interest rate risk based on duration
- minimum and maximum amounts of liquid assets

Apart from this, the management receives monthly interest rate sensitivity analyses and value at risk calculations. The VAR figure based on historical analysis averaged EUR 1 million over the past 12 months.

The company has access to altogether EUR 140 million in arrangements to safeguard its liquidity.

Market liquidity risk

Market liquidity risk means that the company may not be able to realize or cover its position at the current market price, because there is not enough market depth or the market is not functioning because of a disturbance.

The company monitors market and product liquidity on a continuous basis. Otherwise, the market's own standards are observed when derivative contracts are concluded, e.g. in terms of maturity, contractual amount and interest rate calculation method. Structures in which the number of suitable market parties is limited will be avoided as far as possible.

Operational risk

An operational risk means that defects in information or other systems or in internal supervision and back-up routines may cause unexpected losses.

Municipality Finance has dealt with operational risk management by making trading, risk management, risk monitoring, back-office work, documentation and bookkeeping separate operations, by creating a system of staff substitution and by charting working duties and processes. The professional skill of the personnel is maintained through training.

Internal audit

Internal auditing has been outsourced, and in 2003 these duties were carried out by Authorized Public Accountants Suomen Tilintarkastuskeskus Oy.

Other events in 2003

A new business strategy was adopted towards the end of the year, aimed at maintaining Municipality Finance's status as the most important financing partner in the municipal sector. The revised strategy is based on Municipality Finance's assessment of changes in its operating environment and the demands that these make in customer work and vis-à-vis service efficiency and speed. The strategic goal is to establish long-term partnerships with customers.

Preparations were made in 2003 to adopt IAS standards. The aim is to prepare the company to draw up its accounts for 2005 in accordance with the new standards. A project group was set up in spring to investigate the impact of the standards on corporate operations. This work will continue in 2004. More information on the changeover to IFRS reporting is given later on this document.

Another development project affecting future operations involved monitoring the preparatory work done by the Basel Committee on Banking Supervision and its impacts on a new capital adequacy framework. The new provisions will enter into force on December 31, 2006. This preparatory work will also continue in 2004.

A new IT application for customer management and processing lending offers was designed in 2003 and introduced in the autumn.

Prospects for 2004

The financial situation in municipal finance weakened in 2003 and the same trend is expected to continue in 2004. After that, the annual margins of municipalities are expected to begin to improve. Municipal financing operations are changing rapidly. Competition has reduced loan margins still further, and new financial instruments and modes of operation have been introduced on the market. Many municipalities have started looking for new financing modes for their funding and for arranging investments. Joint limited liability companies and other organizations controlled by municipalities and municipal federations will be important borrowers as municipalities strive to corporatize their operations.

Starts in State-subsidized (ARAVA) and interest-subsidized housing production will continue to be uncertain in 2004, even though the ARAVA terms have been improved.

Municipality Finance wants to keep its main funding sources in Finland, Europe and Asia. The company's good credit rating and systematic maintenance of customer contacts will contribute to this end.

Key points of focus in 2004 include:
- implementing measures under the new strategy
    - ·intensifying customer work
    - ·starting new business operations
- safeguarding the financial result trend
- developing management and business information systems

Personnel and administration

Municipality Finance's personnel averaged 29 during the financial period. 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 410,560.

In accordance with the Articles of Association, Municipality Finance's Board of Directors had nine members. The Board was elected for a period of two years at the Annual General meeting held on March 11, 2003. The Board members are (main job outside the company given in brackets):

- 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)
- Esa Katajamäki (Director of Finance and Planning, City of Oulu)
- Jouko Lehmusto (Head of City office, City of Turku)
- Eva Liljeblom (Professor, Swedish School of Economics and Business Administration, Helsinki)
- Kari Nars (D.Sc.(Econ & Bus.Adm.), Advisor to the Council of Europe Development Bank), Helsinki
- Raija Peltonen (Municipal Manager, Municipality of Hartola)
- Timo Viherkenttä (Deputy Managing Director, Local Government Pensions Institution)

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

Apart from those mentioned above, the Board of Management includes:

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

The AGM elected KPMG Wideri Oy Ab the company auditors, with Mikael Leskinen, Authorized Public Accountant, as responsible auditor.

Financial result for the year and disposal of profits

The company's financial statements show a profit of EUR 3,386.82. The Board of Directors proposes that this profit be carried over under non-restricted equity and that no dividend be paid out.

Helsinki, February 5, 2004

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

Eva Liljeblom
Board member

Kari Nars
Board member

Raija Peltonen
Board member

Timo Viherkenttä
Board member

Pekka Averio
Managing director

Board of Directors 2003.

PROFIT AND LOSS				
		1 Jan 31 - Dec 2003		1 Jan 31 - Dec 2002
Interest income		128 622 247.68		146 536 464.85
Net income from leasing operations		393.34		3 472.88
Interest expenses		-117 140 772.72		-136 576 732.19
NET INCOME FROM FINANCIAL OPERATIONS		**11 481 868.30**		**9 963 205.54**
Commission income		8 180.00		2 093.06
Commission expenses		-2 066 323.04		-2 041 865.18
Net income from securities transactions		33 710. 37		213 991.42
Net income from foreign exchange dealing		-9 273.48		-8 973.24
Other operating income		35 707.58		0.00
Administrative expenses				
Staff costs				
Salaries and fees		-1 696 461.85		-1 366 570.64
Staff-related costs				
Pension costs		-286 687.27		-233 780.33
Other staff-related expenses		-126 984.03		-106 004.48
Other administrative expenses		-1 352 589.97		-1 461 141.94
Total administrative expenses		-3 462 723.12		-3 167 497.39
Depreciation and write-downs on tangible and intangible assets		-464 871.81		-340 976.50
Other operating expenses		-1 511 053.57		-1 527 082.03
NET OPERATING PROFIT		**4 045 221.23**		**3 092 895.68**
PROFIT BEFORE APPROPRIATIONS AND TAXES		**4 045 221.23**		**3 092 895.68**
Appropriations		-4 013 000.00		-3 063 000.00
Income taxes		-28 834.41		-27 329.66
PROFIT FOR THE FINANCIAL YEAR		**3 386.82**		**2 566.02**

ASSETS	31 Dec 2003	31 Dec 2002
Liquid assets		
Cash	1 401.80	905.60
Liquid assets	3 893 280.53	3 358 376.51
Debt securities eligible for refinancing with central banks	510 740 362.84	384 680 395.26
Claims on credit institutions		
Repayable on demand	762 316.60	3 728 126.57
Other	8 639 443.61	83 052 712.24
Claims on the public and public sector entities	3 687 127 827.63	3 403 117 827.54
Leasing assets	0.00	3 034.56
Debt securities		
On public sector entities	111 328 355.83	91 597 328.05
Other	247 656 091.59	58 979 251.93
Shares and participations	24 219.06	24 219.06
Intangible assets	953 308.06	648 923.75
Tangible assets		
Other tangible assets	1 198 413.13	916 393.76
Other assets	0.00	65 557 225.16
Accrued income and prepayments	71 271 485.63	61 015 935.67
TOTAL ASSETS	**4 643 596 506.31**	**4 156 680 655.66**

LIABILITIES	31 Dec 2003	31 Dec 2002
Liabilities to credit institutions and central banks		
Credit institutions		
Other	424 619 622.28	437 088 485.11
Liabilities to the public and public sector entities		
Other liabilities	187 328 562.38	114 341 630.00
Debt securities issued to the public		
Bonds	3 526 708 736.15	3 156 604 244.80
Other	247 316 243.22	275 395 441.64
Other liabilities	70 526 538.62	505 515.18
Accrued expenses and deferred income	86 413 813.19	81 874 037.12
Subordinated liabilities	33 818 792.65	33 818 792.65
APPROPRIATIONS		
Volantary provisions	25 298 544.90	21 285 544.90
EQUITY CAPITAL		
Share capital		
Share capital	16 522 000.00	16 522 000.00
Other restricted reserves		
Reserve fund	276 711.01	276 711.01
Capital loans	23 845 503.44	18 050 201.60
Profit brought forward	918 051.65	915 485.63
	3 386.82	2 566.02
Profit for the financial year	921 438.47	918 051.65
TOTAL LIABILITIES	**4 643 596 506.31**	**4 156 680 655.66**

OFF-BALANCE-SHEET COMMITMENTS

Liabilities and security given	**Book value in final accounts (EUR 1,000)**	
	31 Dec 2003	**31 Dec 2002**
Bonds pledged to the Municipal Guarantee Board	2 674 186	2 407 147
Debt securities pledged to the Municipal Guarantee Board	749 363	440 533
Bonds pledged to the Local Government Pensions Institution	55 990	70 148
Irrevocable commitments given in favour of a customer		
Binding commitments	146 054	160 316

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

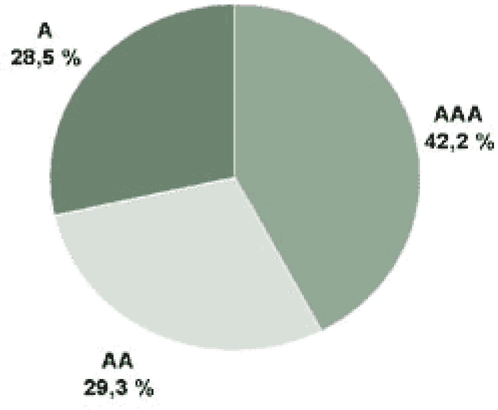
	Values of underlying instruments (EUR 1,000) For hedging purposes	
	31 Dec 2003	**31 Dec 2002**
Interest-rate derivatives		
Futures and forwards	0	5 500
Interest-rate swaps	4 792 445	3 728 457
Currency derivatives		
Interest-rate and currency swaps	1 620 336	1 537 631
Index-linked derivatives	32 839	103 209

	Equivalent credit value of derivatives (EUR 1,000) (without netting)	
	31 Dec 2003	**31 Dec 2002**
Interest-rate derivative contracts	151 356	153 233
Currency derivative contracts	137 886	170 644
Index-linked derivative contracts	4 461	8 770

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.

1 000 EUR	Nominal value 31 Dec 2003	Equivalent credit value 31 Dec 2003	Nominal value 31 Dec 2002	Equivalent credit value 31 Dec 2002
AAA	2 105 939	26 419	1 337 416	27 417
AA	2 634 317	18 366	2 771 943	48 957
A	1 705 364	17 862	1 259 938	17 724



Derivative product risks according to rating categories
[Equivalent credit values]

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 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 book.

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 'Other assets' or 'Other liabilities' in the balance sheet. The difference between annual interest income received and interest expenses paid is entered in the accounts as an adjustment to interest expenses or to interest income from the hedged liability for the financial year in which it occurred.

Machinery and equipment are depreciated according to plan over five years. Capitalized IT equipment and software are depreciated primarily on a straight-line basis over four years. The IT software developed for the management of lending procedure and CRM is depreciated over a period of seven 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.

Notes on the profit and loss account		Jan 1 - Dec 31, 2003
1.	Interest income, broken down as follows:	
	- Claims on credit institutions	1 269 149
	- Claims on the public and public-sector entities	146 151 331
	- Debt securies	21 132 412
	- Other interest income	-39 930 644
	Interest expenses, broken down as follows:	
	- Liabilities to the public	4 526 851
	- Liabilities to credit institutions	11 549 756
	- Debt securities issued to the public	124 165 828
	- Subordinated liabilities	1 203 307
	- Capital loans	646 018
	- Other interest expenses	- 24 950 987
2.	Net income from leasing	
	- Rental income	3 225
	- Planned depreciation	- 2 832

		393
3.	Net income from securities transactions, broken down as follows:	
	- Net income from transactions in debt securities	33 710
	- Net income from transactions in shares and participations	0
4.	Total values of securities held as current assets purchased or sold during the financial year	
	- Debt securities purchased	1 812 370 358
	- Debt securities sold	40 000 000

5. Other operating income

- Profit on sale of fixed assets	23 119
- Other income from ordinary credit institution business	12 589

Other operating expenses

- Renting expenses	519 799
- Other expenses from ordinary credit institution business	991 255

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

7. The company has not incurred any credit losses or guarantee losses

8. The company has no extraordinary income or extraordinary expenses

9. Appropriations, broken down as follows:

- Change in other voluntary provisions	4 013 000

10. The company has not made any obligatory provisions

11. The company has not combined any items in the profit and loss account under section 8, subsection 4 of the Ministry of Finance decision

12. Municipality Finance Plc operates as a credit institution Its market area is Finland

Notes to the balance sheet — 31 Dec 2003

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

- Government bonds	48 371 002
- Banks' certificates of deposit	95 017 797
- Other bonds	367 351 564

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', broken down into sectors according to the official Statistics Finland classification system:

- Enterprises and housing corporations	1 897 572 919
- Public-sector entities	1 731 766 486
- Non-profit organizations	57 788 423

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 does not have any 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

Municipality Finance Plc has no leasing assets.

20. The total book value of securities entered under 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 869,724,810.

	Quoted	Others
Debt securities		
- Securities held as current assets	26 144 834	804 687 379
- Others	22 226 168	16 666 429

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 2,035,405.

The total amount of the difference between the acquisition cost and the lower nominal value of securities held as fixed assets and entered under balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 454,042. The difference between the nominal value of claims under fixed assets and the lower acquisition value is EUR 3,969.

The total amount of the book values of assets recorded under balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is broken down as follows:

- Municipal commercial papers	103 658 986
- Certificates of deposit	174 363 661
- Other bonds	591 702 163

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	
Acquisition cost at beginning of financial year	1 015 713
+ increase during financial year	290 450
- vähennykset tilikautena	199 178
- decrease during financial year	194 356
+ accumulated depreciation on decreases	95 798
- accumulated depreciation at beginning of financial year	447 519

Book value at end of financial year	560 908

23. The item 'Intangible assets', broken down as follows:

- Intangible assets	595 570
- Other long-term expenditure	357 738

24. Land and water areas, buildings and real estate corporation shares entered under the balance sheet item 'Tangible assets':

Land and water areas and buildings	
Own use	
Acquisition cost at beginning of financial year	375 390
+ increase during financial year	0
- planned depreciation during financial year	9 694
- accumulated depreciation at beginning of financial year	27 191

Book value at end of financial year	338 505
Real estate corporation shares	
Own Use	
Book value at end of financial year	299 000

25. Municipality Finance Plc does not own any of its own or parent company shares.

26. Municipality Finance Plc has no 'Other assets'.

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

- Interest	70 872 414
- Other	399 072

28. The company has not combined any asset items in the balance sheet 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	33 359 996
Other	1 706 017
Total difference between the book value and the lower nominal value of liabilities	
Bonds	258 194
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	3 526 708 736
Other	247 316 243

31. Other liabilities, broken down as follows:

- Interest	70 080 692
- Other	445 847

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

- Interest	85 537 364
- Other	614 216

33. Municipality Finance Plc has no obligatory provisions

34. Subordinated liabilities

Municipality Finance has issued a Euribor-based EUR 17,000,000 debenture. The nominal interest rate on the loan is based on the 6-month Euribor. The loan has no maturity date. The issuer is entitled to repay the loan on May 18, 2006. In enforcement and dissolution procedures affecting the issuer, the loan principal and unpaid interest are subordinated to commitments affected by no 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 repaid only if the Financial Supervision Authority grants permission following an application from Municipality Finance

35. Changes in various items under 'Equity capital'

	Share capital	Reserve fund
Book value 1 Jan 2003	16 522 000	276 711
+ increases	0	0
- decreases	0	0
	------------------------------	---------------------------------
Book value on December 31, 2003	16 522 000	276 711

The change in profit funds is shown in the balance sheet No dividend has been distributed

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 or convertible bonds during the financial year

39. The ten largest shareholders in terms of voting rights and the number of shares held, their proportions 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, 2003 was 256. The number was reduced by one on January 1, 2004 when the municipalities of Pieksämäen maalaiskunta, Jäppilä and Virtasalmi merged, forming the municipality of Pieksänmaa. Pieksämäen maalaiskunta and Jäppilä were Municipality Finance 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 the credit company's profit distribution allows 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 2003.

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 is distributable 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 cannot repay the loan before October 12, 2007. The loan can be repaid on condition that the restricted capital and other non-distributable assets in 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. Interest accumulated by the end of the financial year is booked as interest expenses in the accounts.

Having been granted permission by the Financial Supervision Authority, the company repaid its capital loan of EUR 4,204,698.16 on December 11, 2003. A new capital loan of EUR 10,000,000 with an interest rate tied to the 6-month Euribor was issued on December 10, 2003. The company is committed to paying interest only if the amount payable is distributable according to the balance sheet approved for the most recent full financial year. The loan involves no cumulative right to interest. The loan has no maturity date, but cannot be repaid before December 10, 2010. The loan can be repaid on condition that the restricted capital and other non-distributable assets in 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. Interest accumulated by the end of the financial year is booked as interest expenses in the accounts.

In the case of the company's dissolution or bankruptcy, capital loans and any interest accrued are subordinated to all other debts. The company's capital loans have the same priority status as potential future capital loans issued or taken and as other commitments made on similar terms. The loans have higher priority than the company's shares.

41. The company has not combined any asset items in the balance sheet under section 8(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	130 196 927	103 746 105	206 670 772	70 126 558
Claims on credit institutions	8 535 194	866 567	0	0
Claims on the public and public-sector entities	65 693 878	280 839 918	1 235 963 592	2 104 630 439
Debt securities	157 990 286	47 400 818	140 923 974	12 669 369
Liabilities to credit institutions	6 799 723	52 882 510	223 233 630	141 703 759
Liabilities to the public	0	0	67 519 233	119 809 329
Debt securities issued to the public	439 835 029	368 321 505	1 880 843 999	1 085 024 447

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

	Domestic	Foreign
Debt securities eligible for refinancing with central banks	510 740 363	0
Claims on credit institutions	9 386 572	15 188
Claims on the public and public-sector entities	3 687 127 828	0
Debt securities	358 984 447	0
Other assets	0	0
Liabilities to the public	172 519 233	14 809 329
Liabilities to credit institutions	382 122 095	42 497 527
Debt securities issued to the public	2 270 960 833	1 503 064 146
Subordinated liabilities	33 818 793	0
Other liabilities	70 526 539	0

Notes to the accounts concerning income taxation

44. Municipality Finance Plc's voluntary provisions include deferred tax liabilities totalling EUR 7,336,578. The company pays income tax solely on its ordinary business operations and has no revaluations that affect income taxation

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

45.

	Liabilities and collateral
Bonds pledged to the Local Government Pensions Institutions	55 989 702
Debt securities pledged to the Local Government Pensions Institution	0
Bonds pledged to the Municipal Guarantee Board	2 674 186 219
Debt securities pledged to the Municipal Guarantee Board	749 362 882

46. The company's pension cover, comprising statutory basic security, is arranged via an outside employment pension insurance company.

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

48. Off-balance-sheet commitments

- Irrevocable commitments	146 053 516

49. The total values and the equivalent credit values of the underlying instruments pertaining to derivative contracts outstanding on the balance sheet date.

	Values of underlying instruments For hedging purposes
Interest-rate derivates	
Interest-rate swaps	4 792 445 365
Currency derivatives	
Interest-rate and currency swaps	1 620 335 677
Index linked derivatives	32 838 767

	Equivalent credit value of contracts (without netting)
Interest-rate derivative contracts	151 356 192
Currency derivative contracts	137 885 845
Index-linked derivative contracts	4 460 568

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 EUR 315,788 in rent commitments arising from long-term leases on operating facilities payable during the next financial year and a total of EUR 650,547 payable later.

52. Municipality Finance Plc has no contingent or other major liabilities.

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

53. Municipality Finance Plc personnel on average during the financial year:

During the financial year Municipality Finance Plc had 27 full-time employees and 2 part-time employees.

The 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 410,560. 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 or the auditors.

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

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.

IFRS TRANSITION

The European Union requires all companies listed in the European Union to move over to International Financial Reporting Standards (IFRS) by 2005. The aim in adopting international standards for financial reporting is to promote the EU capital market by improving the reliability, transparency and comparability of the annual accounts of companies operating in the EU area.

IFRS implementation project and transition schedule

Although the shares of Municipality Finance Plc are not quoted on the stock exchange, its long-term debt programmes are listed. Municipality Finance intends to start reporting in accordance with the IAS/IFRS standard in its interim reports and annual accounts for 2005. Preparations for adopting the IFRS began in 2003 with the establishment of an IFRS project group.

In 2003, work began on charting the differences between the IFRS and conventional Finnish financial reporting practices in various sub-sectors in terms of the accounting principles applied by Municipality Finance. A project group was set up to analyse key areas more closely, comprising representatives from the financial administration and business units alike.
In 2004, decisions will be made on optional accounting principles and the opening figures for the new IFRS balance sheet and comparison figures for 2004 to be used in the 2005 interim reports will be calculated. Appropriate system adjustments will also be made for starting IFRS reporting as from the beginning of 2005.
In 2004, the personnel will be given basic training in adoption of the IFRS and in the standards that are of key importance to the company.

Prospective changes in the IFRS standard

The first IFRS-based annual accounts for 2005 including comparison data will have to be drawn up in accordance with the standards in force when the accounts are closed. The accounting principles used by Municipality Finance will be most significantly affected by standard 39, Financial instruments: booking and valuation. Final versions of some parts of the standard will not be issued before the end of the first quarter of 2004, and the impacts of the standard are to some extent unclear as yet. Furthermore, the existing standards include optional calculation principles on which Municipality Finance has not yet made any decisions, nor have decisions been made on application of the opportunities offered by the IFRS 1 transition standard to facilitate the transition. In these respects, the prospective changes may not all have been identified with sufficient certainty so far. It is also possible that the process will reveal changes and impacts other than those referred to above.

Key indicators describing the financial development of Municipality Finance Plc

Municipality Finance Plc (new)	**2003**	**2002**	**2001***	**2000***	**1999***
			Comparison data *		
Turnover, EURm	129	147	188	173	124
Net operating profit, EURm	4,0	3,1	2,8	3,2	3,1
% of turnover	3,1	2,1	1,5	1,8	2,5
Profit before appropriations and taxes, EURm	4,0	3,1	2,8	3,2	3,1
% of turnover	3,1	2,1	1,5	1,8	2,5
Return on equity (ROE), %)	7,3	6,2	5,8	7,1	9,9
Return on assets (ROA), %	0,1	0,1	0,1	0,1	0,2
Equity ratio, %	1,3	1,2	1,3	1,2	1,0
Yield-expense ratio	1,5	1,4	1,4	1,5	1,6
Capital adequacy ratio, %	52,0	63,4	84,1	48,8	63,2
Head count, Dec 31	29	27	24	26	26

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) =	Net operating profit - taxes -- * 100 Equity capital + voluntary provisions minus deferred tax liabilities (average of year beginning and year end)
Return on assets ratio (ROA) =	Net operating profit minus taxes -- * 100 Balance sheet total (average of year beginning and year end)
Equity ratio =	Equity capital + voluntary provisions minus deferred tax liabilities --* 100 Balance sheet total
Yield-expense ratio=	Net income from financial operations + dividends income + commission income + net income from securities transactions and foreign exchange dealing + other operating income -- Commission expenses + administrative expenses + depreciation + other operating expenses
Capital adequacy ratio =	Own funds -- * 100 Risk-weighted assets and off-balance-sheet items

Financial result for the year and disposal of profits

The company's financial statements show a profit of EUR 3,386.82. The Board of Directors proposes that this profit be carried over under non-restricted equity and that no dividend be paid out.

Helsinki, February 5, 2004

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

Eva Liljeblom
Board member

Kari Nars
Board member

Raija Peltonen
Board member

Timo Viherkenttä
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, 2003. The financial statements prepared by the Board of Directors and the Managing Director comprise the report of the Board of Directors, the profit and loss statement, the balance sheet and notes to the financial statements. Based on our audit, we express our opinion on these financial statements and the administration.

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

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations regarding the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of the company's performance and 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 Board of Directors' proposal regarding the result complies with the Companies Act.

Helsinki, February 5, 2004

KPMG Wideri Oy Ab

Mikael Leskinen
Authorized Public Accountant Leskinen
KHT