Managing Director's review

2004 turned out as budgeted for Municipality Finance. The financial performance was quite satisfactory amid the present fierce competition in spite of the profit for the financial year being, as expected, slightly below the previous year's figure.

Moderate business approach brings results

The company's balance sheet exceeded EUR 5 billion for the first time in the 2004 financial year and was up some 15%, which gave the company an opportunity to increase its liquidity buffer. Long-term funding increased substantially in both Finland and abroad. The loan portfolio grew by 9% in 2004.

The net operating profit for 2004 came to EUR 3.4 million, against EUR 4 million in the previous financial year. The profit reflects the company's moderate approach to business operations. The key indicators for the year were good and the outlook for 2005 is promising.

Stronger status

Municipality Finance is Finland's only credit institution with the best possible credit ratings from Standard & Poor's and Moody's, the same as the Finnish Government's. The ratings strengthen the company's status on the international financing market and improve the competitiveness and profitability of its funding. Acquisition of funding at competitive prices will benefit our customers, too.

In 2004, Municipality Finance finally received a long-awaited decision from the EU Commission concerning lending to the public sector. The Commission decided not to object to Finnish law pursuant to which the Finnish Municipal Guarantee Board may grant guarantees to Municipality Finance funding. The Commission decision states that Municipality Finance must grant loans to its customers on advantageous terms and in line with the EU State aid rules.

Municipality Finance can thus offer funding to Finnish municipalities, municipal federations and other municipality-controlled entities for environmentally sound investments, improvements in infrastructure and housing provision and non-profit services. The decision clarifies Municipality Finance's status on the Finnish financial market by confirming the legality of the company's previous operating model.

Operations expand and customer service improves

Judging from the experience gained towards the end of the year, the establishment of advisory financing services by Municipality Finance in August 2004 was timed just right. Feedback from the field has been favourable and there has been a lot of demand for the new form of service.

Also the new corporate business strategy adopted in 2003 proved to be pointing in the right direction. It has increased our capacity to react flexibly to customer needs, growing market requirements and other changes in the operating environment.

I would like to express my warm thanks to those who made 2004 a success: our customers, our cooperation partners and our personnel.

Helsinki, February 11, 2005

Pekka Averio
Managing Director

Chairman of the Board's Review

Municipality Finance's status consolidated

Municipality Finance's status as a credit institution for municipalities strengthened in the past financial year. The company's international credit ratings continue to be the best possible, the same as the Finnish Government's. The complaint to the EU Commission which hampered business for a prolonged period has now been brought to an end and the company's market share has acquired an established level.

Economic situation continues tight for municipalities

The increase in the balance sheet also reflects the increased need for funding in local government, since the economic situation of municipalities continues to tighten. Local government investments have remained high at over three billion euros.

The latest forecasts indicate further growth in local government loan requirements. At the beginning of the decade, the loan portfolio stood at EUR four billion, and the latest estimates expect the figure to double by the end of the decade. Financial statement information for 2004 indicates that the annual margins of municipalities have gone down considerably compared with the situation a few years back. The threat looms ahead that the cost trend may even get out of hand.

The deficits in the municipal economy cannot be dealt with without a plan of action that takes into account the current responsibilities of municipalities and defines the borderline between central and local government duties. Municipal service production and service strategy must also be considered in the changing situation.

The role of Municipality Finance in this challenging situation is to adapt the company's operations so that it can offer competitive alternatives and thus improve the operating conditions in the local government sector.

On behalf of the Municipality Finance Board of Directors I would like to thank our owners and customers for their good cooperation and support. I believe that the existence of Municipality Finance will continue to have a favourable impact on the family of municipalities.

Helsinki, February 11, 2005

Risto Parjanne
Chairman of the Board

BOARD OF DIRECTORS' REPORT

Balance sheet and operating result

The Municipality Finance balance sheet total on December 31, 2004 was EUR 5,368 million, compared with EUR 4,644 million at the end of the previous year, an increase of 15.6%. The company's long-term lending totalled EUR 4,030 million, up 9% on the 2003 end-year figure.

The trend in the operating result was as budgeted. The profit for the financial year (January 1 – December 31, 2004) before appropriations and taxes came to EUR 3.4 million (2003: EUR 4.0 million). Net income from financial operations totalled EUR 11.8 million (2003: EUR 11.5 million).

Net income from securities transactions and foreign exchange dealing, totalling some EUR 78,000 (2003: EUR 24,000), comprise sales 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, 2004 was 38.13% (end 2003: 51.97%)

	2004	**2003**	**2002**	**2001**	**2000**
Municipality Finance Plc	38	52	63	84	49*
Municipality Finance Plc (old)					38
Municipal Housing Finance Plc					63

* Municipality Finance Plc (old) and Municipal 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 assets or credit losses during its operations.

The company's share capital totalled EUR 16.5 million on December 31, 2004. Its own funds came to EUR 96 million (2003: EUR 92 million).

Credit rating

The credit ratings of the company's long-term funding are the best possible:

Moody's Investors Service	Aaa
Standard & Poor's	AAA

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

Moody's Investors Service	P1
Standard & Poor's	A-1+

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 760 million in the competitive tendering it participated in, i.e. some 35%. Municipalities and municipal federations accounted for EUR 593 million of the competitive offers won, municipal enterprises for EUR 67 million and housing corporations for EUR 100 million. Tenders were requested from more than 300 municipalities, and new loans were granted to borrowers in 184 municipalities. The number of tenders requested was 37% higher than the year before, and the number of offers won some 11% higher, while the number of loans withdrawn was 2.5% higher.

The Municipality Finance loan portfolio totalled EUR 4,030 million at the end of 2004 (2003: EUR 3,687 million), a net increase of 9%. Altogether, EUR 709 million in loans were withdrawn (2003: EUR 691 million).
Municipality Finance's customers favoured short-term reference rates in 2004. In a low-interest situation, customers have also hedged their Euribor-based loans against interest rate risks. Apart from conventional interest rate options, customers have also been interested in various new interest rate structures.

In State-subsidized housing production, focus was shifted from ARAVA State housing loans to interest-subsidy loans. State-subsidized construction began on some 5,100 housing units in 2004, slightly less than the previous year.
In 2004, Municipality Finance introduced its own 3-month, 6-month and 12-month reference rates for lending. The Municipality Finance Board of Management decides the level of the reference rates monthly in relation to corresponding Euribor rates by determining the difference between the reference rate and Euribor. The actual cost level estimated for the near future for the company's funding forms the basis for the reference rate level.

In December 2004, the Housing Fund of Finland (ARA) approved Municipality Finance's reference rates as reference rates for subsidized-interest loans.

Short-term lending

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

At the end of 2004, municipal commercial papers were being used by 260 municipalities, municipal federations and municipal enterprises. The programmes came to a total of EUR 1,107 million at the end of the year. Customers used municipal commercial papers to raise EUR 1,280 million in short-term funding, an increase of 60.8% on 2003 (2003: EUR 796 million).

Funding

Municipality Finance acquired a total of EUR 1,002 million (2003: EUR 1,265 million) in long-term funding during the financial year. When the books were closed, the company's funding stood at a total of EUR 5,054 million (2003: EUR 4,386 million). Of this, 59% (2002: 64%) was in euros and 41% (2002: 36%) in other currencies.

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 3,000,000,000
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 issuing financial instruments. In June, it was raised from EUR 2,250 million to EUR 3,000 million. It is listed on the London Stock Exchange.

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 May.

Municipality Finance's 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. The same applies at least in Europe, Germany and France.

Long-term funding

International funding

In 2004, total funding stood at some EUR 1,002 million. Close on 100 funding arrangements were made during the year. Loans were based on a wider variety of structures than before, and loan periods were longer. New investors were acquired in Japan and other Asian countries. Apart from the German 'schuldschein' arrangements, a yen loan was issued with a Japanese investor and four Uridashi loans were targeted at private investors. A 10-year public bond of CHF 200 million was issued in September 2004.

Postponement of premature repayment of structured debt instruments by at least one year reduced the need for new funding. Similar arrangements continued to be popular among investors in Japan in particular. In 2004, investors showed interest in various zero-coupon arrangements with loan periods of mostly 20-30 years.

Domestic funding

Within the domestic debt programme, Municipality Finance issued 13 Municipal Bonds in 2004, to a total nominal value of EUR 120 million. Ten of these were targeted at the general public and three were index-linked loans for wholesale investors.

In November 2004, the first targeted Municipal Bond (Tahko Bond) was issued; the funds were used to develop the Tahkovuori area in Nilsiä.

The distribution network for Municipal Bonds, which already contained Nordea's branches continued to expand during 2004 when the OP Bank Group members and OKO Bank joined it. The network now comprises more than 1,200 bank branches.

Short-term funding

For short-term funding, the company has a Treasury Bill Programme. On December 31, 2004, issues of such funding totalled EUR 274 million (2003: EUR 247 million). Short-term funding is used to secure overall liquidity.

Risk management and internal control

The general principles of risk management at Municipality Finance 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, including limits for market and credit risks. Derivative contracts are used solely for hedging. The company is also hedged against exchange rate risks.

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 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 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 according to 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.

A financial risk means the eventuality that the company cannot handle its 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/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 (VAR) calculations. The VAR figure, which is based on historical analysis averaged EUR 1.1 million during the past 12 months.

The company has access altogether to EUR 140 million in back-up facilities, EUR 40 million of which was renewed towards the end of 2004.

Market liquidity risk

A 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 market disruption.

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 separating trading, risk management, risk monitoring, back-office work, documentation and bookkeeping, by creating a system of staff substitution and by charting work duties and processes. The professional skill of the personnel is maintained through training.

Internal audit

Internal auditing has been outsourced, and these duties were carried out by Deloitte Oy in 2004.

Other events in 2004

In line with the new corporate strategy, the key area in 2004 was intensification of customer work in order to achieve long-term partnerships. Towards the end of the year, the efficiency of the Municipality Finance organization was improved by combining lending and funding into one entity. Risk management and risk monitoring were separated, and administrative functions were combined.

In August, Municipality Finance started a new business sector concentrating on advisory financing services for customers. The aim is to provide customers in the local government sector with advisory services and impartial assessments of whether the financing solutions available to a municipality are sufficiently beneficial for it.

The EU Commission has decided not to oppose Finnish law, which allows the Municipal Guarantee Board to grant guarantees to Municipality Finance's funding. The Commission states in its decision that Municipality Finance must grant loans to its customers at pucferential terms and in compliance with the EU State subsidy rules. According to the decision, Municipality Finance is an intra-governmental funding agency or a special credit institution. Thus Municipality Finance can offer funding to the Finnish municipalities, municipal federations and other corporations controlled by municipalities, e.g. for their investment in conserving the environment, developing the infrastructure and housing supply, and non-profit service forms. The decision clarifies Municipality Finance's position on the domestic financial market by confirming the correctness of the its previous operating model. The Commission's decision is in line with its previous policy decisions, e.g. concerning the operating conditions for public credit institutions in Germany and Austria.

Prospects for 2005

Local government finances are expected to show a better trend on average in 2005. The number of municipalities with financial difficulties is still expected to grow slightly. Many municipalities are struggling with necessary investment. The central government has increased the municipalities' responsibilities as providers of statutory basic services without providing the necessary funding.

Tight competition is expected to continue in the lending sector in 2005. The low interest rates will cause an increase in the number of different interest structures offered to municipalities, which will increasingly find themselves in a situation where the funding offers received by them will need a thorough risk analysis so that the long-term risks involved in various interest structures can be analysed carefully in advance.

In 2005, funding will continue to rely on a wide range of funding channels. Inflation-linked issues are a new product on the market. The popularity of inflation-linked euro loans has increased and separate country-specific products have developed at a rapid rate in recent times.

Forecasts concerning the economic trend in 2005 in both the US and Europe are slightly more favourable than the trend in the past few years. As far as long-term interest rates are concerned, potential increases have been kept in check effectively by low inflation. Interest rates are expected to begin to rise in 2005 and these expectations are making the market nervous. Even minor signs of growth in the European economy may cause considerable increases in long-term interest rates over a short period of time.

The financial result of Municipality Finance is expected to be slightly better than in 2004.

Personnel and administration

Municipality Finance's personnel averaged 30 during the financial period. Total salaries, fees, pension costs and other staff-related costs paid out during the financial year to the Managing Director, his Deputy, and members of the Board of Directors came to EUR 515,640.

In accordance with the Articles of Association, Municipality Finance's Board of Directors has 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 (M.Soc.Sc.) 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.

Apart from those mentioned above, the Board of Management includes:
- Marjo Tomminen, Director
- Kimmo Lehto, Director

The AGM elected KPMG Oy Ab company auditors, with Mikael Leskinen, Authorized Public Accountant, as responsible auditor up to December 31, 2004 and Riitta Pyykkö, Authorized Public Accountant, as from January 1, 2005.

Profit and loss account

	Jan 1 - Dec 31, 2004	Jan 1 - Dec 31, 2003
Interest income	122,669,072.90	128,622,247.68
Net income from leasing operations	0.00	393.34
Interest expenses	-110,861,240.39	-117,140,772.72
NET INCOME FROM FINANCIAL OPERATIONS	11,807,832.51	11,481,868.30
Commission income	0.00	8,180.00
Commission expenses	-2,383,824.15	-2,066,323.04
Net income from securities transactions and foreign exchange dealing	78,285.95	24,436.89
Other operating income	85,110.69	35,707.58
Administrative expenses		
Staff costs		
Salaries and fees	-1,890,289.24	-1,696,461.85
Staff-related costs		
Pension costs	-319,421.01	-286,687.27
Other staff-related costs	-153,543.21	-126,984.03
Other administrative expenses	-1,693,947.22	-1,352,589.97
Total administrative expenses	-4,057,200.68	-3,462,723.12
Depreciation and write-downs on tangible and intangible assets	-535,192.54	-464,871.81
Other operating expenses	-1,573,889.30	-1,511,053.57
NET OPERATING PROFIT	3,421,122.48	4,045,221.23
PROFIT BEFORE APPROPRIATIONS AND TAXES	3,421,122.48	4,045,221.23
Appropriations	-3,389,455.10	-4,013,000.00
Income taxes	-28,077.66	-28,834.41
PROFIT FOR THE FINANCIAL YEAR	3,589.72	3,386.82

Balance sheet

ASSETS	Dec 31, 2004	Dec 31, 2003
Liquid assets		
Cash	1,277.80	1,401.80
Liquid assets	3,997,083.11	3,893,280.53
Debt securities eligible for refinancing with central banks	588,846,522.22	510,740,362.84
Claims on credit institutions		
Repayable on demand	478,038.19	762,316.60
Other	59,778,439.44	8,639,443.61
Claims on the public and public sector entities	4,029,574,609.44	3,687,127,827.63
Debt securities		
On public sector entities	195,645,149.46	111,328,355.83
Other	389,939,339.30	247,656,091.59
Shares and participations	24,219.06	24,219.06
Intangible assets	901,890.21	953,308.06
Tangible assets		
Other tangible assets	1,264,260.42	1,198,413.13
Other assets	15,035,316.12	0.00
Accrued income and prepayments	82,070,418.51	71,271,485.63
TOTAL ASSETS	**5,367,556,563.28**	**4,643,596,506.31**

LIABILITIES	Dec 31, 2004	Dec 31, 2003
LIABILITIES		
Liabilities to credit institutions and central banks		
Credit institutions		
Other	452,247,106.73	424,619,622.28
Liabilities to the public and public sector entities	311,929,783.28	187,328,562.38
Debt securities issued to the public		
Bonds	4,016,308,974.61	3,526,708,736.15
Other	273,934,258.28	247,316,243.22
Other liabilities	115,936,998.08	70,526,538.62
Accrued expenses and deferred income	93,123,407.01	86,413,813.19
Subordinated liabilities	33,818,792.65	33,818,792.65
APPROPRIATIONS		
Voluntary provisions	28,688,000.00	25,298,544.90
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	23,845,503.44
Profit brought forward	921,438.47	918,051.65
Profit for the financial year	3,589.72	3,386.82
TOTAL LIABILITIES	**5,367,556,563.28**	**4,643,596,506.31**
Irrevocable commitments given in favour of a customer	246,197,466.00	146,053,516.00

Off-balance-sheet Commitments

Commitments and security given	**Book value in final accounts (EUR 1,000)**	
	Dec 31, 2004	**Dec 31, 2003**
Bonds pledged to the Municipal Guarantee Board	3,981,973	2,674,186
Debt securities pledged to Municipal Guarantee Board	975,873	749,363
Bonds pledged to the Local Government Pensions Institution	42,504	55,990

Irrevocable commitments given in favour of a customer		
Binding commitments	246,197	146,054

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	
	Dec 31, 2004	**Dec 31, 2003**
Interest rate derivatives		
Interest rate swaps	5,340,261	4,792,445
Currency derivatives		
Interest rate and currency swaps	2,433,084	1,620,336
Index linked derivatives	111,819	32,839

	Credit value of contracts without netting (EUR 1,000)	
	Dec 31, 2004	**Dec 31, 2003**
Interest rate derivative contracts	247,785	151,356
Currency derivative contracts	225,908	137,886
Index linked derivative contracts	20,747	4,461

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.

EUR 1,000	Nominal value Dec 31, 2004	Equivalent credit value Dec 31, 2004	Nominal value Dec 31, 2003	Equivalent credit value Dec 31, 2003
AAA	2,134,556	18,064	2,105,939	26,419
AA	3,933,823	51,914	2,634,317	18,366
A	1,755,632	20,733	1,705,364	17,862
No credit rating (Finnish municipalities)	61,153	5,559	0	0

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 statement and the balance sheet have been drawn up according to the Financial Supervision Authority models that came into force on June 30, 1998.

The company’s accounts have been drawn up in euros. Receivables and liabilities in foreign currencies have been converted into euros at the middle rate quoted by the European Central Bank on the balance sheet date. 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 arising from the hedged liability or to interest income from the hedged asset 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 the 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 on a straight-line basis over 25 years.

Notes on the profit and loss account
Jan 1 – Dec 31, 2004

The items are given in euros

1. Interest income, broken down as follows:

- Claims on credit institutions and central banks	997,122
- Claims on the public and public-sector entities	141,532,125
- Debt securities	23,407,027
- Other interest income	-43,267,201

Interest expenses, broken down as follows:

- Liabilities to the public	8,987,012
- Liabilities to credit institutions and central banks	11,471,866
- Debt securities issued to the public	142,306,304
- Subordinated liabilities	1,093,390
- Capital loans	811,569
- Other interest expenses	-53,808,901

2. There were no leasing activities in 2004.

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

- Net income from transactions in debt securities	78,078
- 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	2,085,280,000
- Debt securities sold	92,400,000

5. Other operating income

- Profit on sale of fixed assets	14,911
- Income from advisory services	16,850
- Other income from ordinary credit institution business	53,350

Other operating expenses

- Renting expenses	515,847
- Other expenses from ordinary credit institution business	1,058,042

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	3,389,455

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(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
Dec 31, 2004

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

- Government bonds	42,974,230
- Banks' certificates of deposit	9,994,035
- Other bonds	535,878,257

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	2,005,578,647
- Public-sector entities	1,969,520,943
- Non-profit organizations	54,475,019

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 balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 1,174,431,011.

	Quoted	Others
Debt securities		
- Securities held as current assets	22,525,703	1,109,582,411
- Others	20,448,527	21,874,370

The total amount of the difference between the estimated market value and the lower book value of debt securities held as current assets and entered under balance sheet items 'Debt securities' and 'Debt securities eligible for refinancing with central banks' is EUR 2,775,129.

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 358,045. The difference between the nominal value of securities under fixed assets and the lower acquisition value is EUR 5,310.

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	188,766,263
- Certificates of deposit	72,496,833
- Other bonds	913,167,915

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	1,106,985
+ increase during financial year	304,544
- decrease during financial year	136,375
- planned depreciation during financial year	196,745
+ accumulated depreciation on decreases	63,694
- accumulated depreciation at beginning of financial year	546,077
Book value at end of financial year	595,026

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

- Intangible assets	604,777
- Other long-term expenditure	297,113

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	41,092
- planned depreciation during financial year	10,363
- accumulated depreciation at beginning of financial year	36,885
Book value at end of financial year	369,234

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. Other assets, broken down as follows:

- Derivative contracts	15,035,316

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

- Interest	81,825,000
- Other	245,419

28. The company has not combined any asset items in the balance sheet under section 8(4) of the Ministry of Finance decision.

29. Total difference between the nominal value and the lower book value of liabilities

Bonds	461,312,529
Other	1,799,196

Total difference between the book value and the lower nominal value of liabilities

Bonds	9,068,500
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	4,016,308,975
Other	273,934,258

31. Other liabilities, broken down as follows:

- Derivative contracts	115,340,711
- Other	596,287

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

- Interest	92,388,998
- Other	734,409

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 at beginning of financial year	16,522,000	276,711
+ increases	0	0
- decreases	0	0
Book value on December 31, 2004	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 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, 2004 was 255. The number was reduced by two on January 1, 2005 as the municipality of Kangaslampi was merged with the City of Varkaus, and the municipalities of Seinäjoki and Peräseinäjoki were discontinued with the establishment of a new City of Seinäjoki.

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 2004.

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 balance sheet approved 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 to repay the loan. Interest accumulated by the end of the financial year is booked as interest expenses in the accounts.

The company has issued a capital loan of EUR 10,000,000 with an interest rate 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 balance sheet approved for the company's previous 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 to repay 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 liabilities in the balance sheet under section 8 (4) of the Ministry of Finance decision.

42. Maturity breakdown of assets 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	50,993,927	106,513,265	379,336,374	52,002,956
Claims on credit institutions	46,339,493	13,916,985		
Claims on the public and puclic-sector entities	57,351,973	293,006,476	1,390,465,287	2,288,750,873
Debt securities	199,320,456	117,945,165	253,282,193	15,036,675
Liabilities to credit institutions	87,244,277	28,569,661	215,360,174	121,072,995
Liabilities to the public	0	0	96,125,988	215,803,795
Debt securities issued to the public	419,242,057	815,398,942	2,330,460,454	725,141,780

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	588,846,522	0
Claims on credit institutions	60,204,582	15,895
Claims on the public and public-sector	4,029,574,609	0
Debt securities	545,843,867	39,740,622
Other assets	15,035,316	0
Liabilities to the public	261,804,470	50,125,313
Liabilities to credit institutions	367,257,476	84,989,631
Debt securities issued to the public	2,329,771,682	1,960,471,551
Subordinated liabilities	33,818,793	0
Other liabilities	115,936,998	0

Notes to the accounts concerning income taxation

44. Municipality Finance Plc's voluntary provisions include deferred tax liabilities totalling EUR 7,458,880. 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.	Commitments and collateral
Bonds pledged to the Local Government Pensions Institution	42,504,075
Debt securities pledged to the	
Bonds pledged to the Municipal Guarantee Board	3,981,973,405
Debt securities pledged to the Municipal Guarantee Board	975,873,018

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

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

48. Off-balance-sheet commitments	
- Irrevocable commitments	246,197,466

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

	Values of underlying instruments For hedging purposes
Interest rate derivatives	
Interest rate swaps	5,340,260,693
Currency derivatives	
Interest rate and currency swaps	2,433,084,526
Index linked derivatives	111,818,730

	Equivalent credit value of contracts (without netting)
Interest rate derivative contracts	247,785,254
Currency derivative contracts	225,907,567
Index linked derivative contracts	20,746,735

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 316,320 payable during the next financial year and a total of EUR 511,235 payable later.

52. Municipality Finance Plc has no contingent or other 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:

	2004	2003
Full-time	30	29
Part-time	2	2

The salaries, fees, pension costs and other staff-related costs paid out during the financial year to the Managing Director, his Deputy, and members of the Board of Directors came to EUR 515,640. An executive agreement was signed with the Managing Director and Deputy Managing Director 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 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 Municipal Bonds 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 and the Basel II capital adequacy framework

IFRS implementation project and transition schedule

Municipality Finance Plc aimed to start IFRS reporting as from January 1, 2005. The accounting principles applied by Municipality Finance will be most significantly affected by standard 39, Financial instruments: booking and valuation. Due to a delay in the approval procedure of the standard, the company has decided to postpone the transition by at least one year. According to current regulations, companies issuing debt instruments must adopt the international accounting standards no later than January 1, 2007 or in the next financial period beginning after this date.

Since 2003, an IFRS project group has been working in the company, including representatives from both financial administration and the business units. Preparations for adopting the IFRS continued in 2004. The reporting and information systems have been developed so that the accounting principles required by the standard can be followed and the necessary financial information generated. The work will continue in 2005.

New capital adequacy framework

The Basel Committee on Banking Supervision issued revised capital adequacy recommendations for banks in June 2004. The reform will come into force gradually, beginning December 31, 2006. The company has tested the accounting methods of the new capital adequacy framework. The new recommendations are not expected to cause significant changes in the company's capital adequacy status as calculated using the risk-weighted receivables of the current balance sheet.

Key Indicators describing the financial development of Municipality Finance Plc

Municipality Finance Plc (new)	2004	2003	2002	Comparison data * 2001	2000
Turnover, EURm	123	129	147	188	173
Net operating profit, EURm	3,4	4,0	3,1	2,8	3,2
% of turnover	2,8	3,1	2,1	1,5	1,8
Profit before appropriations and taxes, EURm	3,4	4,0	3,1	2,8	3,2
% of turnover	2,8	3,1	2,1	1,5	1,8
Return on equity (ROE), %	5,5	7,3	6,2	5,8	7,1
Return of assets (ROA), %	0,1	0,1	0,1	0,1	0,1
Equity ratio, %	1,2	1,3	1,2	1,3	1,2
Yield-expense ratio	1,4	1,5	1,4	1,4	1,5
Capital adequacy ratio, %	38,1	52,0	63,4	84,1	48,8
Head count, Dec 31	30	29	27	24	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 comparises 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 accont.

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

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

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

$$\text{Yield-expense ratio} = \frac{\text{Net income from financial operations + dividends income + commission income + net income from securities transactions and foreign exchange dealing + other operating income}}{\text{Comission expenses + administrative expenses + depreciation + other operating expences}}$$

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

Financial result for the year and disposal of profits

The company's financial statements show a profit of EUR 3,589.72. The Board of Directors proposes that this profit be carried over under non-restricted equity and that no dividend be paid out.

Helsinki, February 11, 2005

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, 2004. 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 14, 2005

KPMG OY AB

Riitta Pyykkö
Authorized Public Accountant