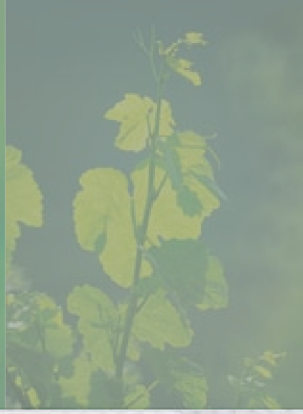
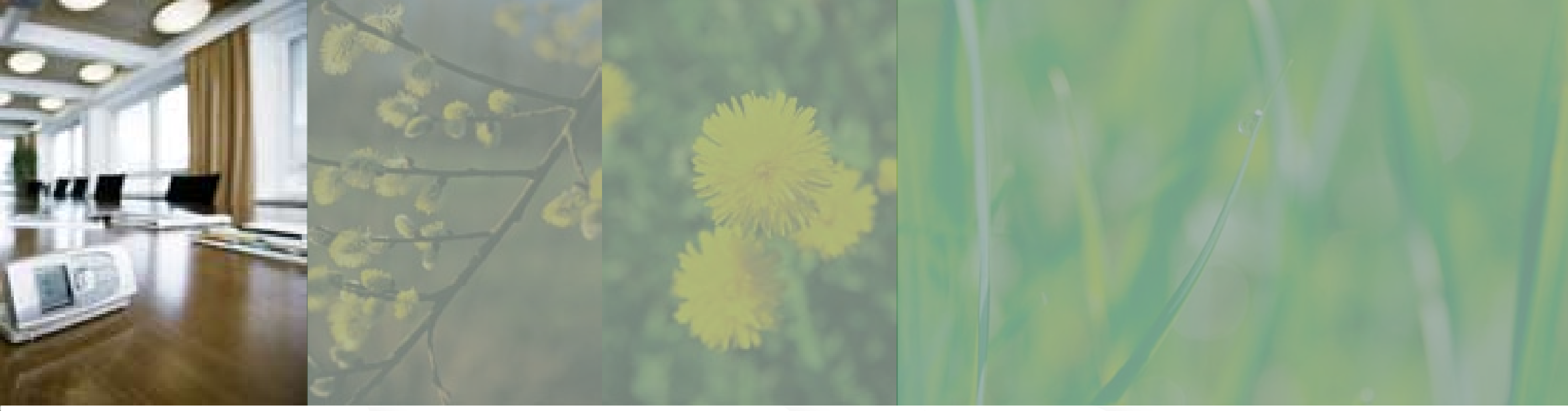
Annual report 2006

Kuntarahoitus
MUNICIPALITY FINANCE

Contents

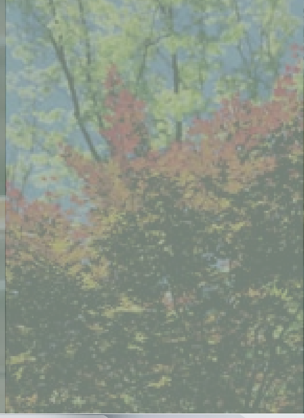
2006 in brief

- Municipality Finance's loan portfolio totalled EUR 5,105 million at the end of the year, an increase of 11% (December 31, 2005: EUR 4,594 million).
- EUR 1,010 million were withdrawn in new loans (2005: EUR 967 million).
- The balance sheet totalled EUR 7,033 million (December 31, 2005: EUR 6,050 million), and was up 16.2%.
- Capital adequacy stood at 27.1% at the end of the year (December 31, 2005: 30.0%).
- Net income from financial operations was EUR 16.1 million (2005: EUR 14.1 million).
- Long-term funding totalled EUR 1,304 million (2005: EUR 1,093 million).
- 12 Municipal Bonds were issued in Finland.
- Municipality Finance issued its second ever targeted bond, the Maritime Museum of Finland Bond.
- The company issued the first ever inflation-linked bond in Finland
- As a result of a share issue and raise in share capital in autumn, the company gained 48 new shareholders and subscriptions were made to the total of EUR 26 million.
- The company's distributable funds total EUR 1,847,341.62, of which EUR 1,843,215.22 is proposed as the dividend for 2006, i.e. EUR 0.07 per share.
- The company prepared for the implementation of the International Financial Reporting Standards (IFRS) on January 1, 2007.

投資者並びに協力パートナーの皆様に、御礼申し上げます。

Local government sector’s own credit institution

- Municipality Finance Plc is owned by the local government sector. Its aim is to be the most preferred and active cooperation partner in funding services.
- The company wants to ensure that its customers receive economical funding services. In addition the company wants to act efficiently and grow profitably while meeting the capital requirements laid down for credit institutions, primarily through income from its own operations.
- The company makes active inputs in customer service by continuously developing functional, innovative and competitive products and services required by its customers.
- The company seeks to achieve its goals by ensuring that its personnel represents a high level of professional skill and expertise and that its information systems function smoothly.
- Municipality Finance’s capital adequacy and competitive pricing are based on the best possible credit rating. The company has the best possible credit ratings for long-term funding: Aaa from Moody’s and AAA from Standard & Poor’s.
- In keeping with its credit rating, the company follows extremely conservative principles in risk management, applying top-quality modern methods and analyses to its risk management.

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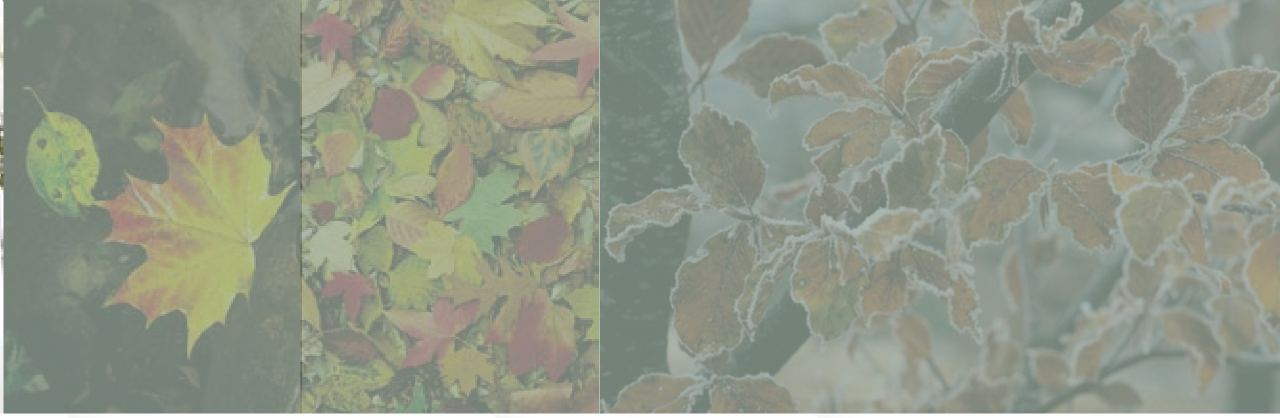


Managing Director's review

Municipality Finance Plc's financial year was good and exceeded the budgeted targets. Measured in euros, the profit is the best of all time for the company. Other indicators for the financial year were also good, and the outlook for the following year is promising, thanks to the company's reinforced market position and increase in share capital, which will improve the company's competitiveness.

Targeting controlled growth

The net operating profit rose to EUR 6.1 million (December 31, 2005: EUR 5.6 million). The balance sheet totalled EUR 7,033 million at the year-end, an increase of more than 16% on the previous year. New loans were withdrawn to a total of more than EUR 1 billion.

The profit for the financial year reflects the company's cautious business activities, which are geared to avoid risk and maintain capital adequacy.

Stronger market position

The company kept its good market position amongst in the increasing competition. The number of tenders received did not increase significantly during the financial period. Nevertheless the number of offers won rose by 8%. The company's market share of actual total lending rose to 52% during the financial year.

Product development with results

During the financial year, the company has made inputs in active product development in order to be able to serve its customers as well as possible. Innovative new products respond quickly and appropriately to special local government needs. Our strong market position is proof of success in this respect.

The popularity of Municipality Finance's own reference rate increased during the financial period. Also the use of a variety of interest rate structures has increased on the previous year.

The company keeps an active eye on the market situation and seeks to continue to develop its product selection according to the needs of its customers.

The business of the Financial Advisory Service, which was established a few years back, increased in 2006, and the number of commissions continues to increase steadily.

Active funding acquisition

The company's competitive funding acquisition is based on its excellent credit rating. Standard & Poor's and Moody's again confirmed the best possible ratings for Municipality Finance, which is the only credit institution in the same rating category as the Finnish government. The company's status on the international capital market is further consolidated by the fact that the Municipal Guarantee Board has also been given the best possible credit ratings.

Successful share issue

Municipality Finance's share issue in autumn 2006 was extremely successful and increased the number of shareholders by 48. The goal of the issue was achieved and subscriptions rose to more than EUR 26 million. The stronger capital structure will further improve the company's potential for competitive funding.

A change in the company's operating policy contributed to the success of the issue. As a result of the change, a dividend will be distributed for the first time from the profit for 2006.

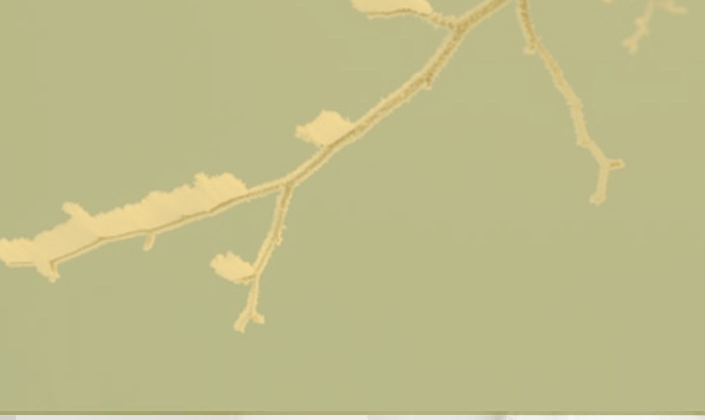
Future challenges

The restructuring of local government services will mean significant changes in the sector in the next few years. With the ageing of the Finnish labour force, the entire local government sector will have problems in finding skilled personnel. The situation of financial institutions will also change as banks tend to merge and form larger units.

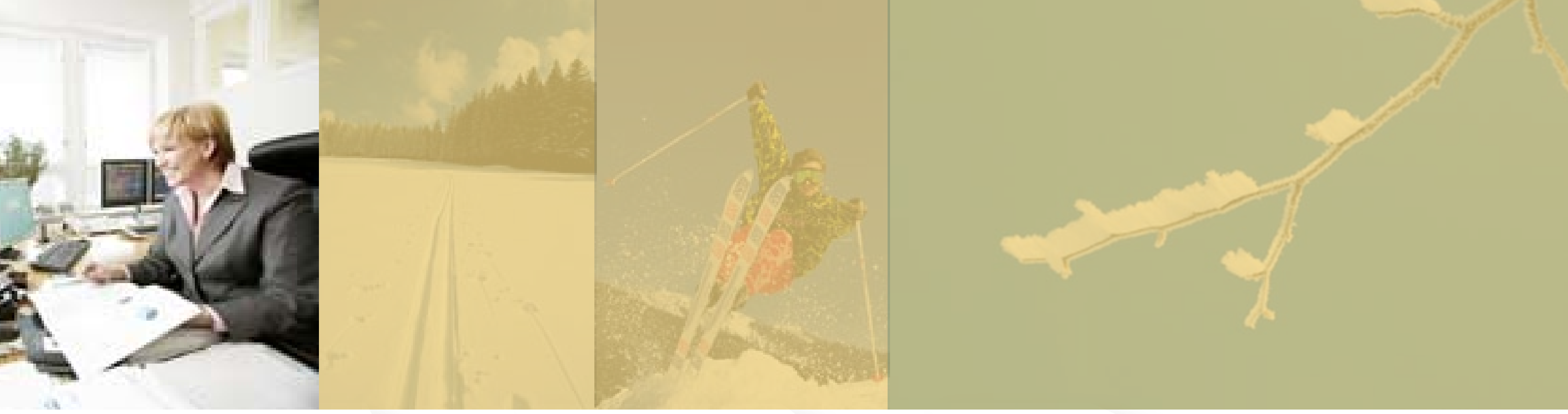
Municipality Finance is in a good position to meet these challenges successfully with the help of the company's reinforced capital structure, good credit rating, capital adequacy, significant market position and professionally skilled personnel.

I would like to express my warm thanks for this successful financial year to our customers, co-partners and personnel.

Helsinki, February 15, 2007
Pekka Averio
Managing Director







Chairman of the Board’s review

Municipality Finance’s position stronger in the local government sector

Municipality Finance Plc’s past year was successful in all sub-sectors. A record profit and an increase in the balance sheet reflect a good competitive edge and a strong market position. The latter half of the financial year was characterised by a successful share issue that increased the number of shareholders and strengthened the company’s position on the international financial market.

Backed by strong support

As far as Municipality Finance is concerned, a good understanding has been established between local and general government. Through the share issue, the owners showed their confidence in the company, and the position of the Municipal Guarantee Board is also stronger with new legislation governing it. The company’s relations with the Association of Finnish Local and Regional Authorities and the Ministry of the Interior are also good.

A legislative and economic framework thus exists for successful operations. Municipality Finance will have to continue to prove it is worthy of this confidence.

Municipalities in a state of flux

The restructuring of municipalities and their services is the biggest upheaval in the history of local government. There are good conditions for stable local government economies within the framework of our national economy, but the outlook varies for individual municipalities. The good general economic situation justifies mild optimism. The better employment situation and growth in tax revenues have improved the economic position of municipalities, although higher expenses have increased cost pressures. The municipalities’ credit worthiness will continue to be good in the future if their economy remains stable.

A controlled restructuring process is a great opportunity, but it also requires reforms in the policy governing central government transfers to municipalities. The challenges of keeping local government economies stable must be pointed out not only to the municipalities themselves but also to the next Parliament and Government, whose responsibility it will be to both implement restructuring in local government and revise the central government transfer system.

The local government restructuring process offers an opportunity to look at structures from a number of different angles. Since situations vary greatly between municipalities, different types of solutions must also be allowed. The same models cannot apply to densely populated urban centres and sparsely populated rural areas. Cooperation between municipalities is a feasible route in many cases.

Challenges faced by Municipality Finance

A potential reduction in the number of municipalities will mean a smaller number of customers for Municipality Finance. On the other hand, municipalities will make their financial management more efficient and their corporations more concentrated, which will create a need for larger single loans. This will also mean greater competition between financial institutions. The increase in share capital will make Municipality Finance better equipped to meet this challenge: the company will be able to achieve its original goal of keeping up competition and offering more economical funding services.

In order to be able to meet its new challenges, Municipality Finance must seek to strengthen its competitive edge in every possible way, and this will call for professionally skilled personnel, cost-effective governance and expertise in funding acquisition.

Tailored financial advisory services

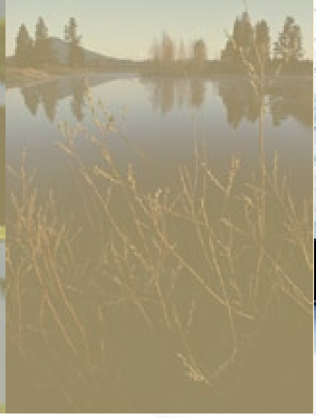
The role of Municipality Finance’s Financial Advisory Service continued to grow stronger in the past financial year. It is to be hoped that the demand for its services will continue to grow and that an increasing number of municipalities will be able to utilize the reasonably-priced expertise offered. The advisory services have been tailored to solve problems arising specifically in the local government sector, relating to issues such as project financing, competitive tendering, corporatization and outsourcing.

On behalf of the Municipality Finance Board of Directors, I would like to thank the company’s owners, customers, co-partners and personnel for the successful cooperation, confidence and support to our common efforts. In accordance with its original business idea at the time of foundation, the company aims at advancing the interests of the local government sector in a manner that satisfies the owners.

Helsinki,
February 15, 2007

Asko Koskinen
Chairman of the Board






Funding products to meet customer needs

One of Municipality Finance's key operating principles is focus on the needs of its own clientele. The company wants to lead product development in the financing sector in its own field in order to be able to offer municipalities innovative the products needed on a rapidly developing market. Municipality Finance can offer loan solutions ranging from very short-term lending up to periods of 40 years. The company's annual growth of some 10% shows that it has found the right solutions for covering the funding requirement. Its market share of more than 50% confirms that it´s going in the right direction.

In 2004 Municipality Finance adopted competitive reference rates of its own, priced below corresponding Euribor rates. Their proportion of the rates chosen by customers has been increasing steadily. 50.2% of the loans granted by the company in 2006 were floating rate loans, and in about 81% of these cases the customer chose Municipality Finance's own reference rate.

Long-term reference rates and fixed-interest rates were chosen for 31.7% of all loans granted. The popularity of various interest rate structures is increasing and their number rose to 14% in 2006. Various financing concepts not requiring large minimums have been developed for small municipalities.

Ethical lender

A significant proportion of the loans granted by Municipality Finance are used for various social and socially important purposes, such as municipal building or development projects aimed at better welfare services and quality of life. Such funds are used, for instance, to finance schools, day care centres, homes for elderly people and care institutions, hospitals, health care centres and housing.

Funding is also granted for important cultural projects, such as the new Maritime Museum of Finland and Museum Centre in Kotka.

The new modern high school in Järvenpää was partly funded by a Council of Europe Development Bank loan intermediated by Municipality Finance.

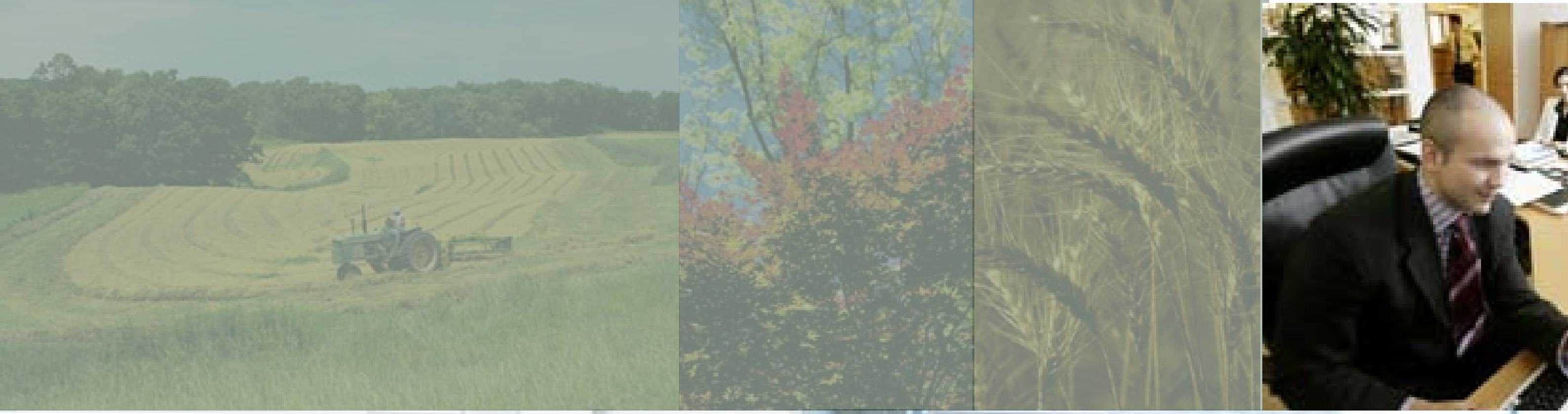
Funding from near and far

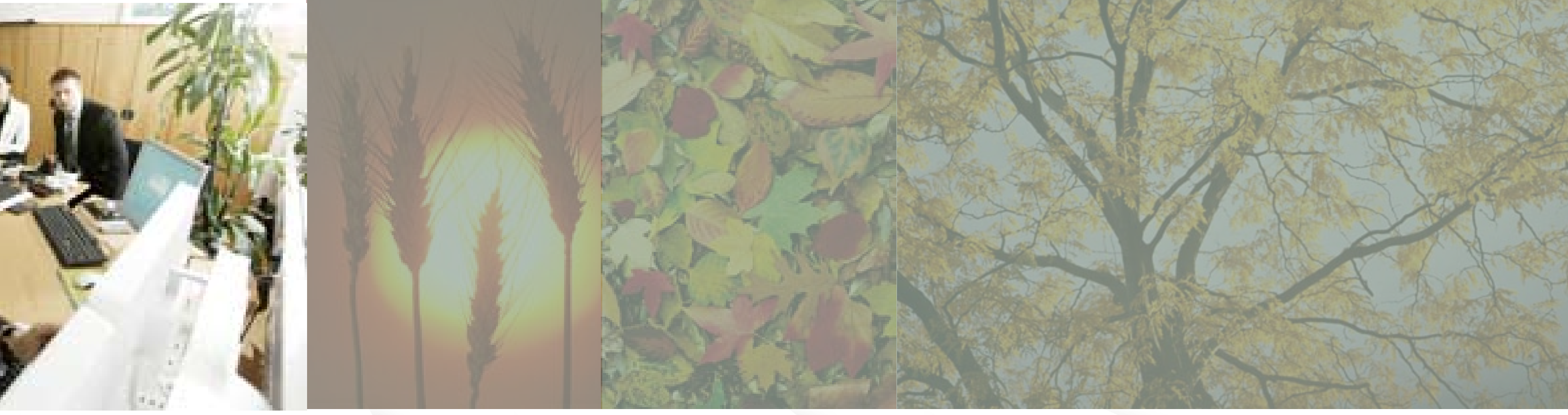
Municipality Finance acquires its funding for local government loans from both international and domestic money markets, with international money markets holding a 90% share. The company's good credit rating, the highest possible, facilitates the acquisition of funding and lowers the cost. Municipality Finance has the same highest credit ratings for long-term funding as the Finnish government: Aaa from Moody's and AAA from Standard & Poor's.

Successful funding acquisition requires an efficient and fast international contact network. A significant proportion of all funding comes from the Asian market, particularly Japan, where investors include both major institutions and small private investors. Municipality Finance was among the ten most active issuers on the Japanese structured bond market. In Europe, funding has been acquired from countries such as Switzerland, Germany, Denmark and Norway. The company's reputable name, extensive long-term investor network and ability to use various types of funding instruments flexibly guarantee that the local government sector obtains the financing it needs.

Domestic funding acquisition is based on issuing Municipal Bonds. Municipal Bonds are targeted at both the general public and wholesale investors. A new type of targeted bond has been extremely popular, for instance the Sea Museum Bond and the Tahko Bond, both developed by Municipality Finance. They are safe and reliable investments that, apart from market-consistent return, give investors an opportunity to make investments in locally or otherwise important projects and follow their progress.

The Maritime Museum of Finland Bond is a new kind of a tailored investment offered by Municipality Finance which can be used to finance significant municipal investments. For the investor it offers the possibility to contribute to the completion of the project by investing and to follow its progress. In other aspects the Maritime Museum of Finland Bond is similar to the more traditional Municipal Bonds offering a safe and reliable return.





Financial Advisory Services

The Financial Advisory Services, which began operations in 2004, offers independent advisory services to the public sector in the field of finance. The aim is to assist the public sector in the provision of high quality services and meeting investment needs.

The following services are available:

- investment projects and alternative ways to finance investments
- financial structuring and raising of debt and equity
- structuring of corporate, real estate and other assets
- business and real estate valuations and cash flow analyses
- financial and loan portfolio analyses
- asset allocations and the creation of investment strategies as well as the evaluation of asset managers

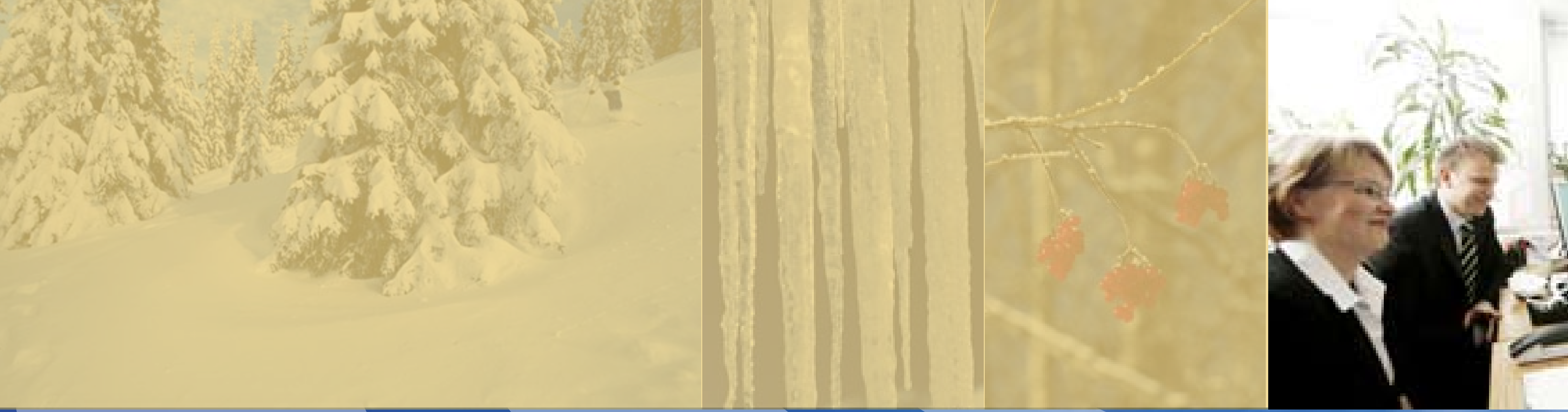
The services have been well received and the operations have expanded in 2006. As interest in this new service form increased, its resources were increased accordingly. The number of mandates rose by some 30% during the year.

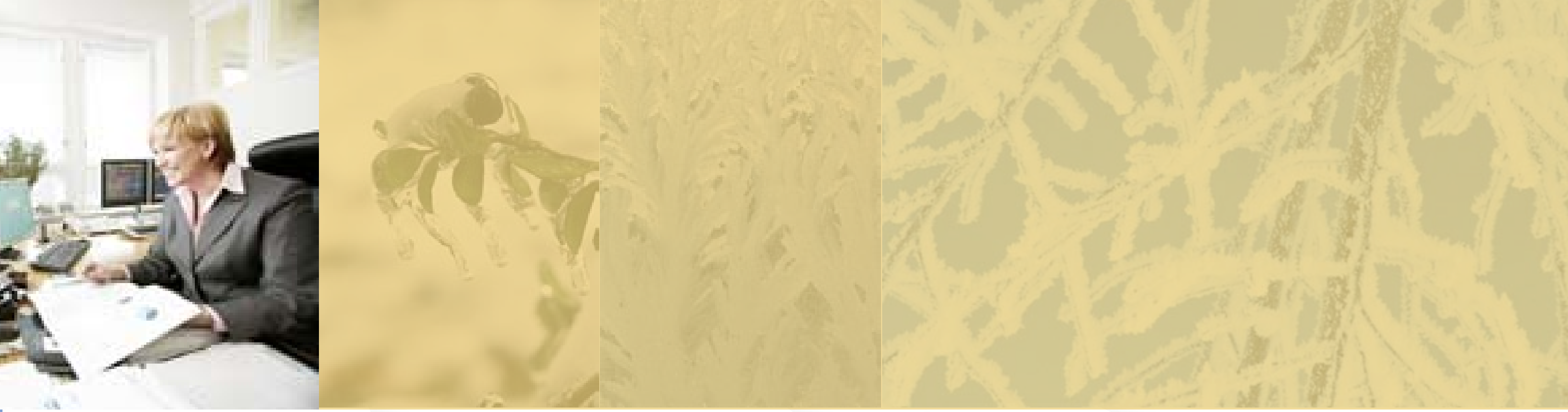
The number of ongoing projects is also increasing and the projects are more extensive, long-term and demanding.

Examples of projects carried out

- Parking facility in Kuusamo-Ruka
- Lifecycle models of the Confederation of Finnish Construction Industries - a development project using the PPP model to look at the funding possibilities of a basic renovation project in a school in the city of Mikkeli and implementation alternatives for a municipal hall in Kirkkonummi
- Assessment of the opportunity to establish a joint-municipal company for the management of real estate assets done in co-operation with Efeko Ltd
- Financing plan and structure for a significant equipment acquisition by a regional procurement corporation owned by municipalities
- Placement of a EUR 15 million subordinated debt issue by Kunta-Asunnot Oy

The renewal of the school center is one of the biggest challenges in Korpilahti in the near future.





Municipal Guarantee Board

In accordance with the Act governing the operations of the Municipal Guarantee Board, the purpose of the Guarantee Board is to safeguard joint municipal funding acquisition and develop it. The Guarantee Board may also grant guarantees to credit institutions owned or administered by municipalities, such as Municipality Finance, whose funding is targeted at lending to the local government sector.

The amended Act governing the Municipal Guarantee Board entered into force as of the beginning of 2007, with the purpose of further specifying the range of receivables for which the Municipal Guarantee Board's guarantees can be used as security. The amended Act also and allows municipalities that are not members of the Guarantee Board to become members.

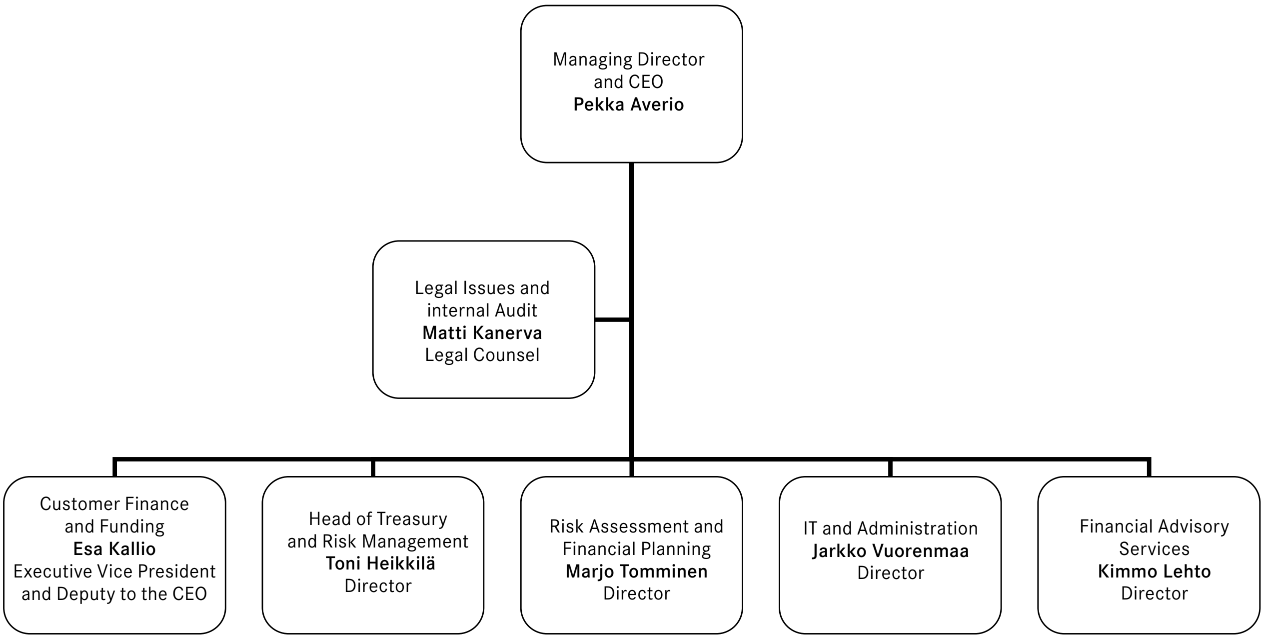
The credit ratings for the Municipal Guarantee Board's long-term funding are the same as those for Municipality Finance and the Finnish government: Aaa from Moody's and AAA from Standard & Poors.

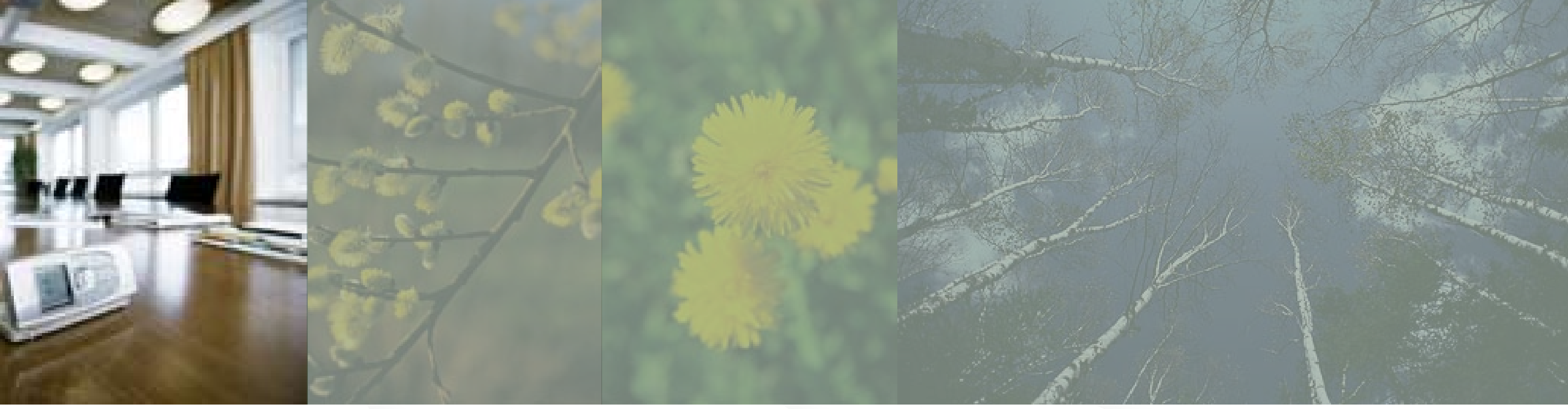
Municipal Guarantee Board celebrated its tenth anniversary on November 24, 2006 with a prestigious circle of invited guests.

Heikki Niemeläinen, Managing Director, the Municipal Guarantee Board.

Organization and Board of Directors

- Chairman of the Board Asko Koskinen (Director, City of Tampere)
- Vicechairman Timo Viherkenttä
  (Deputy Managing Director, Local Government Pensions Institution)
- Juhani Alanen (Deputy Mayor, City of Mikkeli)
- Esa Katajamäki (Director of Finance and Planning, City of Oulu)
- Tapio Korhonen (Finance Director, City of Helsinki)
- 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)





Report on operations and financial statements January 1 – December 31, 2006

BOARD OF DIRECTORS' REPORT

Balance sheet and operating result

The Municipality Finance balance sheet total on December 31, 2006 was EUR 7,033 million, compared with EUR 6,050 million at the end of the previous year, an increase of 16.2%. The company's long-term loan portfolio stood at EUR 5,105 million, up 11.1% on the 2005 year-end figure.

The trend in the operating result was better than expected. The net operating profit for the financial year (January 1 – December 31, 2006) before appropriations and taxes was EUR 6.1 million (2005: EUR 5.6 million). Of the net operating profit for 2006, EUR 4.8 million was transferred to provisions, EUR 0.4 million was paid in taxes and the profit for the year was EUR 0.9 million. Non-recurring expenses of EUR 0.4 million relating to a share issue were recorded in the financial year. Net income from financial operations totalled EUR 16.1 million (2005: EUR 14.1 million).

Net income from available-for-sale financial assets totalling EUR 0.2 million comprises sales profits from the sale of debt securities. Any advance funding will be invested in these securities until the money is granted as loans to customers.

Municipality Finance Plc	2006	2005	2004
Turnover, EUR m	198.5	142.7	122.8
Net operating profit, EUR m	6.1	5.6	3.4
% of turnover	3.1	3.9	2.8
Profit before appropriations and taxes, EUR m	6.1	5.6	3.4
% of turnover	3.1	3.9	2.8
Return on equity (ROE), %	9.5	8.8	5.5
Return on assets (ROA), %	0.1	0.1	0.1
Equity ratio, %	1.0	1.1	1.2
Yield-expense ratio	1.6	1.6	1.4
Capital adequacy ratio, %	27.1	30.0	38.1
Head count, Dec 31	35	32	30

The company's operating principle is to provide funding for municipalities that is as inexpensive and diversified as possible via their own joint municipal funding system. Unlike other financial institutions, Municipality Finance's income comprises mainly the net income from financial operations. Commissions account for a small part of the income.

The total turnover comprises net income from interest, commissions, securities and foreign exchange transactions, available-for-sale financial assets and other operating income. The net operating profit is taken directly from the profit and loss account.

Return on equity ratio (%) (ROE) =

$$\frac{\text{net operating profit – taxes}}{\text{equity + voluntary provisions - deferred tax liabilities (average of year beginning and year end)}} * 100$$

Return on assets ratio (%) (ROA) =

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

Equity ratio = (%)

$$\frac{\text{equity + voluntary provisions – deferred tax liabilities}}{\text{balance sheet total}} * 100$$

Yield-expense ratio =

$$\frac{\text{net financial income + dividends received + commission income + net income from securities and foreign exchange transactions + other operating income + net income from sale of available-for-sale financial assets}}{\text{commission expenses + administrative expenses + depreciation + other operating expenses}}$$

Capital adequacy ratio -% =

$$\frac{\text{primary and secondary own funds}}{\text{Total risk-weighted claims, investments and off-balance-sheet commitments}} * 100$$

Capital adequacy and own funds

	2006	2005
Primary own funds	70,682	65,868
of which capital loans	23,846	23,846
capital loans of primary own funds	34%	36%
Decrease in intangible assets	-742	-698
Total primary own funds	69,940	65,170
Total secondary own funds	32,397	33,819
Total own funds	**102,337**	**98,989**
Risk-weighted claims, investments and off-balance-sheet commitments	377,648	329,556
Capital adequacy ratio	27.10%	30.04%
Primary own funds in relation to risk-weighted assets. investments and off-balance-sheet commitments	18.52%	19.78%

The primary own funds include the profit for the year reduced by the dividend proposed by the Board of Directors.

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

An extraordinary meeting of Municipality Finance Plc's shareholders held on October 4, 2006 decided on a proposal by the Board of Directors to increase the share capital by means of a share issue targeted at the municipalities, and firms and companies close to them by a minimum of EUR 20 million and a maximum of EUR 30 million.

The subscription price per share was EUR 2.70. The subscription period for the shares ended on December 21, 2006 and the Board of Directors approved the subscriptions made on December 28, 2006. The date of payment of the subscriptions was January 19, 2007, and the issue collected in total EUR 26,486,044.20. All the subscriptions had been paid at the time of drawing up the financial statements.

In the calculation of own funds on December 31, 2006 the old share capital of EUR 16,522,000 and, in addition, the share of the subscriptions that had been paid by December 31, 2006 (EUR 1,121,736.60) i.e. a total of EUR 17,643,736.60, has been calculated as the share capital.

Credit ratings

Municipality Finance Plc's credit ratings

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+

Municipal Guarantee Board's credit ratings

The Municipal Guarantee Board, which guarantees the funding of Municipality Finance, has the best possible credit ratings for long-term funding.

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

Lending

Municipality Finance's borrowers are municipalities and municipal federations, corporations owned or controlled by them, and non-profit housing corporations nominated by the Housing Fund of Finland (ARA). The company has been able to increase its market share over the years so that it is clearly the biggest single player in its customer segment. Some Municipality Finance loans are refinanced by the European Investment Bank (EIB) or the Council of Europe Development Bank (CEB).

Long-term lending

In spite of ever-increasing competition Municipality Finance was able to maintain its strong market share through its customer-responsive and innovative operations. The total number of requests for tenders remained almost at the level of 2005, but the number of winning offers increased by 8%. Of the competitive bidding in which it participated Municipality Finance won EUR 1,067 million i.e. 52%. In the biggest of the customer categories, the municipalities and municipal federations, it won EUR 743

million in tenders, in municipal enterprises EUR 168 million and housing associations EUR 156 million.

The Municipality Finance loan portfolio increased to EUR 5,105 million during 2006 (2005: EUR 4,594 million), an increase of 11%. A record number of new loans totalling EUR 1,010 were withdrawn (2005: EUR 967 million).

Municipality Finance's customers favoured long-term reference rates and fixed interest rates to an increasing extent. In floating exchange rates Municipality Finance's own reference rate increased its popularity during the financial year. Use of different interest rate structures also increased.

Short-term lending

In order to meet a short-term loan need, municipalities and enterprises controlled by municipalities or municipal federations issue municipal commercial papers via Municipality Finance.

At the end of 2006, municipal commercial paper programmes came to a total of EUR 1,388 million. At the end of the year issued papers amounted to EUR 269 million and during the whole year municipalities used municipal commercial papers to raise EUR 1,813 million, i.e. slightly more than one year earlier (2005: EUR 1,781 million).

Funding

Municipality Finance has the best possible international credit rating, AAA, from both Moody's and Standard & Poor's. The basis of the funding is speed, flexibility and operating on several main capital markets. Most of the arrangements are carried out within the framework of the following debt programmes:

Euro Medium Term Note (EMTN) programme	EUR 5,000,000,000
Domestic debt programme	EUR 500,000,000
Treasury Bill Programme	EUR 500,000,000
AUD debt programme (Kangaroo)	AUD 500,000,000

EMTN programme is listed in London Stock Exchange.
Domestic debt programme is listed in OMX-Helsinki.

The AUD debt programme was opened in March in order to launch bonds on the Australian capital market. It is also possible for Municipality Finance to operate as a regular issuer on the market targeted at private households in Japan (Uridashi market).

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.

The Municipal Guarantee Board, which guarantees Municipality Finance, also has an AAA credit rating from both of the above-mentioned credit rating institutions. It has given a guarantee for both Municipality Finance's debt programmes and funding arrangements outside the programmes so the debt instruments it issues are weighted as zero-risk when the financial institutions calculate the capital adequacy.

Municipality Finance's total funding at the balance sheet date amounted to EUR 6,451 million (2005: EUR 5,778 million). Of this, 49% was denominated in euros (2005: 53%) and 51% in other currencies (2005: 47%).

During 2007 Municipality Finance will be increasing the EMTN programme to EUR 8,000 million, the domestic debt programme to EUR 800 million and the Treasury Bill programme to EUR 800 million.

Long-term funding

Municipality Finance acquired a total of EUR 1,304 million (2005: EUR 1,093 million) in long-term funding during the financial year. Of this, EUR 1,182 million was carried out on international markets and EUR 122 million in Finland.

International funding

A total of 147 arrangements were made on international funding markets. The average borrowing time for new funding was just over five years.

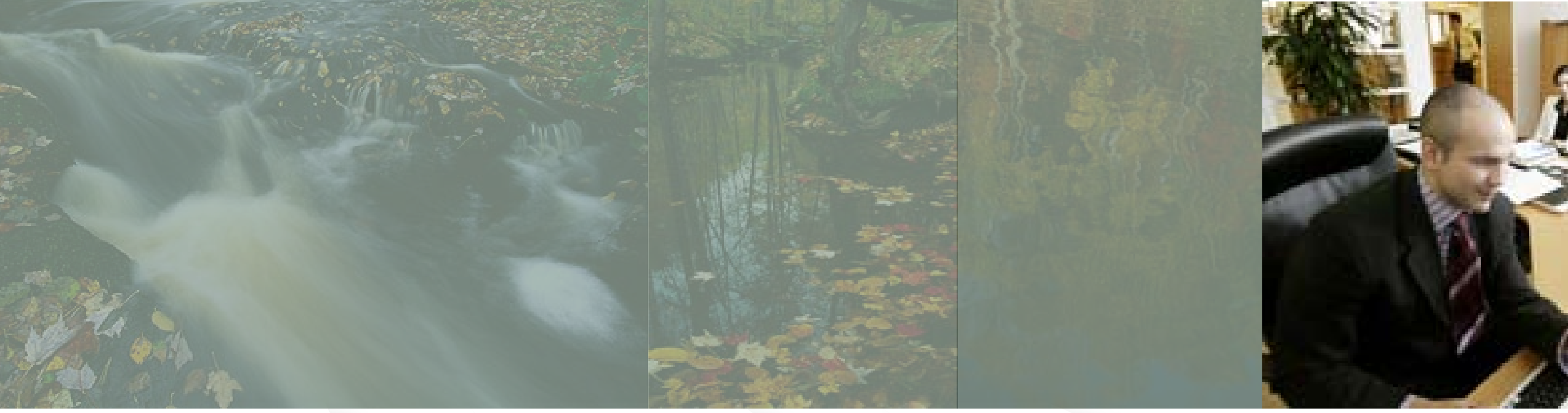
The Asian markets were still the most important, with Japan the most important single source of funding. In addition to structured loan arrangements, Uridashi loans targeted at private investors in Japan and one arrangement directly with Japanese institutional counterpart were made there. Outside Asia, funding was carried out in Switzerland and Germany. Municipality Finance also succeeded in making an issue on the Danish retail market.

Domestic funding

Within the domestic debt programme, Municipality Finance issued 12 Municipal Bonds in 2006, 11 of them targeted at the general public and one at wholesale investors. Of the private arrangements the Sea Museum Bond, which was on offer in the autumn, met with most publicity. It was fully subscribed very quickly. Another major achievement on the domestic market in November was the first bond linked to Finland's inflation.

Short-term funding

For short-term funding, the company has a Treasury Bill Programme. On December 31, 2006, issues of such funding totalled EUR 462 million (2005: EUR 384 million). Short-term funding is used to secure overall liquidity.



Financial Advisory Service

The Financial Advisory Service operating area grew during 2006. During the year more than 20 assignments were performed, about half of them analyses concerning the financial status of municipalities or municipal federations. Financial schemes were also drawn up for financing investments and customers were assisted in arranging funding. Our Financial Advisory Service took part in the Elinkaarimallit (Life-cycle models) project of the Confederation of Finnish Construction Industries by drawing up reports about the usability of the life-cycle models for investment in operating premises by the municipalities. The Service recruited a manager and analyst during the year. The Advisory Service began working in new separate operating premises in August 2006 and at the end of the year preparations were under way for corporatizing it.

Risk management and internal control

The general principles of risk management at Municipality Finance are decided by the Board of Directors and implemented by the Managing Director assisted by the Board of Management. Practical risk management is the responsibility of the treasury unit, while the related supervisory functions have been hived off to a risk assessment and financial planning unit. The company's risk standing is monitored regularly by the Board of Management and by the Board of Directors on the basis of regular limit reports.

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 directly 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 and other derivatives contracts. In terms of credit risk evaluation, principles and limits approved by the Board of Directors and based on external ratings are applied in the selection of counterparties. Credit risk is monitored according to the fair value method; an equivalent credit value is calculated for the instruments to act as a basis for monitoring the limits set.

Further measures to control higher credit risks include Credit Support Annexes with major derivatives counterparties. The company has currently 30 Credit Support Annexes in force.

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 the company. Market risks include those related to interest rates, exchange rates, share prices and other prices.

For hedging against market risks, the company uses derivatives contracts. The company hedges itself against all exchange rate risks.

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
- value-at-risk

Apart from this, the management receives monthly interest rate sensitivity analyses and profit and loss figures.

The company has access altogether to EUR 140 million in liquidity back-up facilities in the form of credit limit arrangements

Market liquidity risk

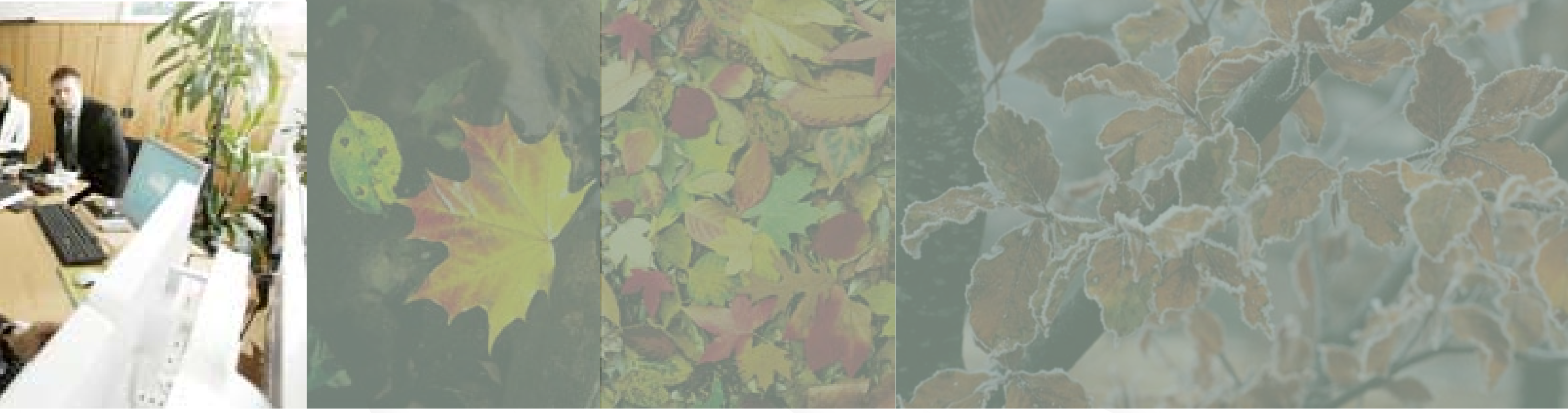
A market liquidity risk means that the company may not be able to realize or cover its position at the current market price, because there is not enough market depth or the market is not functioning because of market disruption.

The company monitors market and product liquidity on a continuous basis. Otherwise, the market's own standards are observed when derivatives 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 risk of loss arising from insufficient or failed internal processes, personnel, systems or external factors.

Municipality Finance has dealt with operational risk management by separating trading, risk management, risk monitoring, back-office work, documentation and bookkeeping duties and by creating a system of staff substitution and by



charting work duties and processes. The professional skill of the personnel is maintained through training.

The company monitors the materialization of operational risks and reports on them to the Board of Directors.

Internal audit

Internal auditing has been outsourced to Deloitte & Touche Oy. Its tasks include monitoring the reliability and authenticity of Municipality Finance's financial and other management information. They also involve ensuring that the company has adequate and properly organized manual and IT systems for its operations and that there is adequate control over the risks associated with the operations. The internal audit reports to the audit committee and Board of Directors.

Corporate Governance

The Board of Directors of Municipality Finance Plc confirmed its Corporate Governance rules on February 11, 2005. They comply with the Helsinki Stock Exchange Recommendation in all its material parts. The Recommendation is aimed at listed share issuers and does not therefore concern Municipality Finance directly, as it issues bonds. The Company shares are not subject to public trading and can be owned only by the parties referred to in the Articles of Association. Nevertheless, the Company wished to compile its own Corporate Governance rules based on the Stock Exchange Recommendation. Unless otherwise stated below, Municipality Finance complies with the said Recommendation. The Board of Directors is responsible for compliance with Municipality Finance's Corporate Governance rules and committed to their further development.

The aim of the Corporate Governance is to create a framework for responsible operations that will produce added-value for customers and owners and strengthen the confidence of all stakeholders (customers, owners, staff, financiers, etc.) in the management and the operating methods of the organization. The principles of Corporate Governance apply to the staff as a whole, not just to the highest level of management; similarly the staff as a whole is bound by the corporate values, principles and aims.

The Corporate Governance rules are accessible in full on the Company website (www.kuntarahoitus.fi). They deal with the following issues:

- organization (Shareholders' Meeting, Board of Directors, Managing Director and Board of Management)
- rewarding
- insider trading
- main operating principles (financial services policy, funding policy, investment policy, risk management policy, market risk, liquidity risk, operational risk management, internal control, risk management evaluation, reporting, information security and auditing)
- information dissemination.

Company administration and management

In accordance with the Articles of Association, Municipality Finance's Board of Directors has nine members. The Board of Directors was elected for a two-year period at the Annual General Meeting on March 11, 2005. The following are members of the company's Board of Directors (main job outside the company given in brackets):

- **Asko Koskinen**, Chairman, (Director, City of Tampere)
- **Timo Viherkenttä**, Vice Chairman, (Deputy Managing Director, Local Government Pensions Institution)
- **Juhani Alanen** (Deputy Mayor, City of Mikkeli)
- **Esa Katajamäki** (Director of Finance and Planning, City of Oulu)
- **Tapio Korhonen** (Finance Director, City of Helsinki)
- **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)

In 2006 the Board of Directors established an audit committee, which comprises three members chosen by the Board of Directors. The Chairman and Vice Chairman of the Board may not be members of the committee and the Board itself selects the Chairman of the committee.

The Board of Directors selected **Kari Nars** as Chairman of the audit committee. **Raija Peltonen** and **Jouko Lehmusto** were selected to be members. The committee met twice in 2006.

The CEO and Managing Director of the Company is **Pekka Averio** and the Executive Vice President, Deputy to the CEO is **Esa Kallio**.

The company's Board of Management, in addition to the above-mentioned, comprises:

Toni Heikkilä, Director
Kimmo Lehto, Director
Marjo Tomminen, Director
Jarkko Vuorenmaa, Director

The company auditor is KPMG Oy Ab, with **Raija-Leena Hankonen**, Authorized Public Accountant, as accountable auditor.

Personnel

During the financial year the average number of full-time personnel at Municipality Finance was 34 and part-time one. During the year 3 new employees were hired and one person left the company.

Key indicators showing company personnel

	2006	2005	2004
Average number during financial year	35	30	32
Salaries and fees in the financial year, EUR 1,000	2,416	2,079	1,809

Other events in 2006

The work group on the restructuring of local government and services had its proposal for the framework act ready at the end of June. The purpose of the proposal is for the services that are at present the responsibility of the municipalities to have a sufficiently strong structural and financial basis in order to ensure they will be arranged and produced in the future. At the same time attention will be paid to the services' quality, effectiveness, accessibility and efficiency and to the development of technology. The intention is for a decision to be taken on the Government bill before the parliamentary election in 2007.

An extraordinary meeting of Municipality Finance's shareholders on October 4, 2006 decided to increase the company's share capital by means of a share issue targeted at the municipalities and firms and companies close to them. New share capital to a value of more than EUR 26 million was subscribed, and all subscriptions had been paid at the balance sheet date.

Standard & Poor's granted the Municipal Guarantee Board a credit rating of AAA in November, thus giving the joint municipal funding system the best possible credit rating with both Moody's and Standard & Poor's.

Municipality Finance expanded its acquisition of funds to the Australian market during the first quarter of the year. A programme denominated in Australian dollars was set up for the purpose.

In August Municipality Finance moved into new, modern premises that are more appropriate for its operations in the Graniittitalo building next to the Kamppi Centre in Helsinki.

October saw the launching of a second targeted Municipal Bond in succession, i.e. the Sea Museum Bond, to finance a new museum centre at Kotka. The new bond met with a good reception on the market and was fully subscribed before the end of the issue period.

In November Municipality Finance launched a bond linked to the inflation rate in Finland. This is the first of its kind in Finland and it met with a good reception on the market. The loan falls due in 2015.

Prospects for 2007

According to estimates issued by the Association of Finnish Local and Regional Authorities, local government finances must improve compared with 2006. According to forecasts, the annual margin will improve, and probably exceed depreciation. The Association expects the municipalities' loan portfolio to grow by EUR 100 million in 2007, reaching EUR 8,270 million.

Tough competition is expected to continue in the lending sector in 2007. The number of requests for tenders coming to Municipality Finance is expected to remain at the level of previous years.

Because of increases in the volume of Municipality Finance operations, the number of personnel is expected to increase by 2-3 in 2007.

Demand for financial advisory services is expected to increase in 2007. In addition to the previous services, the scope for expanding the supply of services further will be looked into. The aim is to corporatize the Financial Advisory Service during 2007. Clear growth and an improvement in profitability are expected of it.

Adoption of IFRS and transition schedule

The company intends applying IFRS international financial reporting standards from January 1, 2007. The principles concerning the company's financial statements will be most affected by standards 37 and 39. In accordance with Standard 37, the company will be transferring a voluntary credit loss provision to its equity and Standard 39 defines the recognition and measurement of financial instruments. Both standards affect deferred taxation. The reporting and information systems have been developed so that the accounting principles required by the IFRS can be observed and the necessary financial information can be produced. Comparative information for 2006 has been calculated. The company will be publishing the effects of IFRS on the 2006 profit and loss account and balance sheet in the interim report for the first quarter of 2007.

New capital adequacy framework

The Basel Committee on Banking Supervision issued new capital adequacy recommendations for banks in June 2004. The reform will enter into force during 2007. The company has tested new accounting methods complying with the new framework and familiarized itself with the reporting requirements issued by the Finnish Financial Supervision Authority. The new recommendations are not expected to cause major changes in the company's capital adequacy status, calculated with the risk-weighted claims in the current balance sheet.

Financial result for the year and distribution of profit

The company's distributable funds total EUR 1,847,341.62, of which the profit for the financial year is EUR 917,952.59.

The Board of Directors will propose to the Annual General Meeting that the distributable funds be used as follows:

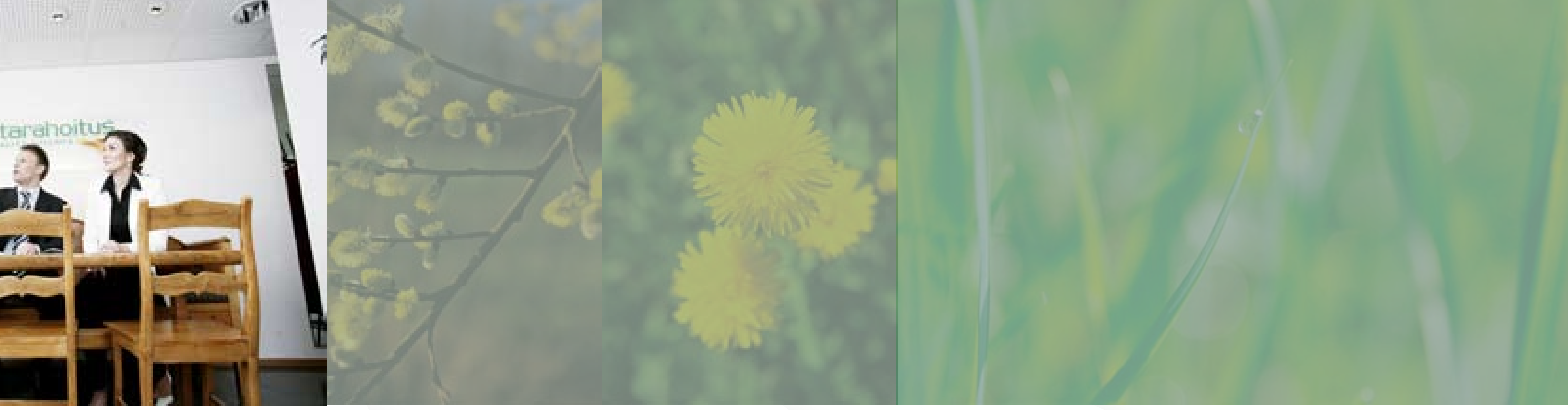
- distributed as a dividend of EUR 0.07/share i.e. a total of EUR 1,843,215.22
- retained in shareholders' equity EUR 4,126.40

No material changes have taken place in the company's financial position subsequent to the balance sheet date. The company's liquidity is good and, in the Board of Director's opinion, the proposed dividend distribution will not jeopardize the company's solvency.

BALANCE SHEET

EUR

ASSETS			Dec 31, 2006		Dec 31, 2005
Liquid assets					
Cash			599.45		1,592.10
Liquid assets			5,235,496.06		3,251,294.09
Debt securities eligible for refinancing with central banks	(3)		1,087,031,163.26		835,050,650.92
Claims on credit institutions	(1)				
Repayable on demand		304,041.09		2,294,282.83	
Other		35,563,526.83	35,867,567.92	21,197,171.03	23,491,453.86
Claims on the public and public sector entities	(2)		5,104,564,788.08		4,593,604,437.23
Debt securities	(3)				
Public sector entities		269,229,015.81		250,850,837.21	
Other		315,794,309.31	585,023,325.12	205,403,186.40	456,254,023.61
Shares and participations	(4)		5,126,058.26		24,219.06
Derivatives contracts	(5)		85,834,645.33		44,415,407.28
Intangible assets	(6.8)		741,944.28		698,484.27
Tangible assets	(7.8)				
Other tangible assets			1,321,122.16		1,121,907.40
Share issue receivables			25,364,307.60		0.00
Other assets	(9)		617,774.95		0.00
Accrued income and prepayments	(10)		95,830,973.41		92,323,642.90
TOTAL ASSETS	(18)		7,032,559,765.88		6,050,237,112.72



LIABILITIES

			Dec 31, 2006		Dec 31, 2005
LIABILITIES					
Liabilities to credit institutions and central banks					
Credit institutions					
Other			395,062,099.80		421,512,441.84
Liabilities to the public and public sector entities					
Other liabilities			483,778,939.23		440,350,366.82
Debt securities issued to the public	(12)				
Bonds		5,109,764,756.53		4,532,385,528.87	
Other		461,972,305.93	5,571,737,062.46	383,354,122.32	4,915,739,651.19
Derivatives contracts	(13)		329,825,030.64		55,125,934.82
Other liabilities	(14)		692,324.38		2,651,879.53
Accrued expenses and deferred income	(15)		111,019,553.15		106,254,098.39
Subordinated liabilities	(16)		58,845,503.44		57,664,296.09
APPROPRIATIONS					
Voluntary provisions			39,070,000.00		34,290,000.00
EQUITY CAPITAL	(19.20.21)				
Share capital					
Share capital		16,522,000.00			
Share issue		26,486,044.20	43,008,044.20	16,522,000.00	
				0.00	16,522,000.00
Other restricted reserves					
Reserve fund			276,711.01		276,711.01
Non-restricted reserves					
Fair value reserve			-2,602,844.05		-1,079,656.00
Retained profit		929,389.03		925,028.19	
Profit for the financial year		917,952.59	1,847,341.62	4,360.84	929,389.03
TOTAL LIABILITIES	(18)		7,032,559,765.88		6,050,237,112.72
OFF-BALANCE-SHEET COMMITMENTS	(33)				
Irrevocable commitments given in favour of a customer			369,096,038.00		282,941,981.00

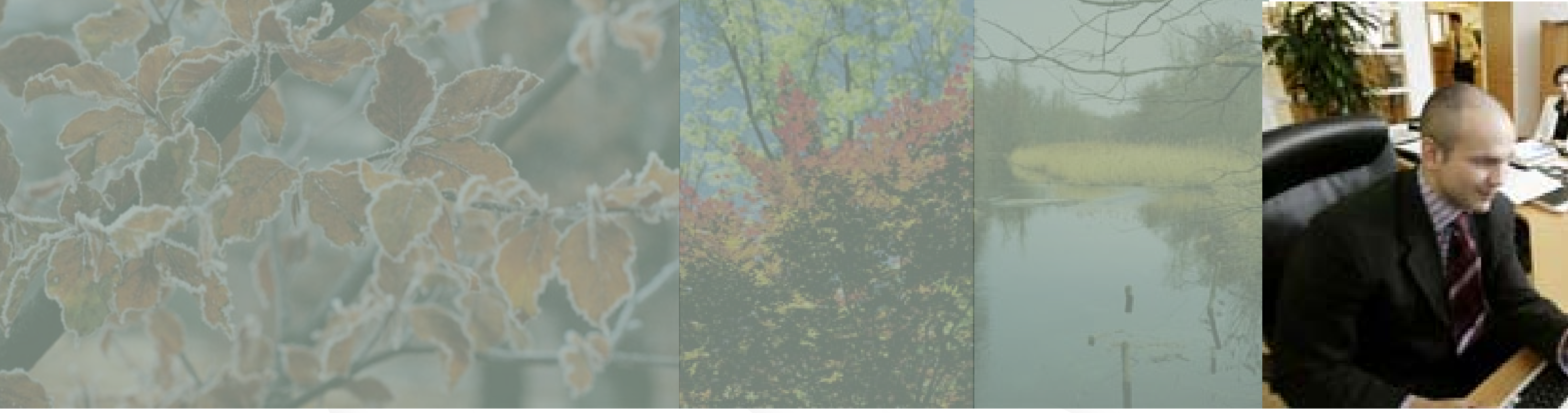
PROFIT AND LOSS ACCOUNT

EUR

			Jan 1 – Dec 31, 2006		Jan 1 – Dec 31, 2005
Interest income			198,027,837.18		142,004,562.84
Interest expenses			-181,908,554.44		-127,919,620.65
NET INCOME FROM FINANCIAL OPERATIONS	(22)		16,119,282.74		14,084,942.19
Commission expenses	(23)		-2,461,677.03		-2,421,764.72
Net income from securities and foreign exchange transactions	(24)				
Net income from foreign exchange transactions			-4,710.43		3,843.71
Net income from available-for-sale financial assets	(25)		182,992.62		543,622.94
Other operating income	(26)		290,786.26		171,999.93
Administrative expenses					
Personnel costs					
Salaries and fees		-2,503,349.05		-2,165,167.98	
Personnel-related costs					
Pension costs		-517,681.70		-379,153.79	
Other personnel-related costs		-207,601.99		-179,197.79	
Other administrative expenses		-1,895,812.42	-5,124,445.16	-1,643,509.65	-4,367,029.21
Depreciation and write-downs on tangible and intangible assets	(28)		-513,041.94		-587,716.74
Other operating expenses	(27)		-2,418,020.58		-1,796,295.48
NET OPERATING PROFIT			6,071,166.48		5,631,602.62
PROFIT BEFORE APPROPRIATIONS AND TAXES			6,071,166.48		5,631,602.62
Appropriations			-4,780,000.00		-5,602,000.00
Income taxes			-373,213.89		-25,241.78
PROFIT FOR THE FINANCIAL YEAR FUNDS STATEMENT			917,952.59		4,360.84

FUNDS STATEMENT

	Jan 1–Dec 31, 2006	Jan 1–Dec 31, 2005
Cash flow from operations		
Net operating profit	6,071,166.48	5,631,602.62
Depreciation	513,041.94	587,716.74
Change in carried interest. assets	-3,507,330.51	-7,750,116.32
Change in carried interest. liabilities	4,765,454.76	10,478,811.85
Taxes	-373,213.89	-25,241.78
Cash flow from operations	**7,469,118.78**	**8,922,773.11**
Cash flow from investments		
Change in claims on the public	-510,960,350.85	-564,029,827.79
Change in debt securities	-20,734,140.67	-57,570,976.58
Change in tangible and intangible items	-5,857,555.91	-241,957.78
Cash flow from investments	**-537,552,047.43**	**-621,842,762.15**
Cash flow from funding		
Share issue	26,486,044.20	0.00
Change in debt instruments issued	577,379,227.66	516,076,554.26
Change in liabilities to credit institutions	-26,450,342.04	-30,734,664.89
Change in liabilities to the public and public sector entities	43,428,572.41	128,420,583.54
Change in other liabilities	-1,810,783.69	7,990,881.66
Change in capital loans	1,181,207.35	0.00
Rate of exchange changes	233,279,857.77	-95,530,156.55
Cash flow from funding	**853,493,783.66**	**526,223,198.02**
Changes in operating capital		
Cash and liquid assets	5,236,095.51	3,252,886.19
Claims on credit institutions	35,867,567.92	23,491,453.86
Other liquid assets	1,433,568,034.48	1,048,550,198.77
	1,474,671,697.91	**1,075,294,538.82**
Short-term liabilities	461,972,305.93	386,006,001.85
Cash funds	**1,012,699,391.98**	**689,288,536.97**
Net change in cash funds	**323,410,855.01**	**-86,696,791.02**
Cash funds at beginning of financial year	**689,288,536.97**	**775,985,327.99**
Cash funds at end of financial year	**1,012,699,391.98**	**689,288,536.97**



NOTES TO THE ACCOUNTS DEC 31, 2006

Notes to the accounts concerning the accounting principles applied

Municipality Finance Plc balances its accounts in compliance with the Act on Credit Institutions. the relevant Ministry of Finance Decree and the standard of Financial Supervision Authority that entered into force on December 1, 2005. The company reports regularly on its operations to the Finnish Financial Supervision Authority, the Bank of Finland, the European Central Bank, the Municipal Guarantee Board and Statistics Finland.

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.

Differences in the exchange rate valuations of derivatives contracts, the periodized differences between issue price and nominal value and management fees are entered under derivatives contracts in the balance sheet. The difference between annual interest income received and interest expenses paid on derivatives contracts 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.

As of January 1, 2005 the company has classified its debt securities, previously defined as current or non-current, in two categories: those available for sale and those to be kept up to maturity. The available-for-sale securities are valued at fair value and the value adjustment is entered in the fair value reserve set up under equity. The securities to be kept up to maturity are valued at periodized acquisition cost. The difference between acquisition price and nominal value is periodized under interest income.

Financial assets and liabilities are entered in the balance sheet in accordance with the settlement date practice.

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. There is no objective evidence of impairment of the value of loans and other claims, and therefore no write-downs have been made.

Machinery and equipment are depreciated according to plan on a straight-line basis 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 on a straight-line basis until the lease expires. Real estate is depreciated on a straight-line basis over 25 years.

The company's accounts have been drawn up in euros. Claims 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 transactions'.

Notes to the balance sheet Dec 31, 2006

The company has not combined any items in the balance sheet under chapter 2. section 8(4) of the Ministry of Finance Decree.

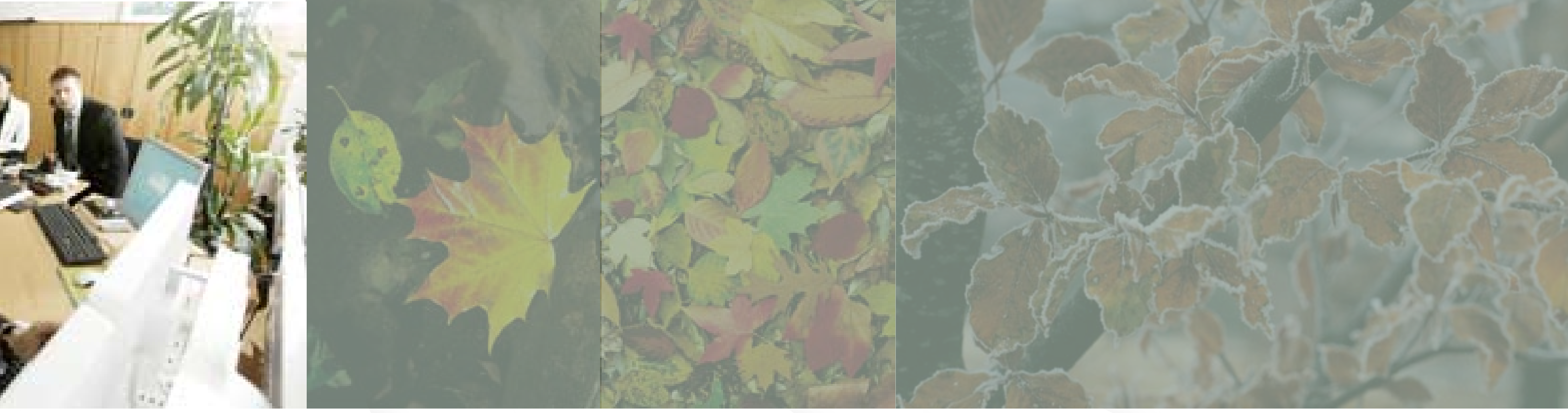
1. The balance sheet item ”Claims on credit institutions” does not include any claims on central banks or foreign credit institutions.

Payable on demand	304,041
Other than payable on demand	35,563,527
Total	35,867,568

2. 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	2,275,045,954
Public-sector entities	2,720,162,175
Non-profit organizations	109,356,659
Total	5,104,564,788



3. Debt securities

	Quoted	Other	Total
Issued by public sector entities	21,777,958	269,229,016	291,006,974
To be held up to maturity	20,276,518	5,297,920	25,574,438
Government bonds	20,276,518	0	20,276,518
Other bonds	0	5,297,920	5,297,920
Available-for-sale	1,501,440	263,931,096	265,432,536
Municipal commercial papers	0	263,931,096	263,931,096
Government bonds	1,501,440	0	1,501,440
Issued by other than public sector entities	0	1,381,047,514	1,381,047,514
To be held up to maturity	0	19,993,847	19,993,847
Bank bonds	0	13,993,847	13,993,847
Other debt securities	0	6,000,000	6,000,000
Available-for-sale	0	1,361,053,667	1,361,053,667
Banks' certificates of deposit	0	129,208,879	129,208,879
Commercial papers	0	3,140,284	3,140,284
Bank bonds	0	1,113,703,443	1,113,703,443
Other debt securities	0	115,001,061	115,001,061
Total debt securities	21,777,958	1,650,276,530	1,672,054,488
Eligible for central bank refinancing	21,777,958	1,065,253,205	1,087,031,163
Total non-interest bearing	0	13,095,100	13,095,100

4. Shares and participations

	Quoted	Other	Of which in credit institutions
Available-for-sale	0	5,126,058	5,098,839

5. Derivatives contracts

Including periodized differences between issue price and nominal prices and arrangement fees EUR 85,834,645.

6. Intangible assets

IT costs	550,210
Other intangible assets	191,734
Total	741,944

7. Tangible assets

Real estate	
Buildings	492,898
Land	134,550
Real estate corporation shares	299,000
Other tangible assets	394,674
Total	1,321,122

8. Changes in intangible and tangible assets during the financial year

	Intangible assets	Tangible assets		
		Other real estate and real estate corporation shares	Other tangible assets	Total
Acquisition cost 1.1.	1,762,258	740,534	1,167,236	1,907,770
+Increase during financial year	360,596	263,540	237,606	501,146
-Decrease during financial year	648,851	0	223,328	223,328
Acquisition cost 31.12.	1,474,003	1,004,074	1,181,514	2,185,588
-Accumulated depreciation 1.1.	1,063,774	59,681	726,182	785,863
Accumulated depreciation on decreases	648,851	0	117,303	117,303
+Depreciation for financial year 31.12.	317,136	17,945	177,961	195,906
Accumulated depreciation 31.12.	732,059	77,626	786,840	864,466
Book value 31.12.	741,944	926,448	394,674	1,321,122

9. Other assets

Others	617,775

10. Accrued income and prepayments

Interest	95,657,458
Other	173,515
Total	95,830,973

11. Deferred tax assets and liabilities

The fair value reserve is negative and no deferred tax assets have been entered. Voluntary provisions include EUR 10,158,200 in non-recorded deferred tax liabilities.

12.Debt securities issued to the public

	Book value	Nominal value
Bonds	5,109,764,756	6,241,419,766
Other	461,972,306	464,450,000
Total	5,571,737,062	6,705,869,766

13. Derivatives contracts

Including derivatives contract exchange rate valuations worth EUR 329,825,031.

14. Other liabilities

Payment transfer	56,730
Other	635,594
Total	692,324

15. Accrued expenses and deferred income

Interest	109,795,988
Other	1,223,565
Total	111,019,553

16. Subordinated liabilities

	Currency	Nominal value	Book value	Interest-tied	Earliest repayment
Debenture loans					
1) Debenture loan 1/06	EUR	35,000,000	35,000,000	Fixed	9.5.2016
Capital loans					
2) Capital loan 1/00	EUR	12,500,000	12,500,000	Euribor 6 mths	12.10.2007
3) Capital loan 1/03	EUR	10,000,000	10,000,000	Euribor 6 mths	10.12.2010
4) Capital investments	EUR	1,177,315	1,177,315	Euribor 12 mths	
Part to be converted	EUR	168,188	168,188	(no interest)	
Total		58,845,503	58,845,503		

Debenture loans

1) The maturity date for the loan is May 9, 2021, The company has the right to pay the loan capital with the accumulated interest prematurely on the interest payment date May 9, 2016. earlier only with the written consent of the Finnish Financial Supervision Authority. A debenture loan and the interest accumulated on it can be paid in the event of the company being in dissolution procedures or bankruptcy only in subordination to all other debts. The loan has at least the same priority status as any debenture loans and equivalent commitments potentially issued or subscribed by the company in the future.

Capital loans

Loans 2) and 3) do not have maturity dates. 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 loans involve no cumulative right to interest. The loans 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 and that the Financial Supervision Authority grants permission to repay the loans. Interest accumulated by the end of the financial year is booked as interest expenses in the accounts.

In dissolution procedures and bankruptcy, capital loan principals and their accumulated interest are subordinated to all other debts. The company's capital loans have the same priority status as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loans have priority over the company's shares.

4) The capital loans cannot be recalled, but the company may repay them with permission from the Finnish 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 Finnish Financial Supervision Authority has given permission (Dnro 1/310/2007) to convert part of the capital investments (EUR 168,188) into shares. The Board of Directors has decided that interest according to the terms and conditions will be paid on the rest (EUR 1,177,315) for 2006.

17. Maturity breakdown of financial assets and liabilities

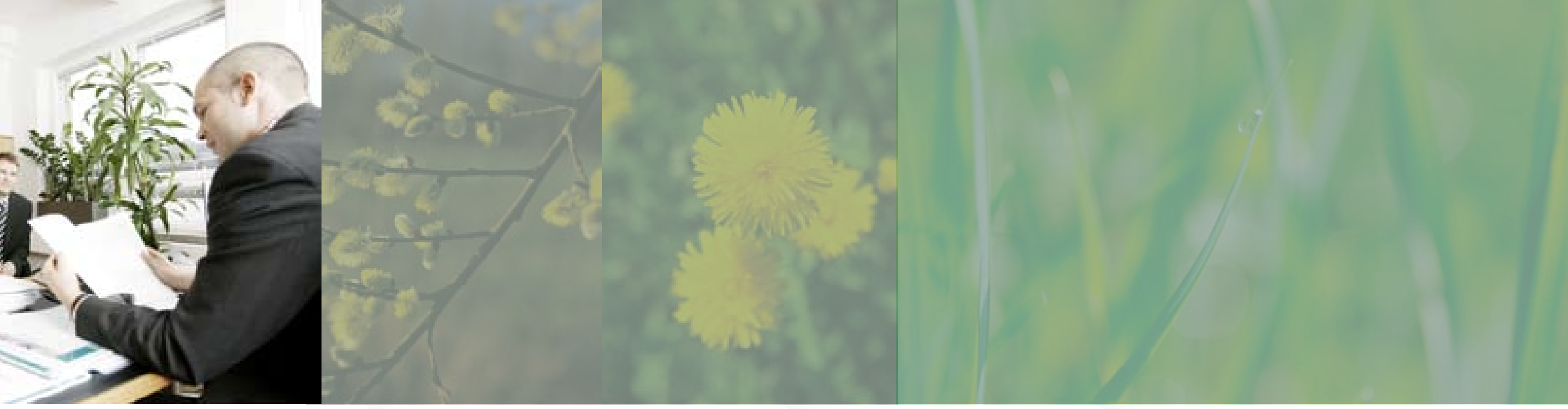
	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years
Debt securities eligible for refinancing with central banks	104,274,650	153,469,163	764,296,830	56,709,101	8,281,419
Claims on credit institutions	35,867,568				
Claims on the public and public sector entities	67,472,030	409,137,809	1,718,656,024	1,589,266,570	1,320,032,355
Debt securities	276,730,024	97,794,195	192,806,352	17,692,754	
Total	484,344,272	660,401,167	2,675,759,206	1,663,668,425	1,328,313,774
Liabilities to credit institutions	68,077,503	41,116,078	201,781,008	84,087,511	
Liabilities to the public	0	19,116,803	124,961,314	45,000,000	294,700,822
Debt instruments issued to the public	741,603,484	1,007,548,520	2,378,261,262	1,031,396,390	412,927,406
Subordinated liabilities	168,188	12,500,000	10,000,000	35,000,000	1,177,315
Total	809,849,175	1,080,281,401	2,715,003,584	1,195,483,901	708,805,543

18. Breakdown of balance sheet items in terms of denomination

	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	1,087,031,163	0	1,087,031,163
Claims on credit institutions	35,854,555	13,013	35,867,568
Claims on the public and public sector entities	5,104,564,788	0	5,104,564,788
Debt securities	585,023,325	0	585,023,325
Derivatives contracts	85,834,645	0	85,834,645
Other assets, incl. ”Liquid assets”	134,238,277	0	134,238,277
Total	7,032,546,753	13,013	7,032,559,766
Liabilities to credit institutions	319,991,199	75,070,901	395,062,100
Liabilities to the public and public sector entities	337,216,778	146,562,161	483,778,939
Debt securities issued to the public	2,509,488,521	3,062,248,541	5,571,737,062
Derivatives contracts	329,825,031	0	329,825,031
Subordinated liabilities	58,845,503	0	58,845,503
Other liabilities	193,311,131	0	193,311,131
Total	3,748,678,163	3,283,881,603	7,032,559,766

19. Equity capital

	Share capital	Share issue	Reserve fund	Fair value reserve
Book value at beginning of year 1.1.2006	16,522,000	0	276,711	- 1,079,656
+ increase	0	26,486,044	0	0
- decrease	0	0	0	1,523,188
Book value 31.12.2006	16,522,000	26,486,044	276,711	- 2,602,844



20. Share capital

The shares of Municipality Finance Plc have not been divided into different types. The nominal value of the shares is one euro. Each share carries one vote. Acquisition of shares is restricted through the consent and redemption clauses in the Articles of Association. At the end of the year the company's share capital, paid-up and registered in the trade register, totalled EUR 16,522,000.

Share issue

An extraordinary meeting of Municipality Finance Plc's shareholders held on October 4, 2006 decided on a proposal by the Board of Directors to increase the share capital by means of a share issue targeted at the municipal sector by a minimum of EUR 20 million and a maximum of EUR 30 million.

The subscription price per share was EUR 2.70. The subscription period for the shares ended on December 21, 2006 and the Board of Directors approved the subscriptions made on December 28, 2006. The date of payment of the subscriptions was January 19, 2007. and the issue collected in total EUR 26,486,044.20.

21. Largest shareholders

The ten largest shareholders/subscribers in terms of voting rights and the number of shares held/subscribed by them, their proportions of all Municipality Finance shares and of all votes attached to them, and the total number of shareholders.

Before share issue	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 before the share issue was 253.

After share issue	Number	Percentage
1. Local Government Pensions Institution	10,725,550	40.73
2. City Of Helsinki	3,175,000	12.06
3. City of Espoo	1,170,750	4.45
4. City of Tampere	722,152	2.74
5. VAV Asunnot Oy. Vantaa	657,740	2.50
6. City of Oulu	623,818	2.37
7. City of Turku	615,681	2.34
8. City of Kuopio	394,250	1.50
9. City of Joensuu	380,250	1.44
10. The Association of Finnish Local and Regional Authorities	350,750	1.33

The total number of shareholders after the share issue was 305.
The number of shareholders will fall by four on January 1, 2007 because of municipality mergers.

Notes on the profit and loss account January 1 – December 31, 2006

The company has not combined any items in the profit and loss account under section 8 (4) of the Ministry of Finance Decree.

22. Breakdown of interest income

Claims on credit institutions and central banks	1,367,230
Claims on the public and public sector entities	172,074,912
Debt certificates	44,520,751
Derivatives contracts	- 23,633,716
Other interest income	3,698,660
Total	198,027,837

Breakdown of interest expenses

Liabilities to the public	13,337,758
Liabilities to credit institutions and central banks	14,508,837
Debt securities issued to the public	218,546,279
Derivatives contracts	- 67,025,522
Subordinated liabilities	2,487,976
Other interest expensest	53,226
Total	181,908,554

23. Commission expenses

Commission fees paid	68,602
Other	2,393,075
Total	2,461,677

24. Net income from securities and exchange rate transactions

Net income from exchange rate transactions	- 4,710

25. Net income from sale of available-for-sale financial assets

From disposal of financial assets	182,993

26. Other operating income

Profit on the sale of fixed assets	1,518
Income from advisory services	178,861
Other income from actual credit institution operations	110,407
Total	290,786

27. Other operating expenses

Rental expenses	793,348
Other expenses from actual credit institution operations	1,624,673
Total	2,418,021

28. ”Depreciation and write-downs on tangible and intangible assets” consists of planned depreciation.

29. Municipality Finance Plc operates as a credit institution. Its market area is Finland. Operations in the new operating area. financial advisory services. are still in their initial stages; division by business area is therefore not yet relevant.

Notes to the accounts concerning collateral. contingent liabilities and derivatives contracts

30. Collateral given

For own liabilities	
Balance sheet item	Pledges
Liabilities to credit institutions	363,262,100
Liabilities to the public and public sector entities	483,778,939
Debt securities issued to the public	5,109,764,757
Total given for own liabilities	5,956,805,796

The collateral given is presented in accordance with the figures on December 31. 2006.

Liabilities and collateral	
Debt securities pledged to the Local Government Pensions Institution	35,000,000
Debt securities pledged to the Municipal Guarantee Board	5,063,679,148
Debt securities pledged to the Municipal Guarantee Board	1,412,072,748

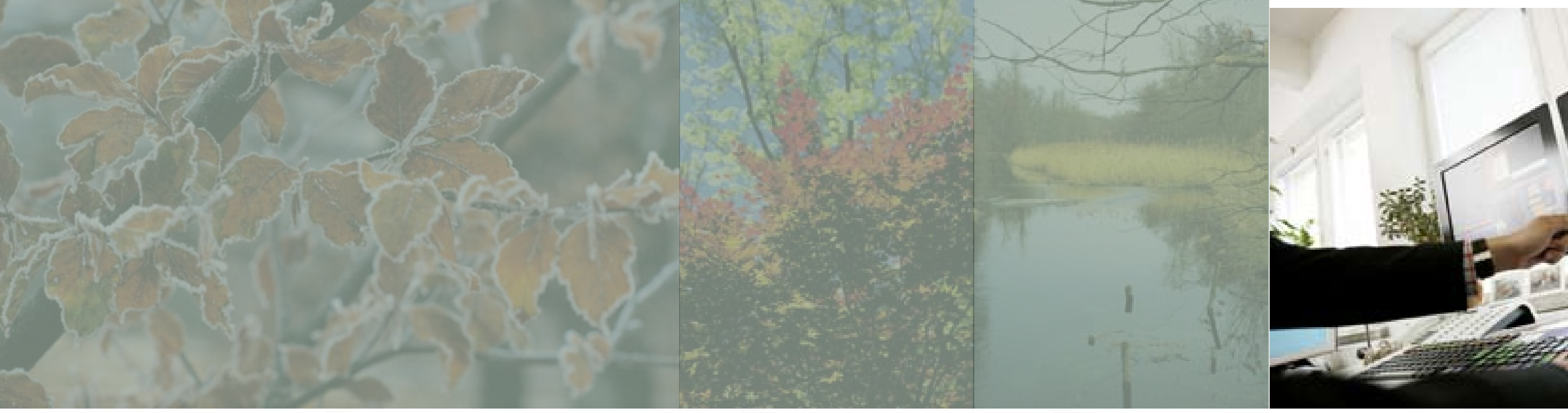
31. The company’s pension cover is arranged via an outside employment pension insurance company.

32. Leasing and other rental liabilities

Maturing within one year	507,937
Maturing in more than one year	2,396,644
Total	2,904,581

33. Off-balance-sheet commitments

Binding credit commitments	369,096,038



The total values of the underlying instruments pertaining to derivatives contracts outstanding on the balance sheet date

	Values of underlying instruments For hedging purposes
Interest rate derivatives	
Interest rate swaps	7,295,887,343
Currency derivatives	
Interest rate and currency swaps	3,548,802,954
Equity derivatives	
Equity-linked contracts	231,090,601
Other derivatives	
Contracts linked to other assets	4,500,000
Other contracts	22,049,647
Total	11,102,330,545

Breakdown of derivatives contracts by counterparty credit rating

	Nominal value	Credit countervalue
AAA	2,213,378,739	19,013,860
AA	7,240,752,272	103,403,124
A	1,551,536,577	25,992,398
Finnish municipalities	96,662,944	4,920,698
Total	11,102,330,545	153,330,080

Notes on personnel and management

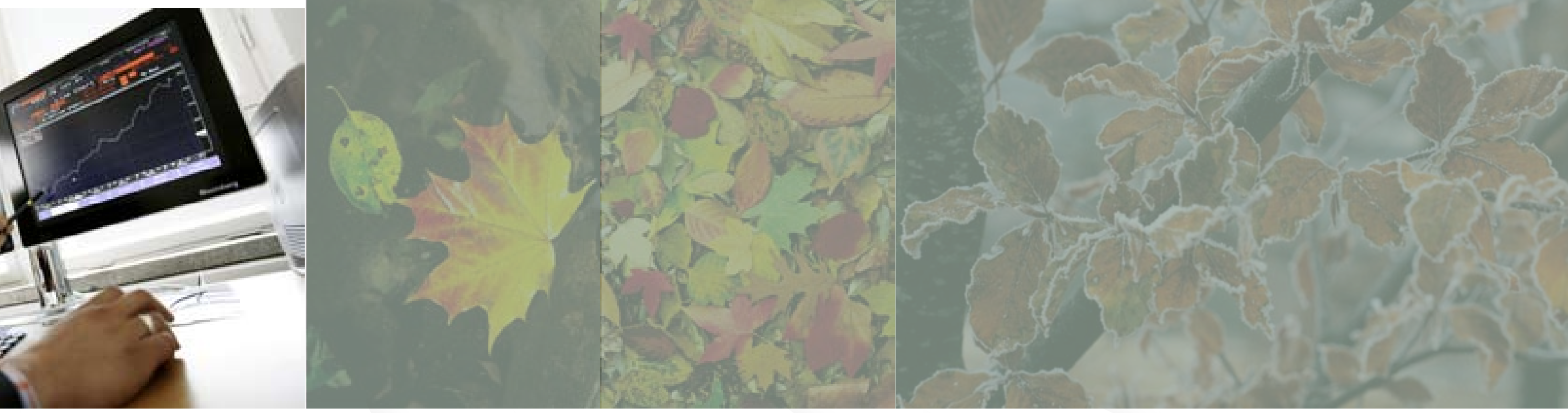
34. Municipality Finance Plc personnel

	Average	End of financial year
Permanent full-time	34	34
Permanent part-time	1	1
Total	35	35

Salaries and remuneration paid to the management in 2006

Managing director and managing director's deputy	388,003

The members of the Board receive an annual remuneration and remuneration for each meeting. The annual remuneration paid to the Chairman of the Board is EUR 12,500, and the remuneration paid to the other members of the Board is EUR 7,000. The remuneration for each meeting is EUR 250.



Auditing and other fees paid to auditing corporations

KPMG Oy Ab	80,943
Deloitte & Touche Oy	57,400

Other notes to the accounts

35. Asset management services offered 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.

Helsinki, February 15, 2007

MUNICIPALITY FINANCE PLC

Asko Koskinen
Chairman of the Board

Timo Viherkenttä
Vice-Chairman of the Board

Juhani Alanen
Board member

Esa Katajamäki
Board member

Tapio Korhonen
Board member

Jouko Lehmusto
Board member

Eva Liljeblom
Board member

Kari Nars
Board member

Raija Peltonen
Board member

Pekka Averio
CEO and Managing Director


FINANCIAL TIMES

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, 2006. 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 15, 2007

KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

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