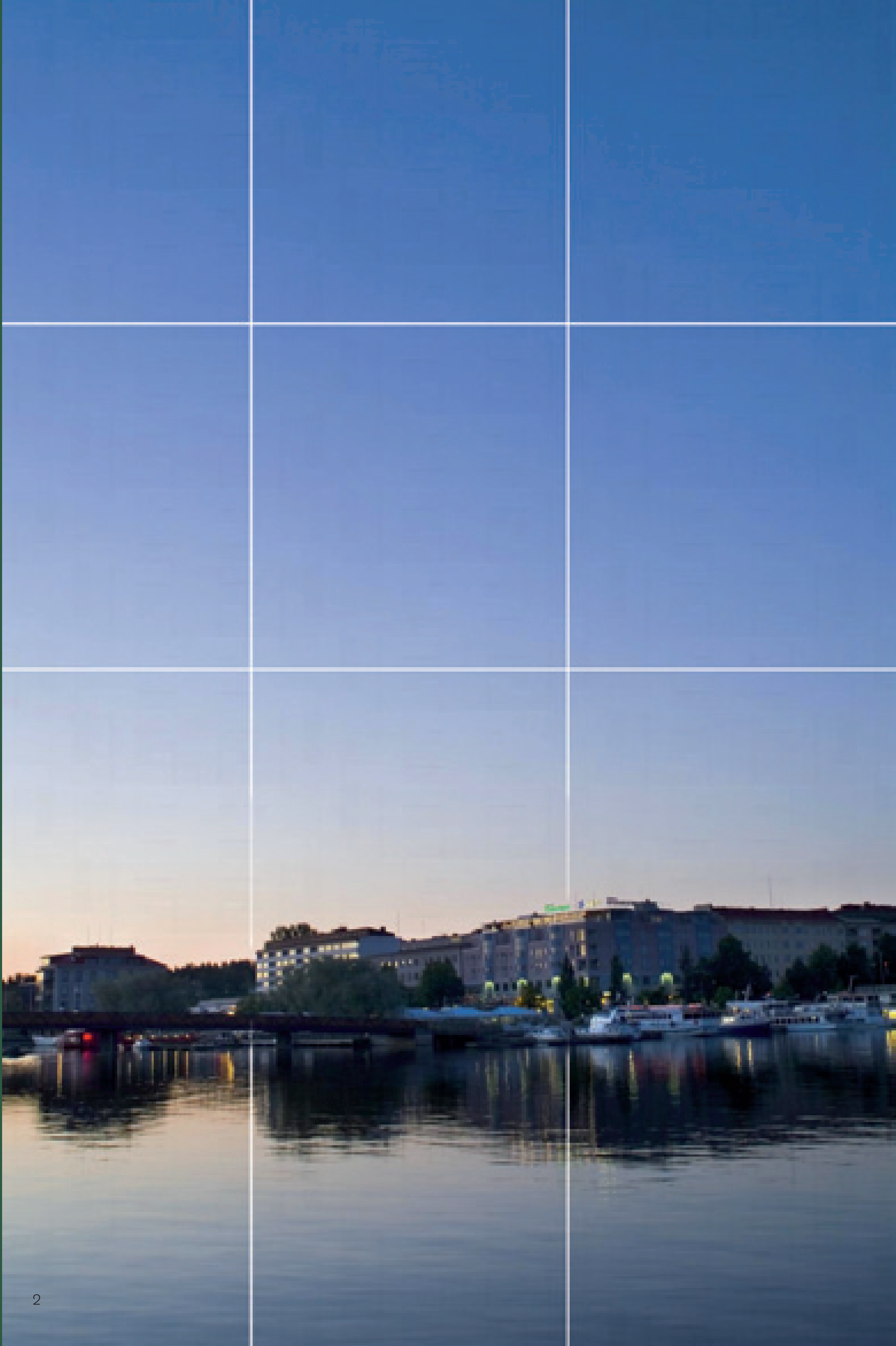

Kuntarahoitus
MUNICIPALITY FINANCE
Annual Report 2008



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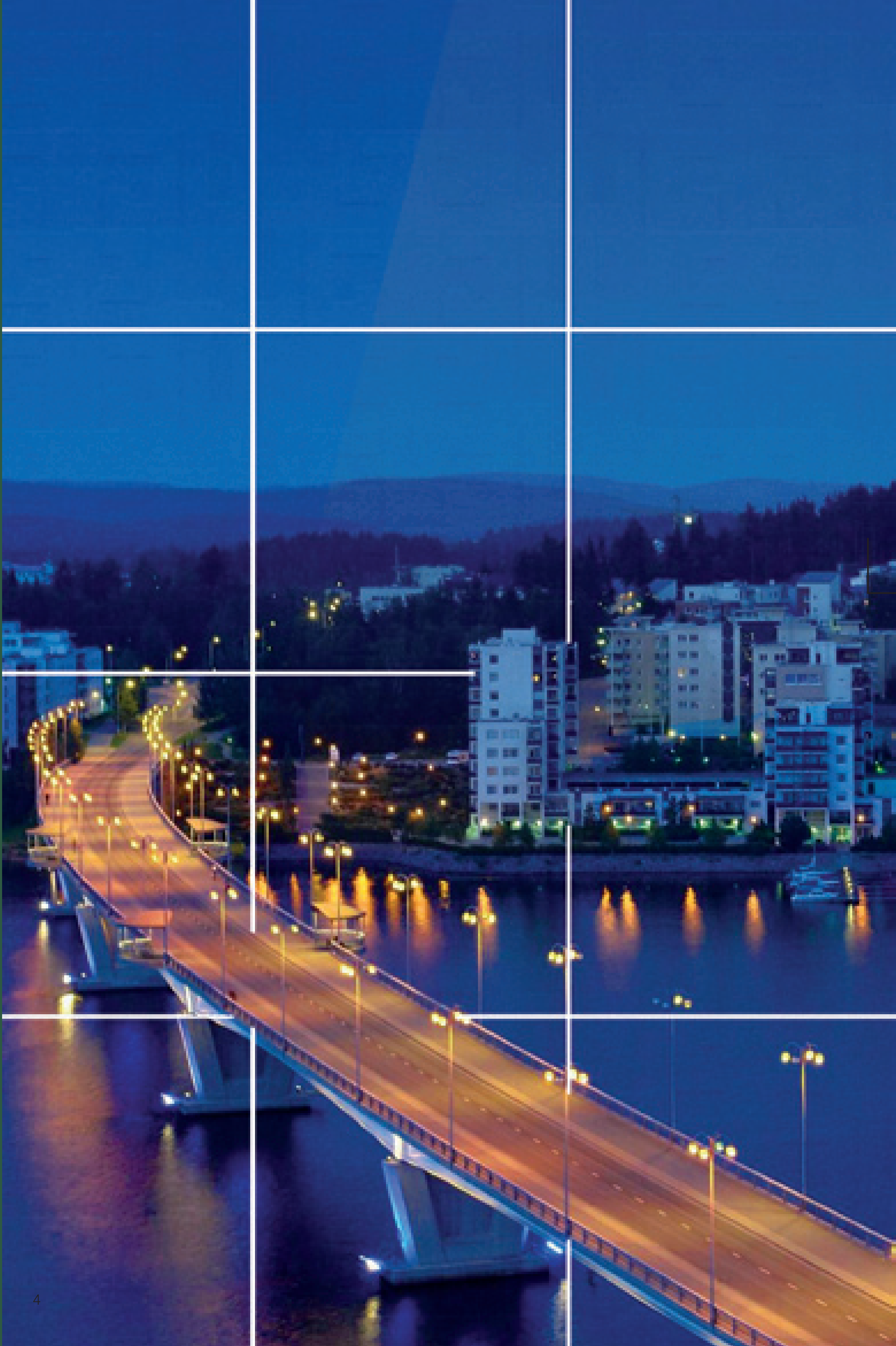

THE LOCAL GOVERNMENT SECTOR'S OWN CREDIT INSTITUTION

- Municipality Finance is a credit institution owned by the local government sector with a mission of being the most preferred and active partner in funding services for its owners.
- The company wants to ensure advantageous funding services for its customers, to operate efficiently and to grow profitably, while meeting the capital requirements set for credit institutions, primarily through income from its own operations.
- The company invests actively in serving its customers by continuously developing functional, innovative and competitive products and forms of service for their needs.
- Municipality Finance's capital adequacy and competitive pricing are based on the best possible credit ratings. The company has the highest possible ratings for long-term funding, i.e. Aaa from both Moody's and AAA Standard & Poor's.

2008 IN BRIEF

- The balance sheet of the Municipality Finance Group rose to EUR 12,512 million, an increase of 40% (31.12.2007: EUR 8,913 million).
- The Group's capital adequacy stood at 13.6% (31.12.2008: 23.8%).
- The lending portfolio of Municipality Finance Plc totalled EUR 7.567 million at the end the year, a rise of 29% (31.12.2008: EUR 5.849 million). Municipality Finance bought from Nordea Bank Ltd a credit portfolio that contained credits of the parent company's clientele. The purchased portfolio had a nominal value of EUR 567 million.
- EUR 1,682 million were withdrawn in new loans (2007: EUR 1,314 million)
- The total value of the request received by the parent company reached a level of EUR 2,736 million, of which it won EUR 1,708 million, or 76% of all its competitive bidding.
- Long term funding acquired by the parent company came to EUR 4,527 million (2007: 2,145 million).
- Municipality Finance raised more funds in 2008 than any other year before, with altogether 324 arrangements being concluded on international funding markets.
- 11 Municipal Bonds were issued in Finland.
- The Municipal Finance Group's profit for the financial year totalled EUR 2.7 million (2007: EUR 8.8 million)
- The parent company's profit for the financial year totalled EUR 2.8 million (2007: EUR 10.4 million).
- Municipality Finance Plc's subsidiary Financial Advisory Services Inspira Ltd's profit for the first financial period totalled EUR 0.3 million.
- The parent company's distributable funds total EUR 28,532.21, of which the profit for the financial year is EUR 1,950.01. The board of Directors will propose to the meeting of shareholders that the profit for the financial year be retained in unrestricted total equity and that no dividend be paid.
- The financial statements of the Municipality Finance Group have been prepared in accordance with the International Financial Reporting Standards (IFRS).

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The capital increase is vital so that we will be able to fully meet the municipalities’ need for loans going forward.

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CEO’S REVIEW

2008 will go down in the Municipality Finance Group’s history as an exceptional financial year in all respects. It was a good year for the company’s basic operations, with its balance sheet expanding by 40%. This sharp growth nevertheless weakened the company’s capital adequacy.

Given the current extremely difficult market situation, our ability to produce a positive net result was a good achievement. The net result was eroded by the capital losses that were realised from investment assets and through unrealised impairments.

Record funding

Municipality Finance Plc acquired a record amount of EUR 4.6 billion in funding during the financial year, while new loans were withdrawn to the amount of EUR 1.7 billion. The total value of the requests for tenders that were received during the year was EUR 2.7 billion. The average granted loan amount grew during the financial year.

Planning a capital increase

Lending to municipalities will continue to grow under the current economic circumstances and the company therefore needs to boost its equity. The Finnish government has agreed to contribute EUR 20 million to this project as a part of its economic stimulus package. State participation is nevertheless conditional on other subscribers taking part in the share issue with a minimum share of 30%, which means that the local government sector has to invest at least EUR 9 million.

The company previously promised, in connection with Municipality Finance’s previous share issue in 2006, to distribute an annual dividend. This year, however, the company’s Board of Directors has decided to propose to the meeting of shareholders that, as an exception, no dividends will be distributed. This is because it wishes to use all available assets for boosting equity. We hope that our owners share this view.

Availability of loans must be secured

The capital increase is vital so that we will be able to fully meet the municipalities’ need for loans going forward. It is in the interests of the municipalities to have funding available for long-term investments.

With the economic situation deteriorating, it will be increasingly difficult for all financial institutions, Municipality Finance included, to obtain funds from the financial markets. Their capital adequacy will weaken and their equity needs will rise as a result of this situation.

In the tightening market, having a good credit rating becomes even more valuable. A credit rating downgrade would have the immediate effect of increasing loan interests. The financial institutions that are deemed to be the best have better access to loans at a lower price.

Therefore, investment in Municipality Finance is above all making sure that the municipalities will have funding available now and in the coming years.

Inspira storming ahead

Inspira Ltd, the subsidiary of Municipality Finance, generated a positive net result for its first full financial year. The growth in demand proves that the services produced by Inspira are considered necessary. With municipal economies tightening, there is an increasing need for financial advisory services, ensuring solid growth prospects in the future as well.

A strange anniversary

Municipality Finance will celebrate its 20th anniversary under quite extraordinary financial circumstances. We will have many occasions to mark the anniversary with our customers and owners.

By strengthening its capital structure, the company has put itself in a good position to ensure the availability of loans for municipalities even under the prevailing challenging economic circumstances. In addition to our owners, our task is made easier by our good credit ratings and capital adequacy, solid market position and our skilled personnel.

I would like to express my warm thanks for the financial year 2008 to our customers, owners, partners and personnel.

Helsinki February 12, 2009
Pekka Averio
CEO

> The new, state-backed share capital increase that is being planned will ensure that subsidised housing programmes may continue in the spirit of economic stimulation.

THE CHAIRMAN OF THE BOARD'S REVIEW

The positive net result recorded by the Municipality Finance Group for the past financial year reflects the company's high competitiveness and further improved market situation under very exceptional circumstances. It also reflects the determination and professionalism of our work as well as our in-depth experience, all of which have enabled the company to prepare for the looming difficulties in advance.

Municipality Finance has demonstrated its worth especially now when the financial crisis has hit the banking world. In the current situation, it is worthy to reflect on how the local government sector would arrange its loans if the company did not exist. The sector would indeed be hard-pressed, as the needed funding would be neither readily available nor cost-efficient.

Wise choices

We may now note with good reason that the share issue carried out by Municipality Finance in 2006 was correctly and successfully timed. Strengthening the company's capital structure has improved its possibilities to fare well in the challenging market situation, which reached extreme proportions during the latter part of 2008.

Our determined work was rewarded in international markets, and the company's strong liquidity made successful operations possible. Municipality Finance is nearly the only Finnish financial institution that brings funding into the country on a scale that is significant in the context of the national economy as a whole.

The share issue clearly strengthened the company's strategic means, which had also been improved by the amendment of the Act on the Municipal Guarantee Board. Operationally, the company has strengthened thanks to its more efficient internal audit.

Finnish state to become a new owner

The company negotiated a cooperation with the Finnish government during the latter half of the financial year. The atmosphere of the talks was encouraging and positive, for which we give our thanks to the negotiators. The new, state-backed share capital increase that is being planned will ensure that subsidised housing programmes may continue in the spirit of economic stimulation. It is essential to keep all the wheels of society turning, as it is impossible to beat the global downtrend by saving. Helping to strengthen Municipality Finance's capital will benefit the local government sector directly in the form of cost-efficient funding and indirectly through state-subsidised housing. It is therefore reasonable to hope that the local government sector will extensively take part in the furtherance of its own economic capabilities.

Enhanced monitoring

The period of deepening economic distress has been a heavy one for the company's Board of Directors, as the continued turbulence and deteriorating world economic prospects have required alertness from both the Board and the acting management.

In the current situation, we may safely say that the decision to establish the Board's audit committee at the meeting of shareholders two years ago was also a correctly-timed, pre-emptive action that has proven its worth as we head towards a downturn.

Structural changes ahead for the local government sector

New, creative means are called for in order to solve municipalities' economic challenges without repeating the errors of the previous recession. Saving is not the right answer when a bold approach is needed towards the existing structures, and organisations should be made collectively aware of the nature and remedies of the crisis. Although the Paras programme to enhance the service structure was a step in the right direction, we are yet to witness the true structural reforms of the 21st century.

On behalf of Municipality Finance's Board of Directors, I would like to thank our owners, customers, partners and personnel, all of whom have placed their faith in the company and have given it their support. I hope that this support will continue and will expand for the benefit of us all.

Helsinki February 12, 2009
Asko Koskinen
Chairman of the Board

MUNICIPAL GUARANTEE BOARD

In accordance with the Act on the Municipal Guarantee Board, the purpose of the Guarantee Board is to safeguard and develop and joint funding for municipalities. 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.

In 2007, a new Act on the Municipal Guarantee Board was implemented. It provides a clearer definition to the receivables for which the Municipal Guarantee Board's guarantees can be used as security. The Act also allows those 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 & Poor's.

Managing Director Heikki Niemeläinen
Municipal Guarantee Board

RECORD FUNDING

Municipality Finance acquires its funding for local government from both international and domestic financial markets, with foreign countries accounting for 98.5%. The company's highest possible credit rating facilitates funding acquisition and lowers its cost. Municipality Finance has the same highest possible credit ratings for long-term funding as the Finnish government: Aaa from Moody's and AAA from Standard & Poor's.

Municipality Finance Plc acquired a record amount of EUR 4.6 billion in funding during the financial year. Municipality Finance's liquidity at year-end 2008 placed it in a strong position to operate the unstable markets.

Municipality Finance won the "Private Placement Powerhouse 2008" award and commendations in January 2009. Bank dealers have praised Municipality Finance for its flexibility and alertness. The feedback from the market earned Municipality Finance a separate "Rapid Response" commendation. Municipality Finance was also commended by the Capital Markets Daily (CMD) as the "Best FX linked MTN Issuer".



FINANCIAL PRODUCTS FOR CUSTOMER NEEDS

One of the key operating principles of Municipality Finance is to focus on the need of the company's own clients. The company wants to be at the forefront of product development in the financing sector to provide municipalities the innovative products needed a rapidly developing market. The company's annual growth of 29% proves that the right solutions have been found.

As interest rates were expected to lower, customers primarily favoured floating rate notes in 2008. Use of different interest rate structures remained popular.

Municipality Finance aims at transparency in lending and keeps its customers informed of its methods for calculating the rates and the potential structural risks. All lending is market-based.

Ethical lender

A significant portion of lending by Municipality Finance is used for various socially important investments, such as municipal building and development projects aimed at increasing welfare services and improving the quality of life. Our funding is used for schools, day care centres, old people's homes and care institutions, hospitals, health care centres and housing.

„ Inspira's aim is to assist clients in assessing alternative financing solutions and in meeting their investment needs „

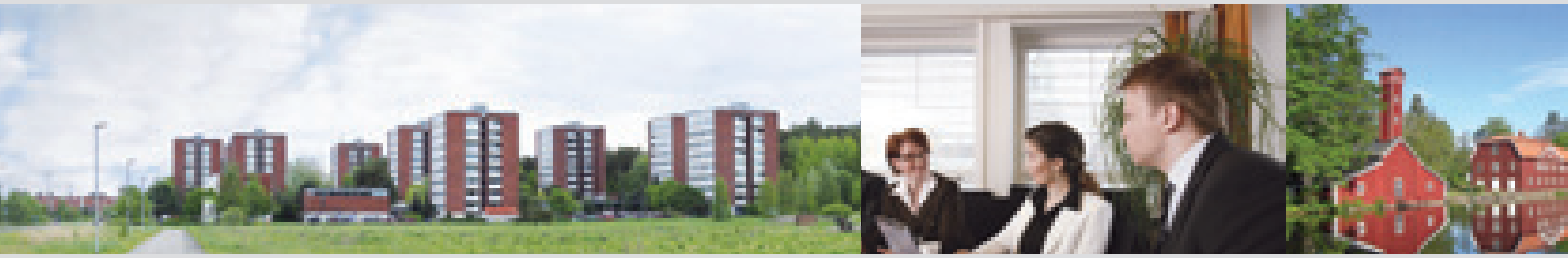
INSPIRA

Financial Advisory Services Inspira Ltd

Municipality Finance's Financial Advisory Services unit founded in 2004 was turned in to a subsidiary under the name Inspira Ltd in November 2007. The new subsidiary focuses on independent advisory services for public-sector administration in various areas of finance. Inspira's aim is to assist clients in assessing alternative financing solutions and in meeting their investment needs. Inspira's clients consist of the public sector and companies offering their services to the public sector. The public sector clients include central government units, cities, and companies owned by cities.

Some examples of the services Inspira provides:

- Project finance: alternative implementation and financing models, and risk analyses
- Financial structures: financial engineering and competitiv tendering
- Mergers and acquisitions: feasibility studies, valuations and fairness opinions
- Analyses: cash flow and financial statement analyses, risk analyses, and asset manager evaluations and tendering.



REPORT ON OPERATIONS

GROUP ORGANISATION

The Municipality Finance Group consists of Municipality Finance Plc (parent company) and Financial Advisory Services Inspira Ltd (subsidiary).

Municipality Finance Plc's mission is to offer market-based funding to municipalities, municipal federations and municipality-controlled organisations as well as to non-profit organisations by acquiring funding from capital markets at a competitive cost.

Financial Advisory Services Inspira Ltd offers financial advisory services, covering various types of investment funding as well as its analysis and arrangement, to the public sector. Inspira also assists in diverse ownership arrangements in the public sector by planning them, making value assessments and aiding in agreement negotiations. Inspira helps the public sector to rearrange its services in a more efficient manner and to implement its investment needs more economically.

The consolidated financial statements of the Municipality Finance Group have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements of the parent company have been prepared in accordance with the Finnish Financial Supervision Authority's standards in force

SUMMARY OF THE FINANCIAL YEAR

Net operating profit

The Group maintained its net result in positive territory under difficult market conditions. The net operating profit before appropriations and taxes for the financial year (Jan 1 – Dec 31, 2008) stood at EUR 2.7 million (2007: EUR 8.8 million). Impairments recognised for the financial year amounted to EUR 12.0 million (2007: EUR 1.6 million).

The parent company's net operating profit for the financial year stood at EUR 2.8 million (2007: EUR 10.4 million).

Inspira's (subsidiary) net operating profit was EUR 0.3 million. The subsidiary's first financial year was 14 months long.

Expenses

The Group's administrative expenses came to EUR 6.0 million (2007: EUR 6.2 million), of which personnel expenses accounted for EUR 3.8 million, or 63% (2007: EUR 4.1 million, or 66%). Other operating expenses came to EUR 2.7 million (2007: EUR 2.1 million).

Balance sheet

The consolidated balance sheet total on December 31, 2008 stood at EUR 12,512 million, compared with EUR 8,913 million at the end of the previous year, an increase of 40%.

TREND IN BUSINESS OPERATIONS

Operating environment in 2008

Starting in 2007, the financial market crisis grew worse in 2008. March saw Bear Stearns, the fifth largest investment bank in the US, escaping bankruptcy by merging with JP Morgan. The troubles of the world's largest banks worsened during the summer. In September the bankruptcy of Lehman Brothers completely paralysed the financial markets, and authorities at national and international level took supportive action to rescue the banks. In Denmark and Ireland, for instance, the local authorities decided to guarantee the debts of all banks for a certain period of time. In other countries, such as the UK, authorities capitalised banks by offering them assets in return for shares and started to provide government guarantees to new issues. Central banks lowered their key rates during the autumn and boosted liquidity by lending money to banks without maximum limits. In the real economy, forecasts became gloomier during the autumn, and 2009 is starting with a global recession in sight.

Municipality Finance prepared for the market disturbances by acquiring over one billion euro in excess funding during 2008. These funds were put in very liquid, short-term investments. The parent company's liquidity at year-end 2008 placed it in a good position to operate in the unstable markets, but because of its liquidity buffer, the parent company's investments represented a record high portion of the balance sheet and its capital adequacy fell below the long-term target.

Lending

The parent company's customers comprise municipalities and municipal federations, organisations controlled by these as well as non-profit organisations designated by the Housing Finance and Development Centre of Finland (ARA). Over the years the company has successfully expanded its market share to clearly become the largest individual player in its customer segment.

Long-term lending

Municipality Finance's competitive position in the lending market changed completely in 2008. Banks continued business almost as normal in the markets during the first quarter of the year, but their competitiveness slipped continually as a result of the deepening financial crisis, and in the last quarter of the year Municipality Finance was practically the only financier for the local government sector.

In September, Municipality Finance bought from Nordea Bank Ltd a credit portfolio that contained credits of the parent company's clientele. The purchased portfolio had a nominal value of EUR 567 million.

The overall number of requests for tenders received in 2008

was clearly up from the previous year. The total value of the requests received by the parent company reached a record level of EUR 2,736 million, of which it won EUR 1,708 million, or 76% of all its competitive bidding. Tenders worth EUR 987 million were won in the largest customer group; municipalities and municipal federations. The winning offers to municipal enterprises totalled EUR 265 million and those to housing corporations EUR 456 million.

The parent company's loan portfolio grew by 29% during the year to EUR 7,567 million (2007: EUR 5,849 million). Even if the aforementioned Nordea transaction were eliminated from the total figures, lending grew by some 20% in 2008. A record EUR 1,682 million in new loans was drawn (2007: EUR 1,314 million).

As interest rates were expected to head down, customers clearly favoured floating rate notes in 2008. Use of different interest rate structures remained popular.

Short-term lending

Municipalities and municipal federations as well as enterprises controlled by these cover their short-term funding needs by issuing municipal commercial papers.

At the end of 2008, municipal commercial paper programmes concluded with Municipality Finance came to a total of EUR 1,804 million. The parent company's year-end balance sheet included EUR 345 million in commercial papers issued by municipalities, and during the whole year customers raised a total of EUR 3,860 million through these programmes, significantly more than in the previous year (2007: EUR 1,938 million).

Funding

The parent company has the best possible international credit ratings: Aaa from Moody's and AAA from Standard & Poor's. Its funding stands on reliability, speed, flexibility and presence in several key capital markets. Most of the arrangements are carried out within the framework of the following debt programmes:

Euro Medium Term Note (EMTN)	EUR 9,000,000,000
Domestic debt programme	EUR 800,000,000
Treasury Bill programme	EUR 800,000,000
AUD debt programme (Kangaroo)	AUD 1,000,000,000

The EMTN programme is listed on the London Stock Exchange. The domestic debt programme is listed on Nasdaq OMX Helsinki.

During the first half of 2008, the parent company's AUD debt programme was increased by AUD 500 million, and during the second half, the EMTN programme was increased by EUR 1 billion.

The parent company uses credit limits agreed with the European Investment Bank and the Council of Europe Development Bank as part of its refinancing.

The Municipal Guarantee Board (MGB), which guarantees the parent company's funding, has also been rated Aaa/AAA by both aforementioned credit rating institutions. As the MGB has guaranteed the parent company's debt programmes as well as its funding arrangements outside these programmes, the debt instruments issued by the company are deemed to be of zero risk in the capital adequacy calculations of financial institutions in at least several European countries in addition to Finland.

The parent company's funding totalled EUR 11,336 million on the balance sheet date (2007: EUR 7,550 million). Of this, 26% (2007: 43%) were denominated in euro and altogether 74% in foreign currencies (2007: 57%).

Long-term funding

The parent company acquired a total of EUR 4,527 million in long-term funding during the financial year (2007: EUR 2,145 million). Of this, EUR 4,460 million were acquired from international markets and EUR 67 million from Finland.

International funding

Municipality Finance raised more funds in 2008 than in any other year before, with altogether 324 arrangements being concluded on international funding markets. The average loan period for new funding was approximately three years.

The Asian market continued to be the most significant source of funding for Municipality Finance, with Japan still the single most important market. Outside Asia, Municipality Finance concluded arrangements in e.g. Australia in addition to making its first debt arrangements on the New Zealand market.

Especially significant European markets included Germany and Switzerland, where the parent company was a very prominent issuer. In the Nordics, a considerable amount of funds were acquired in Norway and Sweden.

Domestic funding

The parent company issued 11 Municipal Bonds under the domestic debt programme in 2008, seven of which were directed to the public and four to institutional investors.

Investment

Municipality Finance strives to maintain its liquidity at a good level and to ensure lending under all market circumstances through adequate advance funding acquisition. Funding is invested in deposits and financial sector securities with a good credit rating.

At the end of 2008, the average credit rating of the securities in the advance funding portfolio was AA+ and the modified duration

2.85 years. The aim is to maintain the value of the investments at around 20-25% of the balance sheet total. At the end of 2008, investments accounted for nearly 25% of the balance sheet as Municipality Finance prepared for the weakening market situation by increasing advance funding. The money market portfolio in particular was consciously expanded to ensure good liquidity.

2008 saw the all-time largest investment volumes. Given the record amount of funding, new investments were made for a total amount EUR 3,400 million, more than twice as much as in the previous year. Total investment rose to EUR 3,028 million by the year-end. Securities were sold out of the investment portfolio for a nominal value of EUR 101 million during 2008.

The parent company's investment portfolio yielded a satisfactory return in a market where the fact that market prices were not readily available, as well as the drop in calculated valuations on account of the dramatic increase in credit risk premiums, ate into returns.

Municipality Finance Plc recognised a total of EUR 12.0 million of impairments on its investments during the financial year.

Financial Advisory Services Inspira Plc

The first financial year of Financial Advisory Services Inspira Ltd, formed out of Municipality Finance's Financial Advisory Services unit, was a period of growth: its turnover for the financial year amounted to EUR 1.4 million. Net operating profit for the financial year stood at EUR 0.3 million.

Turnover comprised a wide range of assignments related to varied new investment funding arrangements in the public sector and, in the local government sector, to internal ownership arrangements.

The growth in uncertainty in international financial markets at the end of 2008 is likely to affect the operations of Inspira also, since there is now less private funding available for public sector investment. Similarly, the number of active financiers on the market is decreasing. The local government sector is still in the process of reforming its structures and services, which increases municipalities' need for rearrangement of operations.

POST BALANCE SHEET EVENTS

Municipality Finance will expand the Euro Medium Term Note (EMTN) programme from EUR 9 billion to EUR 15 billion and the Treasury Bill programme from EUR 800 million to EUR 2 billion. The increases will be made in February and March.

The parent company intends to strengthen its primary assets through a share issue and also, if necessary, its secondary assets in 2009. The objective of these actions is to ensure that the parent company's capital adequacy will not limit the forthcoming strong growth in business operations.

The share issue will help to maintain the parent company's excellent credit rating as well as securing cost-efficient funding for the parent company and, consequently, economical lending to its owners.

The Board of Directors of the parent company will propose to the Annual General Meeting of March 12, 2009 that the share issue be organised in March-June. The government of Finland, on January 27, 2009 decided that the Finnish state will participate in the share issue with an investment of a maximum of EUR 20 million.

Prospects for 2009

Forecasts released by the Association of Finnish Local and Regional Authorities on financial statements indicate that municipalities and municipal federations saw their economies improve in 2008. This was primarily attributable to the positive development in tax revenues and higher state apportionments. On the other hand, their operating expenditures were estimated to be some 7% higher. Loan growth continued and net funding costs surged.

The prevailing situation in the economy in general will not be without its effects on the economies of municipalities and municipal federations in 2009. With the economic outlook weakening, corporation tax revenues are expected to fall especially rapidly. Municipal tax revenues will be affected later, only in 2010.

Borrowing by municipalities and municipal federations is estimated to grow, but given the great uncertainties in the economy in general, it is very difficult to forecast the growth rate.

International financial markets are likely to remain restless for a good while. Though its funding costs are estimated to be clearly higher than in 2008, Municipality Finance nonetheless expects to be able to keep its relative profitability unchanged as a result of the competitive situation in the local government lending market. Even though the situation in international capital markets is uncertain, the availability of funding is expected to remain good.

The Finnish government has markedly increased investment in social housing due to increased demand as well as for conjunctural policy reasons. In the draft budget for 2009, authorisations to grant interest subsidies on new construction were increased from EUR 670 million to EUR 1,170 million. In addition, EUR 250 million was reserved for the conversion of ARAVA loans under a state deficiency guarantee, and housing for special groups has an allotment of EUR 85 million in the draft budget. Financially troubled interest-subsidised tenement companies may also receive a total of EUR 57 million in government aid.

CREDIT RATINGS

Municipality Finance's credit ratings

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

Moody's Investors Service	**Aaa (stable)**
Standard & Poor's	**AAA (stable)**

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

Moody's Investors Service	**P-1 (stable)**
Standard & Poor's	**A-1+ (stable)**

The Municipal Guarantee Board's credit ratings

The Municipal Guarantee Board, which guarantees the parent company's funding, has the best possible credit ratings for long-term funding:

Moody's Investors Service	**Aaa (stable)**
Standard & Poor's	**AAA (stable)**

RISK MANAGEMENT AND INTERNAL CONTROL

The general principles, limits and parameters for risk management at the Municipality Finance Group are decided by the Board of Directors of the parent company. The purpose of risk management is to ensure that the risks in lending, funding acquisition, investment and other business operations remain within the confirmed limits.

Municipality Finance applies very conservative principles to its risk management. The aim is to minimise open risk positions and keep the overall risk status at a low level so as not to endanger the company's good credit rating (Aaa/AAA).

The Treasury unit is responsible for the use of counterparty limits in the parent company's investment operations and for the practical implementation of market and financial risk management. The Risk Assessment and Financial Planning unit is in charge of the supervision of investment operations and counterparty and market risks, and reports on them. The parent company's risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

The Group performs risk analyses on different risk areas at regular intervals with the aim of identifying any changes that have taken place after the previous charting and new risks, as well as of prioritising risks and their management on the basis of the analysis results.

Capital management

Municipality Finance's equity objectives relating to the company's risk taking and operating environment are defined in connection with annual planning. The planning horizon is three years. The Board of Directors approves the capital management plan and monitors it.

Strategic risks

Strategic risk means a risk of the company choosing a wrong strategy for running financially profitable operations or the company failing to adjust the selected strategy to changes in the operating environment.

The Group's strategic risk management is based on continuous monitoring and analyses of customer needs, forecasts on market trends, and changes in the competitive situation and operating environment. Risks and their importance are assessed annually when the operating plan is drawn up. The Group's existing strategy extends until 2012.

Credit risk

Credit risk means a risk of a counterparty defaulting on its commitment to the company.

The parent company may only grant loans without a separate security directly to a municipality or municipal federation. For other loans, only an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee serve as security. These guarantees reduce credit risk and therefore ensure that all loans granted may be classified as zero risk loans in the Basel II capital adequacy treatment. The parent company has not had any non-performing assets or credit losses during its operation.

Municipality Finance has credit risk from investment instruments and derivative contracts. In the assessment of credit risks, principles and limits that are based on external credit ratings and have been approved by the company's Board of Directors are applied to the selection of counterparties. Nominal values of debt certificates and credit countervalues of derivatives (fair value method) are used for monitoring credit risk.

The exceptional circumstances in international financing markets in 2007-2008 have increased counterparty credit risk, which is visible in the larger yield difference between debt securities and the risk-free interest rate as well as in the widened gap between the purchase and sales prices.

The company does not believe that its investment portfolio contained any significant credit risk on the balance sheet date in addition to the impairment already recognised through profit or loss. The changes in the fair value reserve are the result of the present difficult market situation and the lack of trust between financial institutions.

Credit risk

Values of credit commitments in the balance sheet and binding credit commitments

Parent company

EUR 1,000	Dec 31, 2008	Claims on public and public sector entities	Claims on credit institutions	Debt certificates	Binding credit-commitments
Dec 31, 2008					
Total	11,765,903	7,567,406	117,420	3,248,916	832,161
Public sector entities	4,515,990	4,034,412	0	359,433	122,145
Enterprises and housing corp.	4,059,656	3,344,958	0	4,681	710,017
Non-profit organisations	188,035	188,035	0	0	0
Credit institutions	2,533,670		117,420	2,416,250	0
Other	468,552	0	0	468,552	0

Parent company

EUR 1,000	Dec 31, 2007	Claims on public and public sector entities	Claims on credit institutions	Debt certificates	Binding credit-commitments
Dec 31, 2007					
Total	9,320,184	5,848,664	1,024,966	1,916,729	529,824
Public sector entities	3,420,656	3,070,411	0	270,245	80,074
Enterprises and housing corp.	3,114,226	2,650,869	0	13,606	449,751
Non-profit organisations	127,384	127,384	0	0	0
Credit institutions	2,657,918	0	1,024,966	1,139,255	0
Other	493,623	0	0	493,623	0

Distribution of derivative financial instruments according to counterparty credit rating

	Dec 31, 2008	Dec 31, 2007
(EUR 1,000)	**Nominal value**	**Nominal value**
AAA	984,579	2,643,539
AA	11,214,478	9,233,688
A	4,562,914	684,351
BBB	46,606	0
Finnish municipalities	116,227	90,512
Total	**16,924,804**	**12,652,090**

A credit countervalue is calculated for each derivative counterparty using the fair value method and taking netting into account. The parent company limits credit risk by concluding ISDA Credit Support Annexes with the most significant derivative counterparties. The parent company has 37 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's (MGB) guarantees are used, in accordance with the amendment of January 1, 2007 to the Act on the Municipal Guarantee Board, for reducing the counterparty risks related to the derivative contracts of certain counterparties.

Market risk

Market risk means a risk of the company incurring a loss as the result of an unfavourable change in the market price or market price volatility. Market risks include interest rate, foreign exchange rate, share price and other price risks.

For hedging against interest rate risk, the parent company uses derivative contracts to change the fixed-rate cash flows from lending and funding acquisition into floating-rate cash flows. 55% of the parent company's lending and 80% of its funding fall within the scope of fair value hedge accounting.

74% of the funding acquired by the parent company is denominated in foreign currencies. The parent company hedges against currency risk by translating all foreign-currency funding into euro with derivative contracts.

Derivative contracts are also used for hedging against other price risks. Derivative contracts may only be concluded for hedging purposes.

Breakdown of funding by denomination

domestic and foreign currency

EUR 1,000

Dec 31, 2008	**Domestic currency**	**Foreign currency**	**Total**
Liabilities to credit institutions	308 846	246 627	555 473
Liabilities to the public and public sector entities	365 329	318 059	683 388
Debt securities issued to the public	2 277 505	7 673 901	9 951 406
Total	2 951 680	8 238 587	11 190 267

Dec 31, 2007	**Domestic currency**	**Foreign currency**	**Total**
Liabilities to credit institutions	306 887	82 417	389 304
Liabilities to the public and public sector entities	444 153	151 808	595 961
Debt securities issued to the public	2 499 682	4 065 466	6 565 148
Total	3 250 722	4 299 691	7 550 413

Currency position

Currency position is calculated in euros as the difference between claims and liabilities denominated in different currencies.

Parent company

EUR 1,000		**Currency**	**Currency position**
	Dec 31, 2008	USD	-20
	Dec 31, 2007	USD	-1

The parent company does not open any currency, share or commodity positions. All structured products within lending and funding are hedged through opposing contracts.

The Board of Directors of the parent company has set the following limits on market risks:

- currency position risk
- interest rate risk based on duration
- Value-at-risk

Duration

Duration refers to time as a measure of interest rate risk and expresses the remaining time to maturity at current interest rate.

Parent company

	Claims	**Liabilities**	**Difference**
Dec 31, 2008	1.165 years	1,152 years	-5 d
Dec 31, 2007	1.239 years	1,254 years	-5 d

Value-at-risk

The VAR ratio expresses the maximum negative change in euros (EUR 1,000) in the balance sheet market value within 10 days at 99% probability

Parent company

	Dec 31	**Average**	**Year's low**	**Year's high**
2008	2020	1356	680	2020
2007	1060	1090	900	1300

In addition to these market risk parameters, management receives monthly reports on the parent company's interest rate sensitivity analyses and the calculation of changes in the balance sheet market value.

Financial risk

Financial risk means a risk of the company not being able to perform on the due date its payment obligations arising from the implementation of funding agreements or other funding activities.

Breakdown of financial liabilities by maturity

Parent company

Dec 31, 2008	Max 1 yr	1-5 years	Over 5 years	Total
Liabilities to credit institutions	246,187	356,042	98,513	700,742
Liabilities to the public and public sector entities	122,161	42,393	518,834	683,388
Debt securities issued to the public	4,794,757	3,500,736	1,655,913	9,951,406
Subordinated liabilities	0	50,000	35,672	85,672
Total	**5,163,106**	**3,949,170**	**2,308,932**	**11,421,208**

Breakdown of financial liabilities by maturity

Dec 31, 2007	Max 1 yr	1-5 years	Over 5 years	Total
Liabilities to credit institutions	69,933	224,855	94,516	389,304
Liabilities to the public and public sector entities	83,967	38,297	473,697	595,961
Debt securities issued to the public	2,630,732	2,468,944	1,465,472	6,565,148
Subordinated liabilities	0	44,092	1,154	45,245
Total	**2,784,632**	**2,776,187**	**2,034,839**	**7,595,658**

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 5–10% of its loans in 2009.

The Board of Directors of Municipality Finance has set the following limits on financial risk:

- refinancing risk/sustainability of financing
- refinancing gap
- minimum and maximum amounts of liquid assets

In 2008, Municipality Finance was very active in the funding markets in preparation for growing lending demand. The advance funding was invested in debt securities, the amount of which grew to 24% of the balance sheet total at the end of 2008 (2007: 19%).
The company has EUR 140 million in liquidity back-up facilities at its disposal for securing

Market liquidity risk

Market liquidity risk means a risk of the company not being able to sell or cover its position at market price because the market does not have sufficient liquidity or the market is not functioning because of a disruption.

The parent company monitors the liquidity of markets and products on a continuous basis. Additionally, the established market standards are adhered to when concluding derivative contracts.

In October, the International Accounting Standards Board (IASB) issued instructions on the measurement of debt certificates on non-functioning markets.

The market values of most debt securities measured at fair value are calculated on the basis of price quotations received from the markets. The market values of some debt certificates are calculated using other market data.

The market values on December 31, 2008 of debt certificates recognised in the fair value fund were determined using the following methods:

Recognition methods applied to debt securities recognised in the fair value fund

Debt securities quoted on market	**74.8 %**
Debt securities calculated based on other market data	**25.2 %**
New emissions of banks guaranteed by issuer's state of domicile	9.7 %
Debt securities with similar risk profiles	4.0 %
Yield curve based on credit rating (calculation of cash flows)	11.2 %
Market yield curve (calculation of cash flows)	0.3 %
Fair value fund, total	**100.0 %**

Operational risk

Operational risk means a risk of loss due to insufficient or failed internal processes, personnel, systems or external factors.

The parent company has managed operational risk by separating the trading, risk management, risk monitoring, back office, documentation and bookkeeping duties and by creating a substitute organisation. Key duties and processes have been charted and described. These descriptions are updated regularly at least once a year. Employees' professional skills are maintained and improved by drafting a training plan at the annual appraisal.

The realisation of operational risks is monitored through systematic damage reporting, and processes are updated where necessary on the basis of these reports. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No losses were incurred as a result of operational risks in 2008.

The parent company has prepared for business interruptions by drafting a contingency plan that enables it to continue operations and limit losses during different types of business disruption.

Internal audit

Internal auditing has been outsourced to Deloitte & Touche Ltd, which monitors the reliability and authenticity of the financial and other management information produced by Municipality Finance. Its task is also to ensure that the company has sufficient and adequately arranged manual and IT systems for operations and that the risks related to the operations are sufficiently managed. The internal audit reports to the audit committee and the Board of Directors.

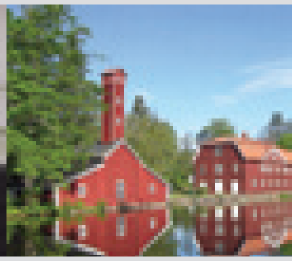
Corporate governance

The Board of Directors of the parent company, on February 11, 2005, confirmed Corporate Governance Rules that are consistent with the Corporate Governance Recommendation issued by the Helsinki Stock Exchange in all material parts. The Corporate Governance Recommendation is for issuers of listed shares and therefore is not binding on the parent company, which issues bonds. The shares in the parent company are not subject to public trading and may only be held by the parties referred to in the Articles of Association. Nevertheless, the company wished to draft its own Corporate Governance Rules on the basis of the Corporate Governance Recommendation. The Board of Directors is responsible for ensuring that the parent company complies with the Corporate Governance Rules and is committed to developing the Rules.

The purpose of corporate governance is to create a framework for responsible operations that create added value for the customers and owners as well as reinforcing the confidence of all stakeholders in the organisation's management and methods of operation.

The Corporate Governance Rules are available on the company's Internet pages at: www.munifin.fi.





CONSOLIDATED OWN FUNDS AND CAPITAL ADEQUACY

EUR 1,000	Dec 31, 2008	Dec 31, 2007
Own funds		
Share capital	42,583	42,583
Minority interest	122	36
Reserve fund	277	277
Retained profit	35,136	30,643
Profit for FY	1,945	4,485
Capital loans	11,177	11,177
Intangible assets	-557	-643
Total primary own funds	**90,683**	**88,558**
Fair value reserve	-32,883	-15,259
Subordinated liabilities, included in upper secondary own funds	40,000	
Subordinated liabilities, included in lower secondary own funds	35,000	35,000
Total secondary own funs	**42,117**	**19,741**
Total own funds	**132,800**	**108,299**
Risk-weighted receivables		
Credit risk, standard method	**937,473**	**426,045**
Minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	42,725	24,947
Covered bonds	620	312
Securitised items	30,408	5,873
Mutual fund investments	0	418
Other items	1,245	2,534
Total credit risk, standard method	74,998	34,084
Market risk	0	0
Operational risk, basic method	3,103	2,251
Total minimum requirement for own funds	**78,101**	**36,335**
Capital adequacy ratio, primary own funds %	9.29 %	19.50 %
Capital adequacy ratio, %	**13.60 %**	**23.84 %**

$$\text{Capital adequacy ratio \%} = \frac{\text{Total own funds}}{\text{Total minimum requirement for own funds}} * 8$$

The company adopted the Basel II parameters for capital adequacy treatment at the beginning of 2007. The standard approach is applied for calculating the regulatory capital for the credit and counterparty risks and the basic approach for calculating that of operational risk. Because the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in these calculations for market risk.

Primary own funds on December 31, 2008 include the profit for the financial year. Detailed information on capital and debenture loans is provided in Section 16 of the notes to the financial statements. The share capital is EUR 42.6 million. Own funds came to EUR 132.8 million.

The Group's capital adequacy ratio on December 31, 2008 stood at 13.60%. The drop in the ratio at the end of 2008 results from the credit ratings of debt securities, which were downgraded by credit rating firms due to the rise in credit risks on account of international financial market turbulence. Additionally, that the company prepared to satisfy growing lending demand through exceptionally strong advance funding acquisition increased the portion of investments in the balance sheet from 19% to 24%. This in turn contributed to the rise in risk-weighted receivables. Municipality Finance, in planning the amount of own funds, is preparing for the exceptional market and credit risk situation to persist throughout 2009.

KEY INDICATORS

Municipality Finance Group	2008	2007	2006
Turnover, EUR m	443.2	308.0	198.5
Net operating profit, EUR m	2.7	8.8	7.1
% of turnover	0.6	2.9	3.6
Return on equity (ROE), %	6.2	15.2	15.3
Return on assets (ROA), %	0.03	0.13	0.13
Equity ratio, %	0.37	0.73	1.02
Cost-to-income ratio	0.80	0.56	0.59

The figures for 2008, 2007 and 2006 have been calculated in accordance with the International Financial Reporting Standards (IFRS).

Turnover is the total of interest income, commission income, net income from securities and forex transactions, net income from available-for-sale financial assets and income from other operating income. Net operating profit is derived directly from the income statement. Profit before appropriations and taxes is derived directly from the income statement.

Return on equity (ROE) (%) =

net operating profit - taxes
--* 100
equity and minority interest + appropriations – deferred tax liabilities (average of year beginning and year end)

Return on assets (ROA) (%) =

net operating profit - taxes
--- * 100
balance sheet total (average of year beginning and year end)

equity ratio (%) =

balance sheet total (average of year beginning and year end)
--* 100
balance sheet total

cost-to-income ratio =

administrative expenses + depreciation + other operating expenses + (commission expenses)
----
net financial income + dividends received + commission income + net income from securities and forex transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income + impairment on other financial assets

THE MUNICIPALITY FINANCE GROUP'S PERSONNEL AND MANAGEMENT

The Municipality Finance Group's personnel numbers 42.

The parent company's personnel numbers 37.

According to the Articles of Association, the parent company's Board of Directors has nine members.

Board of Directors (primary position outside the company in brackets)

- Asko Koskinen, Chairman, (Managing Director, Medilaser Oy)
- Jari Sokka, Vice Chairman (Planning Director, Local Government Pensions Institution)
- Juhani Alanen (M. Sos. Sc)
- Tapio Korhonen (Finance Director, City of Helsinki)
- Eva Liljeblom (Professor, Swedish School of Economics and Business Administration, Helsinki)
- Simo Lämsä (President of Provincial Government, Helsinki)
- Kari Nars (D.Sc. (Econ. & Bus. Adm., Helsinki)
- Mikko Pukkinen (City Manager, City of Turku)
- Sisko Seppä (Secretary General, Social Democratic Parliamentary Group)

The members of the audit committee are Kari Nars (Chairman), Tapio Korhonen and Simo Lämsä.

The members of the Compensation Committee are Asko Koskinen (Chairman), Jari Sokka and Eva Liljeblom.

The members of the company's Board of Management are:

- Pekka Averio, CEO
- Esa Kallio, deputy to the CEO, Executive Vice President
- Toni Heikkilä, Director
- Marjo Tomminen, Director
- Jarkko Vuorenmaa, Director

The parent company's auditor is KPMG Oy Ab with APA Raija-Leena Hankonen as the accountable auditor.

Financial Advisory Services Inspira Ltd's CEO is Kimmo Lehto. The subsidiary's personnel numbers 5.

Board of Directors (primary position outside the company in brackets)

- Pekka Averio, Chairman (CEO, Municipality Finance Plc)
- Marjo Tomminen (Director, Municipality Finance Plc)
- Kimmo Lehto

Inspira's auditor is KPMG Oy Ab with APA Riitta Pyykkö as the accountable auditor.

CONSOLIDATED BALANCE SHEET (MUNICIPALITY FINANCE GROUP)

	Note	Dec 31, 2008	Dec 31, 2007
ASSETS			
Liquid assets		18,054,938.76	11,525,120.31
Loans and advances to credit institutions	(3)	117,617,923.95	36,092,355.00
Loans and advances to the public and public sector entities		7,567,405,657.33	5,848,664,214.62
Debt securities	(4)	3,248,915,882.01	1,916,729,381.68
Shares and participations	(5)	27,219.06	5,247,118.80
Derivative contracts	(6)	1,406,820,165.96	983,653,986.11
Intangible assets	(7,9)	557,232.61	643,427.31
Tangible assets	(8,9)	1,322,600.91	1,366,371.61
Other assets	(10)	512,143.78	1,440,566.03
Accrued income and prepayments	(11)	139,201,972.33	101,662,594.74
Deferred tax assets	(12)	11,553,596.00	6,214,482.14
TOTAL ASSETS	(2)	**12,511,989,332.70**	**8,913,239,618.35**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		700,742,457.06	389,303,737.99
Liabilities to the public and public sector entities		683,387,887.36	595,960,927.76
Debt securities issued	(13)	9,951,406,053.63	6,565,148,179.86
Derivative contracts	(6)	654,777,972.71	914,956,748.52
Other liabilities	(14)	672,956.15	558,482,83
Accrued expenses and deferred income	(15)	376,035,947.54	324,331,210.87
Subordinated liabilities	(16)	85,671,793.09	45,245,234.90
Deferred tax liabilities	(12)	12,643,800.00	12,329,160.95
TOTAL LIABILITIES	(2)	**12,465,338,867.54**	**8,847,833,683.68**
EQUITY			
Share capital	(17)	42,583,195.49	42,583,195.49
Reserve fund	(17)	276,711.01	276,711.01
Fair value reserve		-32,883,312,18	-15,259,104.73
Retained earnings		36,551,725,87	37,768,728.21
Total equity attributable to equity holders		46,528,320,19	65,369,529.98
Minority interest		122,144.97	36,404.69
TOTAL EQUITY		**46,650,465.16**	**65,405,934.67**
TOTAL LIABILITIES AND EQUITY		**12,511,989,332.70**	**8,913,239,618.35**

CONSOLIDATED INCOME STATEMENT (MUNICIPALITY FINANCE GROUP)

	Note	Jan 1 - Dec 31, 2008	Jan 1 - Dec 31, 2007
Interest income		450,680,982.49	308,865,295.99
Interest expense		-421,194,661.69	-287,558,596.11
NET INTEREST INCOME	(22)	**29,486,320.80**	**21,306,699.88**
Commission income	(23)	1,291,814.25	368,655.15
Commission expense	(24)	-2,043,244.69	-2,441,411.94
Net income from securities and foreing exchange transactions	(25)	2,064,750.19	284 861.77
Net income from available-for-sale financial assets	(26)	-11,406,451.35	-1,535,181.83
Net income from hedge accounting	(27)	504,960.33	-497,860.23
Other operating income	(28)	76,984.65	28,504.96
Administrative expenses	(29)	-6,010,764.74	-6,207,564.51
Depreciation and impairment on tangible and intangible assets	(9)	-365,618.64	-384 690.19
Other operating expenses	(30)	-2,749,659.20	-2,087,607.28
Impairment losses on other financial assets	(31)	-8,100,000.00	
OPERATING PROFIT		**2,749,091.60**	**8,834,405.78**
Income taxes	(32)	-718,154.78	-1,708,407.65
PROFIT FOR THE FINANCIAL PERIOD		**2,030,936.82**	**7,125,998.13**
Attributable to:			
Equity holders of the parent company		1,945,196.54	7,114,593.44
Minority interest		85,740.28	11,404.69

CONSOLIDATED STATEMENT OF CASH FLOWS (MUNICIPALITY FINANCE GROUP)

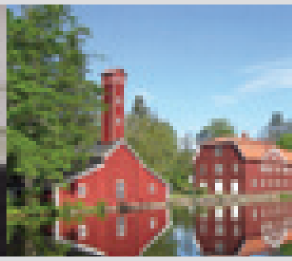
	Jan 1 - Dec 31, 2008	Jan 1 - Dec 31, 2007
CASH FLOW FROM OPERATING ACTIVITIES	**1,293,355,517.91**	**308,124,750.78**
Profit for the financial period	**2,030,936.82**	**7,125,998.13**
Adjustments	**-1,785,224,461.91**	**16,212,452.33**
Change in loans and advances to customers	**3,881,173,568.85**	**-750,947,138.33**
Change in long term funding	**55,419,770.06**	**953,331,477.95**
Change in short term funding	**-1,083,401,059.56**	**-4,966,520.30**
Change in exchange rates, funding	**223,356,763.65**	**87,368,481.00**
CASH FLOW FROM INVESTING ACTIVITIES	**-1,036,789,178.90**	**-205,548,574.44**
Acquisition of tangible items	**-120,416.00**	**-276,579.00**
Acquisition of intangible items	**-121,849.00**	**-114,845.00**
Change in debt securities	**-1,041,645,753.10**	**-205,217,151.77**
Change in shares and participations	**5,098,839.20**	**0.00**
Proceeds from sale of tangible items	**0.00**	**60,001.33**
CASH FLOW FROM FINANCING ACTIVITIES	**36,861,312.98**	**-14,486,403.15**
Change in capital loans	**39,494,477.58**	**-12,668,187.93**
Dividends paid	**-2,633,164.60**	**-1,843,215.22**
Change in share capital	**0.00**	**25,000.00**
NET INCREASE IN CASH FUNDS	**293,427,651.99**	**88,089,773.19**
CASH FUNDS AT JANUARY 1	**510,247,748.92**	**422,157,975.73**
CASH FUNDS AT DECEMBER 31	**803,675,400.91**	**510,247,748.92**

Cash funds include the following balance sheet items: Liquid assets, loans and advances to credit institutions, debt securities eligible for refinancing with central banks maturing within three months and other debt securities maturing within three months.

Adjustments include the change in voluntary provisions, depreciation on tangible and intangible assets and the change in acrrued items.

Cash funds	**Jan 1 - Dec 31, 2008**	**Jan 1 - Dec 31, 2007**
Liquid assets	18,054,938.76	11,525,120.31
Loans and advances to credit institutions	117,617,923.95	35,980,544.34
Debt securities maturing within three months	668,002,538.20	462,630,273.61
	803,675,400.91	**510,135,938.26**





CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000

	Attributable to equity holders of the parent company					Minority interest	Total equity
	Share capital	Reserve-fund	Fair value reserve	Retained earings	Total		
EQUITY AT DECEMBER 31, 2006	**42,583**	**277**	**-1,843**	**32,497**	**73,514**	**-**	**73,514**
Share issue						25	**25**
Dividends paid for 2006				-1,843	-1,843		**-1,843**
Profit for the financial period				7,115	7,115	11	**7,126**
Net change in available-for-sale financial assets			-13,416		-13,416		**-13,416**
EQUITY AT DECEMBER 31, 2007	**42,583**	**277**	**-15,259**	**37,769**	**65,370**	**36**	**65,406**
Dividends paid 2007				-2,633	-2,633		**-2,633**
Adjustment to previous years				-529	-529		**-529**
Profit for the financial period				1,945	1,945	86	**2,031**
Available-for sale financial assets							
Net change in fair value			-17,819		-17,819		**-17,819**
Net amount tranferred to p/l			2,422		2,422		**2,422**
Reclassification*			-2,228		-2,228		**-2,228**
EQUITY AT DECEMBER 31, 2008	**42,583**	**277**	**-32,884**	**36,552**	**46,528**	**122**	**46,650**

*** Reclassificatoin: Tranferred from available-for-sale investments to investments held to maturity**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (parent company) and Financial Advisory Services Inspira Ltd (subsidiary). Municipality Finance is a financial institution owned by the local government sector. Its objective is to secure economical financial services for the local government sector.

The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domiciled in Helsinki with registered address Antinkatu 3 C, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Antinkatu 3 C, 00100 Helsinki.

A copy of the financial statements is available on the Internet at www.munifin.fi or at the Group's parent company Antinkatu 3 C, 00100 Helsinki.

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on February 12, 2009. Under the Finnish Companies Act, the shareholders may accept or reject the financial statements at the shareholders' meeting held after their publication. The shareholders' meeting may also alter the financial statements.

Accounting policies applied to the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on December 31, 2008. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) no. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS rules.

The consolidated financial statements have been prepared based on original cost, except for available-for-sale financial assets, financial assets and liabilities recorded at fair value through profit or loss, derivative contracts and hedged items in fair value hedging.

The following standards and IFRIC interpretations have been published:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- Amendments to the standards IAS 39 Financial Instruments: Recognition and Measurement as well as IFRS 7 Financial Instruments: Disclosures. The amendments, issued in October 2008 due to the international finance crisis, concern the reclassification of certain financial assets. The amendments to the standards have been approved for application in the EU.

These amendments to the IAS 39 and IFRS 7 standards have influenced the presentation of the financial statements as of July 1, 2008. The application of the new IFRIC interpretations has not affected the contents of the company's financial statements.

Group management, in preparing the financial statements under IFRS, has to make certain estimates and use its judgement in the application of the accounting policies. The section "Accounting policies requiring management judgement and key uncertainty factors related to estimates" under accounting principles provides information on the sub-sections in which the figures presented may be most affected by management consideration or uncertainty factors.

The notes to the financial statements are presented in thousands of euros. All figures in the notes have been rounded, so the total of individual figures may differ from the total figure presented.

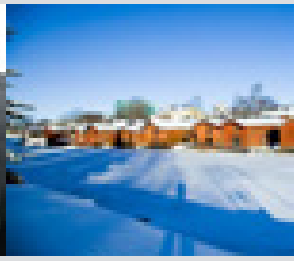
Municipality Finance reclassified some of the debt securities used for acquiring funding in advance. On the basis of the amendments to IAS 39 and IFRS 7, debt securities recorded as available for sale were transferred under section investments held to maturity at their fair value on July 1, 2008. In addition, debt securities entered as available for sale were reclassified as investments held to maturity on January 1, 2008. The transfers are itemised in Note 4.

Consolidation principles

The consolidated financial statements contain the financial statements of Municipality Finance Plc, the parent company, and Financial Advisory Services Inspira Ltd, a subsidiary directly owned by it.

Mutual share holdings have been eliminated by means of the acquisition cost method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and minority interest is presented in the income statement. Minority interests are presented in





the balance sheet as a separate item under equity.

Foreign currency denominated items

Business transactions denominated in a foreign currency have been recorded in euro using the exchange rate of the transaction date.

Monetary receivables and liabilities denominated in a foreign currency have been converted into euro using the European Central Bank's average exchange rate on the balance sheet date. Gains and losses resulting from foreign exchange measurements are included in the income statement under Net income from foreing exchange transactions.

Classification of financial instruments and measurement principles

On the basis of IAS 39 Financial Instruments: Recognition and Measurement the company's financial assets and liabilities have been classified and measured as follows:

Loans and other receivables

The items are measured at effectively amortised cost. However, loans covered by hedge accounting are measured at fair value for the risk hedged.

Available-for-sale financial assets

The item includes investment of advance funding in debt securities.

Debt securities are measured at fair value, and the change in fair value is recognised in the balance sheet under equity in the fair value reserve. The realised capital gains and losses as well as impairment recognised through profit or loss are recognised in the income statement under Net income from available-for-sale financial assets. Impairment on debt securities available for sale is recognised when the issuer's credit rating has been markedly downgraded. If the market value of a security decreases further after the impairment has been recognised, the impairment is recognised in the income statement.

Investments held to maturity

This item comprises investments in debt securities that will be held to maturity. These financial assets are recorded at amortised costs using the effective interest rate method.

Financial assets and liabilities at fair value through profit or loss

Derivatives are measured at fair value through profit or loss, and derivative contracts are recognised in the balance sheet. The positive changes in the fair values of derivative contracts that are recorded in the balance sheet are recognised in balance sheet assets under "Derivative contracts" and negative fair value changes in balance sheet liabilities under the corresponding item "Derivative contracts". Fair value changes of assets other than derivatives included in fair value hedge accounting are recognised in the income statement under Net income from securities and forex transactions.

The fair value option is applied to debt securities hedged with interest rate derivatives, as well as to certain loans and to certificates of deposit. Changes in their fair values are recognised in the income statement under Net income from securities and forex transactions.

Financial liabilities

The items are measured at effectively amortised cost. Funding covered by hedge accounting is measured at fair value for the risk hedged.

All loans to businesses, to public sector and non-profit organisations have been given a deficiency guarantee by a municipality, municipal federation, or a state. The values of loans and other receivables have not impaired, and the Group has no non-performing assets, so no write-downs have been made.

Recognition of borrowing commissions: if the amount of debt on the subscription date is lower or higher than the amount the company is required, under the loan terms and conditions, to repay, the amount of debt on maturity subscribed, adjusted by direct borrowing commissions, is recognised in the balance sheet. Differences between the issue price and the nominal value are broken down on a time basis over the maturity of the debt.

The difference between annual interest received and interest paid on derivative contracts is recognised as an adjustment to interest expenses of the hedged liability or as an adjustment to interest income on a hedged asset for the financing year in which they are accrued.

Determination of fair value

The fair values of financial instruments are determined on the basis of either price quotations obtained from functioning markets or, if such markets do not exist, by applying measurement methods. A market is deemed to be functioning if price quotations are readily and consistently available, and they reflect real market transactions executed in a consistent manner between mutually independent parties.

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying the Group's

own measurement methods. The fair values of other financial assets and liabilities, and derivative contracts are calculated based on publicly-quoted interest and exchange rates as well as measurement practices established on the market.

Recongnition methods applied to debt securities recongnised in the fair value reserve

Debt securities with similar risk profiles	**74,8 %**
Debt securities calculated on other market information	**25,2 %**
New emissions of banks guaranteed by issuer's state of domicile	9,7 %
Debt securities with similar risk profiles	4,0 %
Yield curve based on credit rating (calculation of cash flows)	11,2 %
Maket yield curve (calculation of cash flows)	0,3 %
Fair value fund, total	**100,0 %**

The company has financial assets and liabilities in which the financial characteristics of the linked derivative are not closely connected with the financial characteristics of the principal contract. Derivatives linked to such hybrid instruments are recognised in the balance sheet, and changes in the fair value of the derivative are recognised through profit or loss. The balance sheet value of the principal instrument is calculated in accordance with the instrument classification laid out in IAS 39. The company has, in its funding, concluded a derivative contract providing full hedging coverage for each hybrid instrument that requires separation.

Hedge accounting

In addition to derivative contracts, items measured at fair value through profit or loss under hedge accounting include lending at fixed rates, lending tied to long-term reference rates, lending based on structured interest rate terms and conditions, as well as funding hedged with derivative contracts. Hedging performance is calculated as a ratio of the change in the hedging instrument value to the change in the hedged instrument value. Hedging is effective when the performance ratio is at least 80% and at the most 125%. The effectiveness of hedging is verified when an agreement is recognised in fair value hedge accounting and subsequently at least every six months.

Changes in the fair values of derivative contracts covered by hedge accounting, and the balance sheet items hedged with these contracts, are recognised in the income statement under Net income from hedge accounting.

Recognition and derecognition of financial assets and liabilities

Loans and other receivables are recognised in the balance sheet upon the customer withdrawing the loan, available-for-sale assets and derivative contracts on the settlement day and financial liabilities when the consideration is received. Financial assets are derecognised when the contractual right to the assets expires or when the rights have been transferred to another party. Financial liabilities are derecognised when the obligations have been fulfilled.

Leases

Leases are classified as financial leases and other leases depending on whether the essential risks and benefits of ownership are transferred to the lessee. Municipality Finance has no leases classified as financial leases.

In the cases of other leases, Municipality Finance is the lessee. The rents payable and receivable on the basis of agreements are recognised as expenses in the balance sheet in equal instalments over the duration of the lease. Other leases are primarily related to operating premises.

Intangible and tangible assets

Intangible and tangible assets are recognised in the balance sheet at the original cost, net of accumulated depreciation and impairment.

Machinery and equipment are depreciated according to plan on a straight-line basis over five years. Capitalised hardware and software are depreciated primarily on a straight-line basis over four years. Software developed for lending and customer relation management is depreciated over seven years. Office renovation costs are depreciated on a straight-line basis by the expiry of the fixed-term lease of the given office. Real estate is depreciated on a straight-line basis over 25 years.

Impairment of intangible and tangible fixed assets

The company assesses at each balance sheet date whether there is any evidence of intangible assets or tangible fixed assets being impaired. If evidence of impairment is identified, the recoverable amount is assessed for the given assets. If the book value of an asset item is greater than the recoverable amount, an impairment loss is recorded in the income statement.

Recognition of income and expenses

Net interest income

The effective interest method is applied to interest income and interest expenses. Commissions and fees received and paid, transaction expenses as well as any premiums and discounts are taken into account when the effective interest rate is calculated.

Commission income and expenses

Commission income includes the commissions and fees received for financial advisory services. Commission expenses include the paid guarantee fees, custody fees and the software upgrade costs. Commission income and expenses are primarily recognised when the service is provided.

Net income from hedge accounting

Net income from hedge accounting includes the net income from the measurement at fair value of the financial assets and liabilities and of the derivatives hedging them..

Voluntary credit loss allowance

The voluntary credit loss allowance recognised under the Finnish Accounting Standards does not meet the recognition criteria laid out in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the allowance is thus released in the consolidated financial statements and transferred to equity. A deferred tax liability has been recorded for released credit loss allowance in accordance with IAS 12 Income tax.

Income taxes

Income taxes in the consolidated financial statements comprise accrual-based taxes that are determined based on the profits generated by the group companies, and changes in deferred taxes in accordance with IAS 12 Income Taxes. Taxes have been adjusted by taxes related to previous years.

The tax effect on items recognised directly in equity has been recognised under equity.

Deferred taxes are recorded for nearly all temporary differences between the book value and the taxable value.

Deferred tax assets consist of negative changes in values as a result of the measurement at fair value of financial instruments. Deferred tax liabilities consist of positive changes in values as a result of the measurement at fair value of financial instruments, as well as the release of the parent company's credit loss allowance in the consolidated financial statements.

Accounting policies requiring management judgment and key uncertainty factors related to estimates

The key estimates made by Municipality Finance relate to the determination of fair values for financial instruments.

The risk management principles applied are discussed in the report on operations.

Application of new standards

The following standards and interpretations, which are not believed to have a significant effect on the consolidated financial statements of Municipality Finance, will be implemented in 2009:

- IFRS 8 Operating Segments (valid in financial periods beginning Jan 1, 2009 or later)
- IAS 23 Borrowing Costs (revised in 2007) (valid in financial periods beginning Jan 1, 2009 or later)
- IFRIC 13 Customer Loyalty Programmes (valid in financial periods beginning July 1, 2008 or later)
- IAS 1 Presentation of Financial Statements (revised in 2007) (valid in financial periods beginning Jan 1, 2009 or later)
- IFRS 3 Business Combinations (revised in 2008) (valid in financial periods beginning July 1, 2009 or later)
- IAS 27 Consolidated and Separate Financial Statements (revised in 2008) (valid in financial periods beginning July 1, 2009 or later)
- IFRS 2 Share-Based Payments, amendments – Vesting Conditions and Cancellations (valid in financial periods beginning Jan 1, 2009 or later)
- IAS 1 Presentation of Financial Statements and IAS 32 Financial Instruments: Disclosure and Presentation, amendments - Puttable Financial Instruments and Obligations Arising on Liquidation) (valid in financial periods beginning Jan 1, 2009 or later)
- Improvements to IFRS - amendments (Annual Improvements 2007) (valid primarily in financial periods beginning Jan 1, 2009 or later)
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (valid in financial periods beginning Jan 1, 2009 or later)
- IAS 39 Financial Instruments: Recognition and Measurement, amendment – Eligible Hedged Items (valid in financial periods beginning July 1, 2009 or later)
- IFRIC 15 Agreements for the Construction of Real Estate (valid in financial periods beginning Jan 1, 2009 or later)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (valid in financial periods beginning Oct 1, 2008 or later)

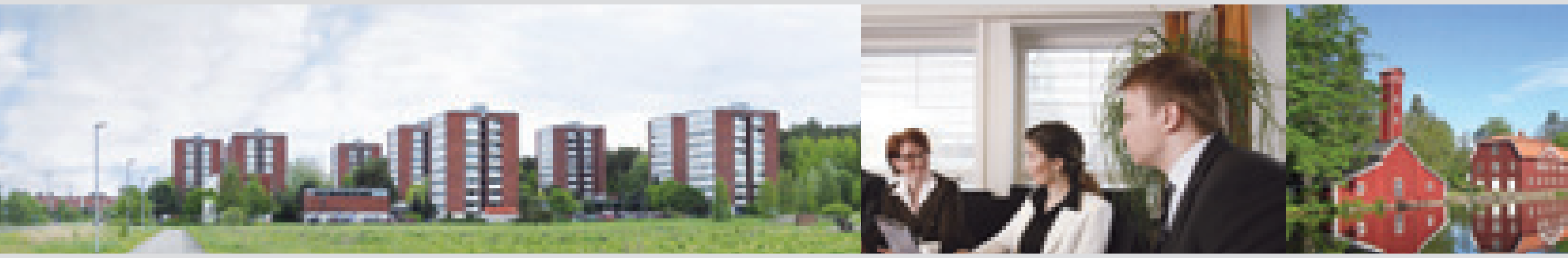
Notes to the balance sheet

1. The Municipality Finance Group's sector of operations consists of credit institution operations, the provision of financial services, and the market area for its lending operations in Finland
2. Classification of financial assets and liabilities

December 31, 2008

Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	18,055	-	-	-	-	18,055	18,055
Loans and advances to credit institutions	117,618	-	-	-	-	117,618	117,618
Loans and advances to the public and public sector entities	3,385,701	-	-	4,181,705	-	7,567,406	7,567,406
Debt securities	343,524	2,632,760	198,966	73,666	-	3,248,916	3,248,916
Shares and participations	-	27	-	-	-	27	27
Derivative contracts	-	-	-	158,149	1,248,671	1,406,820	1,406,820
Intangible assets	557	-	-	-	-	557	557
Tangible assets	1,323	-	-	-	-	1,323	1,323
Other assets	512	-	-	-	-	512	512
Accrued income and prepayments	139,202	-	-	-	-	139,202	139,202
Deferred tax assets	11,554	-	-	-	-	11,554	11,554
Total	4,018,046	2,632,787	198,966	4,413,520	1,248,671	12,511,990	12,511,990

Financial liabilities	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	374,834	325,908	-	700,742	700,742
Liabilities to the public and public sector entities	124,010	559,378	-	683,388	683,388
Debt instruments issued	1,675,808	8,275,598	-	9,951,406	9,951,406
Derivative contracts	-	165,443	489,335	654,778	654,778
Other liabilities	673	-	-	673	673
Accrued expenses and prepayments	376,036	-	-	376,036	376,036
Subordinated liabilities	51,177	34,495	-	85,672	85,672
Deferred tax liabilities	12,644	-	-	12,644	12,644
Total	2,615,182	9,360,822	489,335	12,465,339	12,465,339



December 31, 2007 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	11,525	-	-	-	-	11,525	11,525
Loans and advances to credit institutions	36,092	-	-	-	-	36,092	36,092
Loans and advances to the public and public sector entities	2,630,430	-	-	3,218,234	-	5,848,664	5,848,664
Debt securities	248,865	1,619,334	9,504	39,026	-	1,916,729	1,916,729
Shares and participations	-	5,247	-	-	-	5,247	5,247
Derivative contracts	-	-	-	232,182	751,472	983,654	983,654
Intangible assets	643	-	-	-	-	643	643
Tangible assets	1,366	-	-	-	-	1,366	1,366
Other assets	1,441	-	-	-	-	1,441	1,441
Accrued income and prepayments	101,663	-	-	-	-	101,663	101,663
Deferred tax assets	6,214	-	-	-	-	6,214	6,214
Total	3,038,239	1,624,581	9,504	3,489,442	751,472	8,913,238	8,913,238

Financial assets	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	256,053	133,251	-	389,304	389,304
Liabilities to the public and public sector entities	109,967	485,994	-	595,961	595,961
Debt instruments issued	1,297,392	5,267,756	-	6,565,148	6,565,148
Derivative contracts	-	230,839	684,118	914,957	914,957
Other liabilities	558	-	-	558	558
Accrued expenses and prepayments	324,331	-	-	324,331	324,331
Subordinated liabilities	11,177	34,068	-	45,245	45,245
Deferred tax liabilities	12,329	-	-	12,329	12,329
Total	2,011,807	6,151,908	684,118	8,847,833	8,847,833

Fair value hedge accounting or fair value option is applied to lending and funding for interest rate and foreign exchange risk as well as for other price risks; thus the book values are equivalent to the fair values of these assets and liabilities.

3. Loans and advances to credit institutions

December 31, 2008	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	116,829	997	115,832
Foreign credit institutions	789	789	-
Total claims on credit institutions	117,618	1,786	115,832

December 31, 2007	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	35,783	3,952	31,831
Foreign credit institutions	309	309	-
Total claims on credit institutions	36,092	4,261	31,831

4. Debt securities

December 31, 2008	Publicly quoted	Other	Total
Debt securities issued by public sector entities	16,873	342,560	359,433
Held to maturity	-	3,717	3,717
Bonds issued by other public sector entities	-	3,717	3,717
Available for sale	16,873	338,843	355,716
Municipal commercial papers	-	338,843	338,843
Government bonds	16,873	-	16,873
Debt securities issued by other than public sector entities	-	2,889,483	2,889,483
Held to maturity	-	195,249	195,249
Bank bonds	-	31,396	31,396
Other debt securities	-	163,853	163,853
Available for sale	-	2,694,234	2,694,234
Banks' certificates of deposit	-	1,112,331	1,112,331
Commercial papers	-	4,681	4,681
Bank bonds	-	1,272,524	1,272,524
Other debt securities	-	304,698	304,698
Total debt securities	16,873	3,232,043	3,248,916
Eligible for central bank refinancing	16,873	1,448,451	1,465,324
Total non-interest bearing	-	16,215	16,215

Reclassification: Transferred from available-for-sale investments to investments held to maturity

	Fair value of investments on the date of transfer
Jan 1, 2008	171,935
July 1, 2008	34,967
Total	206,902

Without this reclassification, changes in fair value of investments would have had a negative impact of EUR 22,319,000 on the fair value reserve.

EUR 852,000 of the valuation difference resulting from transferring of the debt securities investments held to maturity has been released from the fair value reserve in 2008.

December 31, 2007	Publicly quoted	Other	Total
Debt securities issued by public sector entities	30,478	239,767	270,245
Held to maturity	-	4,507	4,507
Bonds issued by other public sector entities	-	4,507	4,507
Available for sale	30,478	235,259	265,737
Municipal commercial papers	-	235,259	235,259
Government bonds	30,478	-	30,478

Debt securities issued by other than public sector entities	-	1,646,485	1,646,485
Held to maturity	-	4,996	4,996
Bank bonds	-	4,996	4,996
Available for sale	-	1,641,488	1,641,488
Banks' certificates of deposit	-	169,059	169,059
Commercial papers	-	13,606	13,606
Bank bonds	-	965,201	965,201
Other debt securities	-	493,623	493,623
Total debt securities	30,478	1,886,251	1,916,729
Eligible for central bank refinancing	30,478	1,195,929	1,226,407
Total non-interest bearing	-	21,677	21,677

5. Shares and participations

December 31, 2008	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Total	-	27	-

December 31, 2007	Publicly quoted	Other	In credit institutions
Available for sale	-	5,247	-
Total	-	5,247	-

6. Derivative contracts

December 31, 2008	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Interest rate derivatives Interest rate swaps	587,200	426,547	650,558	1,664,305	12,449	17,392
Currency derivatives Interest rate and currency swaps	-	-	106,471	106,471	-	165
Equity derivatives	107,633	651,958	183,964	943,555	135,978	139,714
Other derivatives	-	73,088	228,498	301,586	9,722	8,172
Total	694,833	1,151,593	1,169,491	3,015,917	158,149	165,443
Contracts made for hedging purposes						
Interest rate derivatives Interest rate swaps	1,001,336	1,848,038	3,718,412	6,567,786	47,472	85,392
Currency derivatives Interest rate and currency swaps	1,340,217	2,817,022	3,183,862	7,341,100	1,201,199	403,943
Total	2,341,553	4,665,060	6,902,274	13,908,887	1,248,671	489,335
All total	3,036,386	5,816,653	8,071,765	16,924,804	1,406,820	654,778

December 31, 2007	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Interest rate derivatives Interest rate swaps	165,000	311,600	195,500	672,100	18,883	17,453
Currency derivatives Interest rate and currency swaps	-	-	116,946	116,946	1,044	1,131
Equity derivatives	78,768	247,536	296,149	622,453	201,246	201,246
Other derivatives	1,838	4,100	195,000	200,938	11,009	11,009
Total	245,606	563,236	803,595	1,612,437	232,182	230,839
For hedging purposes						
Interest rate derivatives Interest rate swaps	2,037,336	2,964,703	2,135,320	7,137,359	76,725	60,649
Currency derivatives Interest rate and currency swaps	1,340,479	1,349,628	1,212,187	3,902,294	674,747	623,469
Total	3,377,815	4,314,331	3,347,507	11,039,653	751,472	684,118
All total	3,623,421	4,877,567	4,151,102	12,652,090	983,654	914,957

7. Intangible assets	Dec 31, 2008	Dec 31, 2007
IT expenditures	404	467
Other intangible assets	153	176
Total	557	643

8. Tangible assets	Dec 31, 2008	Dec 31, 2007
Real estate	1,008	1,034
Other tangible assets	315	332
Total	1,323	1,366

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

December 31, 2008	Intangible assets	Tangible assets		
		Real estate	Other tangibleassets	Total
Acquisition cost Jan 1	1,589	1,145	1,185	2,330
+ Increase for financial year	122	10	111	121
– Decrease for financial year	-	-	136	136
Acquisition cost Dec 31	1711	1,155	1,160	2,315
Accumulated depreciation Jan 1	946	111	853	964
– Accumulated depreciation on decrease	-	-	130	130
+ Depreciation for the financial year	208	36	122	158
Accumulated depreciation Dec 31	1,154	147	845	992
Book value Dec 31	557	1,008	315	1,323

December 31, 2007	Intangible assets	Tangible assets		
		Real estate	Other tangibleassets	Total
Acquisition cost Jan 1	1,474	1,004	1,182	2,186
+ Increase for financial year	115	141	136	277
– Decrease for financial year	-	-	133	133
Acquisition cost Dec 31	1,589	1,145	1,185	2,330
Accumulated depreciation Jan 1	732	78	787	865
– Accumulated depreciation on decrease	-	-	72	72
+ Depreciation for the financial year	214	33	138	171
Accumulated depreciation Dec 31	946	111	853	964
Book value Dec 31	643	1,034	332	1,366

10. Other assets	Dec 31, 2008	Dec 31, 2007
Other	512	1,441

11. Accrued income and prepayments	Dec 31, 2008	Dec 31, 2007
Interest	126,210	101,341
Other	12,992	322
Total	139,202	101,663

12. Deferred tax assets and liabilities

	Dec 31, 2007	Recognised in income statement	Recognised in equity	Dec 31, 2008
Deferred tax assets				
On fair value reserve	5,362	-	6,192	11,554
On impairment	436	-436	-	-
On net income from securities transactions	288	29	-317	-
On net income from hedge accounting	128	83	-211	-
Total	6,214	-324	5,664	11,554
Deferred tax liabilities				
On net income from securities transactions	398	-398	-	-
On net income from hedge accounting	-	-	-	-
On change in voluntary provisions	11,918	726	-	12,644
On other items	13	-13	-	-
Total	12,329	315	-	12,644

	Dec 31, 2006	Recognised in income statement	Recognised in equity	Dec 31, 2007
Deferred tax assets				
On fair value reserve	648	-	4,714	5,362
On impairment	-	436	-	436
On net income from securities transactions	-	288	-	288
On net income from hedge accounting	-	128	-	128
Total	648	852	4,714	6,214
Deferred tax liabilities				
On net income from securities transactions	289	109	-	398
On net income from hedge accounting	212	-212	-	-
On change in voluntary provisions	10,158	1,760	-	11,918
On other items	110	-97	-	13
Total	10,769	1,560	-	12,329

13. Debt securities

	Dec 31, 2008		Dec 31, 2007	
	Book value	Nominal value	Book value	Nominal value
Bonds	9 438 980	10 602 767	6 108 142	7 089 892
Other	512 426	514 600	457 006	462 600
Total	9 951 406	11 117 367	6 565 148	7 552 492

The parent company's funding is fully guaranteed by the Municipal Guarantee Board.

14. Other liabilities	Dec 31, 2008	Dec 31, 2007
Payment transfer	129	139
Other	544	419
Total	673	558

15. Accrued expenses and deferred income	Dec 31, 2008	Dec 31, 2007
Interest	375,199	322,258
Other	2,073	1,224
Total	376,036	324,331

16. Subordinated liabilities

Dec 31, 2008	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	34,495	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31.3.2013
Total		86,177	85,672		

Dec 31,2007	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,000	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
Total		46,177	46,177		

Loan terms and conditions:

1) The maturity date of the loan is May 9, 2021. The company has the right to prematurely repay the loan principal and accumulated interest as of May 9, 2016, or earlier only with written consent from the Finnish Financial Supervision Authority. In dissolution procedures and bankruptcy, the debenture loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as any debenture loan with a eqvivalent maturity date and equivalent commitments potentially issued or subscribed by the company in the future.

2) The loan does not have a maturity date. 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 may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervision Authority grants permission to repay the loan. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

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

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervision Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors of the credit institution approves. Entitlement to pay interest is

not carried over to future financial years if no interest is paid on earlier years. By permission from the Finnish Financial Supervision Authority (Dnro 1/310/2007), part of the capital investments were converted into shares. The Board of Directors has decided that no interest will be paid on the capital investments (EUR 1,177,000) for 2008.

4) The loan does not have a maturity date. The company has the right to repay the loan principal with accumulated interest prematurely with written consent from the Finnish Financial Supervision Authority as of March 31, 2013. The company has the right to delay the payment of interest on the loan if the company's capital adequacy does not meet the requirements laid out in the law, the company has no distributable funds or the company is otherwise unable to distribute a dividend.

In dissolution procedures and bankruptcy, the loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as the company's other corresponding perpetual loans and any corresponding perpetual loans potentially issued or subscribed in the future. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

17. Notes on equity

Effects from the change in the number of shares

	Number of shares (1,000 shares)	Share capital	Reserve fund	Total
Dec 31, 2006	26,332	42,583	277	42,860
Dec 31, 2007	26,332	42,583	277	42,860
Dec 31, 2008	26,332	42,583	277	42,860

The shares in the parent company have not been divided into different types. The nominal value of a share is one euro. Each share carries one vote. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

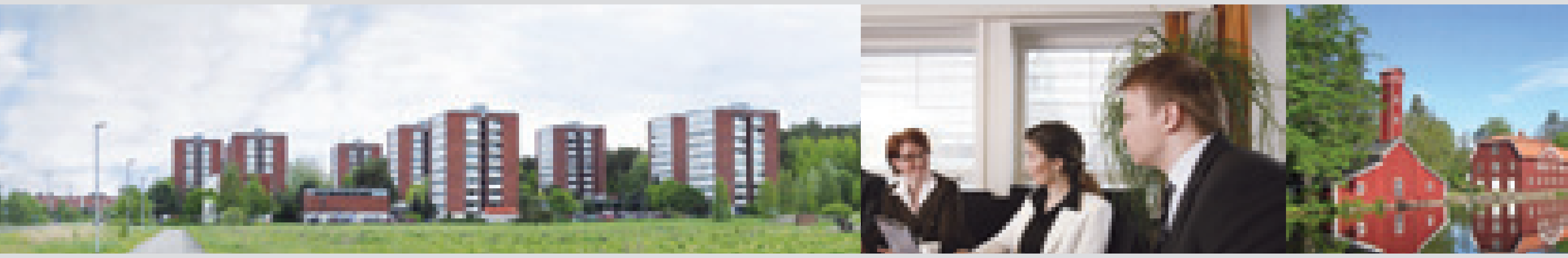
Equity reserves:

The reserve fund comes under the restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act.

The fair value fund comprises changes in the values of available-for-sale financial assets.

18. Contingent assets

The Group has a claim amounting to EUR 2,924,000 on Lehman Brothers International (Europe) (guaranteed by Lehman Brothers Holdings Inc.). The outcome of debt collection depends on the ability of said Lehman companies to pay and the end result of the insolvency proceedings.



19. Contingent liabilities, and liabilities and collateral	Dec 31, 2008	Dec 31, 2007
Bonds pledged to the Municipal Guarantee Board	7,521,685	5,880,898
Debt securities pledged to the Municipal Guarantee Board	2,969,026	1,699,322
Total	10,490,711	7,580,220

Off-balance-sheet commitments	Dec 31, 2008	Dec 31, 2007
Binding credit commitments	832,161	529,824

20. Lease commitments	Dec 31, 2008	Dec 31, 2007
Maturing within one year	567	527
Maturing in one to five years	1,630	1,735
Maturing in more than five years	-	276
Total	2,197	2,538

21. Related parties

Salaries and remuneration paid to management	2008	2007
CEO	297	339
Executive Vice President	214	238

The members of the Board of Directors are paid an annual remuneration and remuneration for each meeting. The annual remunerations are EUR 13,500 for the Chairman of the Board, EUR 10,000 for the Vice Chairman and EUR 8,000 for the other members of the Board. The chairmen of the audit and rewarding committees are paid an annual fee of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

Loans and other financial receivables from the credit institution's related parties:

Municipality Finance does not have any loan or financial receivables, or other liabilities referred to in Section 140(2) of the Act on Credit Institutions from related parties.

Notes to the income statement

22. Break-down of interest income	2008	2007
Loans and advances to credit institutions and central banks	4,316	1,622
Loans and advances to the public and public sector entities	293,780	226,162
Debt securities	122,408	70,407
Derivative contracts	26,719	6,842
Other interest income	3,458	3,832
Total	**450,681**	**308,865**

Break-down of interest expense	2008	2007
Liabilities to the public	19,555	14,422
Liabilities to credit institutions and central banks	19,626	16,756
Debt securities issued	348,383	239,534
Derivative contracts	29,708	13,863
Subordinated liabilities	3,923	2,685
Other interest expenses	-	299
Total	421,195	287,559

23. Commission expense	2008	2007
Financial advisory services	1,292	369
Total	1,292	369

24. Commission expense	2008	2007
Commission fees paid	78	87
Other	1,965	2,354
Total	2,043	2,441

“Other” includes the paid guarantee fees, custody fees and software upgrade costs.

25. Net income from securities and foreign exchange transactions

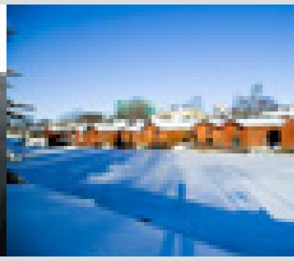
2008	Capital gains and losses (net)	Fair value	Total
Measured at fair value through p/l			
Debt securities	327	4996	5323
Derivative contracts	-72	-9,499	-9,571
Other financial assets	-	6,241	6,241
Total net income from securities transactions	255	1,738	1,993
Net gains from forex transactions	-	72	72
Total	255	1810	2065

2007	Capital gains and losses (net)	Fair value	Total
Measured at fair value through p/l			
Debt securities	-	-473	-473
Derivative contracts	-	784	784
Total net income from securities transactions	-	311	311
Net gains from forex transactions	-	-26	-26
Total	-	285	285

26. Net income from available-for-sale financial assets	2008	2007
Disposal of financial assets	-5,122	141
Impairment		
Lehman Brothers Holdings Inc.	-3,862	-
Claris Ltd Claris Ltd	-	-1,676
Transfers from fair value reserve	-2,422	-
Total	-11,406	-1,535

27. Net income from hedge accounting	2008	2007
Net income from hedging instruments	113,727	602,687
Net income from hedged items	-113,222	-603,185
Total	505	-498





28. Other operating income	2008	2007
Profit on the sale of fixed assets	-	12
Other income from actual credit institution operations	77	17
Total	77	29

29. Administrative expenses	2008	2007
Personnel expenses		
Wages and salaries	2,939	3,223
Pension costs	584	625
Other personnel related costs	238	256
Total	3,761	4,104
Other administrative expenses	2,250	2,104
Total	6,011	6,208

Personnel	2008		2007	
	Average	End of FY	Average	End of FY
Permanent full-time	41	41	37	36
Permanent part-time	1	1	1	1
Total	42	42	38	37

The company's pension coverage has been arranged via an outside pension insurance company.

30. Other operating expences	2008	2007
Rental expences	969	889
Other expences from actual credit institution operation	1,781	1,199
Total	2,750	2,088

31. Impairment losses on other financial assets

December 31, 2008	Impairment losses	Recognised in
Debt securities held to maturity	per agreement	the income statement
Glitnir Bank hf.	7,200	7,200
Landsbanki Islands hf.	900	900
Total	8,100	8,100

32. Income taxes	2008	2007
Tax based on the profit for the financial year	66	1001
Tax on previous financial years	13	-
Deferred tax items	639	707
Total	718	1,708
Profit before tax	2,749	8,834
Taxes at domestic tax rate	715	2,297
Non-deductible expenses	55	- 589
Taxes on previous years	- 52	-
Taxes in income statement	718	1,708

33. Post balance sheet events

Municipality is expanding the Euro Medium Term Note (EMTN) programme from EUR 9 billion to EUR 15 billion and the Treasury Bill programme from EUR 800 million to EUR 2 billion. The increases will be made in February and March 2009.

The parent company intends to strengthen its primary assets through a share issue and also, if necessary, its secondary assets in 2009. The objective of these actions is to ensure that the parent company's capital adequacy will not limit the forthcoming strong growth in business operations.

The issue will help to maintain the parent company's excellent credit rating. Obtaining cost-efficient funding will also help maintain the parent company, economical lending to its owners.

The Board of Directors of the parent company will propose to the Annual General Meeting of March 12, 2009 that the share issue be executed in March–June, 2009. On January 27, 2009 the government of Finland on January 27, 2009, decided that the Finnish state will participate in the issue with maximum investment EUR 20 million.

34. Capital management

Municipality Finance's equity objectives relating to the company's risk taking and operating environment are defined in connection with annual planning. The planning horizon is three years. The Board of Directors approves and monitors the capital management plan.

BALANCE SHEET (MUNICIPALITY FINANCE PLC PARENT COMPANY)

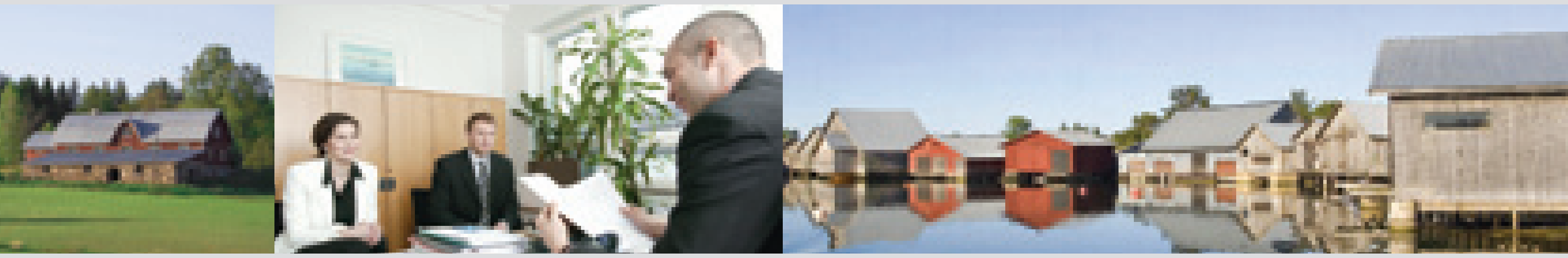
ASSETS	**Note**		**Dec 31, 2008**		**Dec 31, 2007**
Liquid assets					
Cash			2,317.85		1,996.75
Liquid assets			18,052,620.91		11,523,123.56
Debt securities eligible for refinancing with central banks	(3)		1,465,324,203.62		1,226,406,842.15
Loans and advances to credit institutions	(1)				
Repayable on demand		1,588,419.75		4,149,557.17	
Other		11,5831,564.18	117,419,983.93	31,830,987.17	35,980,544.34
Loans and advances to the public and public sector entities	(2)		7,567,405,657.33		5,884,973,885.51
Debt securities	(3)				
Public sector entities		342,559,746.80		239,767,056.71	
Other		1,441,031,931.59	1,783,591,678.39	450,555,482.82	690,322,539.53
Shares and participations	(4)		27,219.06		5,247,118.80
Shares and participations in group entities	(4)		100,000.00		100,000.00
Derivative contracts	(5)		1,406,820,165.96		146,802,362.97
Intangible assets	(6,8)		557,232.61		643,427.31
Tangible assets	(7,8)				
Other tangible assets			1,322,600.91		1,360,051.78
Other assets	(9)		0.00		1,306,462.56
Accrued income and prepayments	(10)		139,173,602.33		101,662,594.74
Deferred tax assets	(11)		11,553,596.00		5,797,093.07
TOTAL ASSETS	(16 - 18)		**12,511,350,878.90**		**8,112,128,043.07**

LIABILITIES	Note		Dec 31, 2008		Dec 31, 2007
Liabilities to credit institutions					
Credit institutions					
Other			700,742,457.06		395,593,934.93
Liabilities to the public and public sector entities					
Other liabilities			683,387,887.36		655,554,880.24
Debt securities issued	(12)				
Bonds		9,438,980,497.94		5,890,788,458.34	
Other		512,425,555.69	9,951,406,053.63	457,005,785.63	6,347,794,243.97
Derivative contracts	(5)		654,777,972.71		478,161,229.28
Other liabilities	(13)		497,456.79		492,802.17
Accrued expenses and deferred income	(14)		375,807,283.02		111,430,795.40
Subordinated liabilities	(15)		85,671,793.09		46,177,315.51
Deferred tax liabilities	(11)		0.00		397,444.29
APPROPRIATIONS					
Voluntary provisions			48,630,000.00		45,840,000.00
EQUITY	(19 - 21)				
Share capital					
Share capital			43,008,044.20		43,008,044.20
Other restricted reserves					
Reserve fund		276,711.01		276,711.01	
Fair value reserve		-32,883,312.18	-32,606,601.17	-15,259,104.73	-14,982,393.72
Retained earnings		26,582.20		4,126.40	
Profit for the period		1,950.01	28,532.21	2,655,620.40	2,659,746.80
TOTAL LIABILITIES	(16 - 18)		**12,511,350,878.90**		**8,112,128,043.07**

OFF BALANCE SHEET COMMITMENTS	Note	Dec 31, 2008	Dec 31, 2007
OFF BALANCE SHEET COMMITMENTS	(35)		
Irrevocable commitments given in favour of a customer		832,161,340.00	529,824,490.00

INCOME STATEMENT (MUNICIPALITY FINANCE PLC PARENT COMPANY)

INCOME STATEMENT	Note		Jan 1 - Dec 31, 2008		Jan 1 - Dec 31, 2007
Interest income			450,680,982.49		308,754,630.30
Interest expense			-421,194,661.69		-287,558,596.11
NET INTEREST INCOME	(22)		29,486,320.80		21,196,034.19
Commission expense	(23)		-2,042,309.08		-2,441,387.49
Net income from securities and foreign exchange transactions	(24)				
Net income from securities		1,992,466.01		1,528,631.88	
Net income from forex transactions		72,284.18	2,064,750.19	-25,622.06	1,503,009.82
Net income from available-for-sale financial assets	(25)		-11,406,451.35		-1,535,181.83
Net income from hedge accounting	(26)		823,699.28		0.00
Other operating income	(27)		126,190.17		267,113.11
Administrative expenses					
Personnel costs					
Salaries and fees		-2,536,228.21		-3,164,705.16	
Personnel-related costs					
Pension costs		-497,362.37		-615,730.75	
Other personnel-related costs		-220,212.62		-252,033.97	
Other administrative expenses		-2,160,954.98	-5,414,758.18	-2,096,990.28	-6,129,460.16
Depreciation and impairment on tangible and intangible assets	(29)		-365,910.81		-384,398.02
Other operating expenses	(28)		-2,336,822.76		-2,087,107.28
Impairment losses on other financial assets	(30)		-8,100,000.00		0,00
OPERATING PROFIT			**2,834,708.26**		**10,388,622.34**
Appropriations			-2,790,000.00		-6,770,000.00
Income taxes			-42,758.25		-963,001.94
PROFIT FOR THE PERIOD			**1,950.01**		**2,655,620.40**



STATEMENT OF CASH FLOWS (MUNICIPALITY FINANCE PLC PARENT COMPANY)

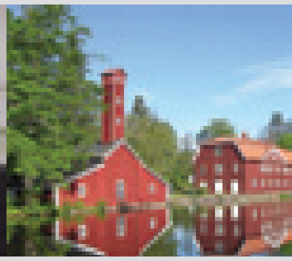
	Jan 1 - Dec 31, 2008	Jan 1 - Dec 31, 2007
Cash flow from operating activities	**1,293,269,388,55**	**308,131,328,12**
Profit for the financial period	1,950,01	2,655,620,40
Change in loans and advances to customers	-1,785,224,461,91	-750,947,138,33
Change in long term funding	3,881,173,568,85	953,331,477,95
Change in short term funding	55,419,770,06	-4,966,520,30
Change in exchange rates, funding	-1,083,401,059,56	87,368,481,00
Adjustments	225,299,621,10	20,689,407,40
Cash flow from investing activities	**-1,036,789,178,90**	**-205,641,962,44**
Acquisition of tangible items	-120,416,00	-276,579,00
Acquisition of intangible items	-121,849,00	-114,845,00
Change in debt securities	-1,041,645,753,10	-205,217,151,77
Change in shares and participations	5,098,839,20	-100,000,00
Proceeds from sale of tangible items	0,00	66,613,33
Cash flow from financing activities	**36,861,312,98**	**-14,511,403,15**
Change in capital loans	39,494,477,58	-12,668,187,93
Dividends paid	-2,633,164,60	-1,843,215,22
Change in share capital	0,00	0,00
Net increase in cash funds	**293,341,522,63**	**87,977,962,53**
Cash funds at January 1	**510,135,938,26**	**422,157,975,73**
Cash funds at December 31	**803,477,460,89**	**510,135,938,26**

Cash funds include the following balance sheet items: Liquid assets, loans and advances to credit institutions, debt securities eligible for refinancing with central banks maturing within three months and other debt securities maturing within three months.

Adjustments include the change in voluntary provisions, depreciation on tangible and intangible assets and the change in acrrued items.

Cash funds	**Dec 31, 2008**	**Dec 31, 2007**
Liquid assets	18,054,938.76	11,525,120.31
Debt securities eligible fo refinancing with central banks maturing within three months	193,768,609.00	73,994,475.26
Loans and advances to credit institutions	117,419,983.93	35,980,544.34
Debt securities maturing within three months	474,233,929.20	388,635,798.35
	803,477,460.89	**510,135,938.26**





NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

Accounting principles

Municipality Finance Plc, the parent company of the Municipality Finance Group, presents its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervision Authority Standard 3.1 Financial statements and management report. 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.

Under Section 36(4) of the Act on Credit Institutions (1607/1993), a derivative contract defined as a hedging instrument may be valued at acquisition cost in accordance with the conditions concerning the hedge accounting system when the hedged financial instrument is valued at acquisition cost. The transitional provision on hedge accounting in Section 184 of the Act on Credit Institutions has been applied to the parent company's financial statements. According to the transitional provision, financial instruments held in accordance with the conditions concerning hedge accounting may be recognised in the financial statements of December 31, 2007 at their hedge accounting value in accordance with Act 1607/1993 that was in force when the act entered into force and the provisions and regulations provided for under this Act. On this basis, the derivative contracts defined as the parent company's hedging instruments and the hedged financial instruments have been valued at acquisition cost in the benchmark year 2007.

Municipality Finance has reclassified some of the debt securities used for acquiring funding in advance. On the basis of the amendments of the IAS 39 and IFRS 7 standards, debt securities recorded as available for sale were transferred under section investments held to maturity at their fair value on July 1, 2008. In addition, debt securities entered as available for sale were reclassified as investments held to maturity on January 1, 2008. The transfers are itemised in Note 3.

The valuation and recognition principles are further described in the notes to the consolidated financial statements.

Notes to the balance sheet

The company has not combined any items in the balance sheet under Chapter 2, Section 14(4) of the Ministry of Finance Decree.

1. Loans and advances to credit institutions

December 31, 2008	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	116,631	799	115,832
Foreign credit institutions	789	789	-
Total claims on credit institutions	117,420	1,588	115,832

December 31, 2007	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	35,672	3,841	31,831
Foreign credit institutions	309	309	-
Total claims on credit institutions	35,981	4,150	31,831

2. The balance sheet item "Loans and advances to the public and public sector entities" is broken down into sectors in accordance with the official sector classification of Statistics Finland.

	Dec 31, 2008	Dec 31, 2007
Enterprises and housing corporations	3,344,958	2,650,869
Public sector entities	4,034,413	3,106,721
Non-profit organisations	188,035	127,384
Total	7,567,406	5,884,974

3. Debt securities

December 31, 2008	Publicly quoted	Other	Total
Debt securities issued by public sector entities	16,873	342,560	359,433
Held to maturity	-	3,717	3,717
Bonds issued by other public sector entities	-	3,717	3,717
Available for sale	16,873	338,843	355,716
Municipal commercial papers	-	338,843	338,843
Government bonds	16,873	-	16,873
Debt securities issued by other than public sector entities	-	2,889,483	2,889,483
Held to maturity	-	195,249	195,249
Bank bonds	-	31,396	31,396
Other debt securities		163,853	163,853
Available for sale	-	2,694,234	2,694,234
Banks' certificates of deposit	-	1,112,331	1,112,331
Commercial papers	-	4,681	4,681
Bank bonds	-	1,272,524	1,272,524
Other debt securities	-	304,698	304,698
Total debt securities	16,873	3,232,043	3,248,916
Eligible for central bank refinancing	16,873	1,448,451	1,465,324
Total non-interest bearing	-	16,215	16,215

Reclassification: Transferred from available-for-sale investments to investments held to maturity

	Fair value of investments on the date of transfer
January 1, 2008	171,935
July 1, 2008	34,967
Total	206,902

Without this reclassification, changes in fair value of investments would have had a negative impact of EUR 22,319,000 on the fair value reserve.

EUR 852,000 of the valuation difference resulting from transferring of the debt securities investments held to maturity has been released from the fair value reserve in 2008.

December 31, 2007	Publicly quoted	Other	Total
Debt securities issued by public sector entities	30,478	239,767	270,245
Held to maturity	-	4,507	4,507
Bonds issued by other public sector entities	-	4,507	4,507
Available for sale	30,478	235,259	265,737
Municipal commercial papers	-	235,259	235,259
Government bonds	30,478	-	30,478
Debt securities issued by other than public sector entities	-	1,646,485	1,646,485
Held to maturity	-	4,996	4,996
Bank bonds	-	4,996	4,996
Available for sale	-	1,641,488	1,641,488
Banks' certificates of deposit	-	169,059	169,059
Commercial papers	-	13,606	13,606
Bank bonds	-	965,201	965,201
Other debt securities	-	493,623	493,623
Total debt securities	30,478	1,886,251	1,916,729
Eligible for central bank refinancing	30,478	1,195,929	1,226,407
Total non-interest bearing	-	21,677	21,677

4. Shares and participations

December 31, 2008	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Group companies	-	100	-
Total	-	127	-

31.12.2007	Publicly quoted	Other	In credit institutions
Available for sale	-	5 247	-
Group companies	-	100	-
Total	-	5 347	-

5. Derivative contracts

Derivative receivables and liabilities recognised in the balance sheet

December 31, 2008	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Interest rate derivatives						
Interest rate swaps	587,200	426,547	650,558	1,664,305	12,449	17,392
Currency derivatives						
Interest rate and currency swaps	-	-	106,471	106,471	-	165
Equity derivatives	107,633	651,958	183,964	943,555	135,978	139,714
Other derivatives	-	73,088	228,498	301,586	9,722	8,172
Total	694,833	1,151,593	1,169,491	3,015,917	158,149	165,443
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	1,001,336	1,848,038	3,718,412	6,567,786	47,472	85,392
Currency derivatives						
Interest rate and currency swaps	1,340,217	2,817,022	3,183,862	7,341,101	1,201,199	403,943
Total	2,341,553	4,665,060	6,902,274	13,908,887	1,248,671	489,335
All total	3,036,386	5,816,653	8,071,765	16,924,804	1,406,820	654,778

Derivative receivables and liabilities recognised in the balance sheet

December 31, 2007	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Interest rate derivatives						
Interest rate swaps	165,000	311,600	195,500	672,100	18,883	17,453
Currency derivatives						
Interest rate and currency swaps	-	-	116,946	116,946	1,044	1,131
Total	165,000	311,600	312,446	789,046	19,927	18,584
Foreign exchange valuations of off-balance-sheet contracts recognised in the balance sheet	-	-	-	-	126,875	459,577
Total	165,000	311,600	312,446	789,046	146,802	478,161

Off-balance-sheet contracts

December 31, 2007	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Equity derivatives	78,768	247,536	296,149	622,453	201,246	201,246
Other derivatives	1,838	4,100	195,000	200,938	11,009	11,009
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	2,037,336	2,964,703	2,135,320	7,137,359	76,725	60,649
Currency derivatives						
Interest rate and currency swaps	1,340,479	1,349,628	1,212,187	3,902,294	547,872	163,892
Total	3,458,421	4,565,967	3,838,656	11,863,044	836,852	436,796
All total	3,623,421	4,877,567	4,151,102	12,652,090	983,654	914,957

6. Intangible assets	Dec 31, 2008	Dec 31, 2007
IT expenditure	404	467
Other intangible assets	153	176
Total	557	643

7. Tangible assets	Dec 31, 2008	Dec 31, 2007
Real estate		
Buildings	574	600
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	315	326
Total	1,323	1,360

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

December 31, 2008	Intangible assets	Tangible assets Real estate	Other tangible assets	Total
Acquisition cost Jan 1	1,589	1,145	1,178	2,323
+ Increase for financial year	122	10	111	121
– Decrease for financial year	-	-	129	129
Acquisition cost Dec 31	1,711	1,155	1,160	2,315
Kertyneet poistot 1.1.	946	111	852	963
Accumulated depreciation Jan 1	-	-	129	129
+ Depreciation for the financial year	208	36	122	158
Accumulated depreciation Dec 31	1154	147	845	992
Book value Dec 31	557	1,008	315	1 323

December 31, 2007	Intangible assets	Tangible assets Real estate	Other tangible	Total
Acquisition cost Jan 1	1,474	1,004	1,182	2,186
+ Increase for financial year	115	141	136	277
– Decrease for financial year	-	-	140	140
Acquisition cost Dec 31	1,589	1,145	1,178	2,323
Kertyneet poistot 1.1.	732	78	787	865
Accumulated depreciation Jan 1	-	-	73	73
+ Depreciation for the financial year	214	33	138	171
Accumulated depreciation Dec 31	946	111	852	963
Book value Dec 31	643	1,034	326	1 360

9 .Other assets	Dec 31, 2008	Dec 31, 2007
Other	-	1 306

10. Accrued income and prepayments	Dec 31, 2008	Dec 31, 2007
Interest	126,210	101,341
Other	11,967	322
Total	138,177	101,663

11. Deferred tax assets and liabilities

Deferred tax assets	Dec 31, 2007	Recognised in income statement	Recognised in balance sheet	Dec 31, 2008
On fair value reserve	5,361	-	6,193	11,554
On impairment	436	-436	-	-
Total	5,797	-436	6,193	11,554
Deferred tax liabilities				
On valuation of available-for-sale financial assets	48	- 48	-	-
On valuation of derivative contracts at fair value	349	- 349	-	-
Total	397	- 397	-	-

Voluntary provisions include EUR 12,644,000 in non-recognised deferred tax liabilities.

Deferred tax assets	Dec 31, 2006	Recognised in income statement	Recognised in balance sheet	Dec 31, 2007
On fair value reserve	-	-	5,361	5,361
On impairment	-	436	-	436
Total	-	436	5,361	5,797
Deferred tax liabilities				
On valuation of available-for-sale financial assets	-	48	-	48
On valuation of derivative contracts at fair value	-	349	-	349
Total	-	397	-	397

Voluntary provisions include EUR 11,918,000 in non-recognised deferred tax liabilities.

12. Debt instruments	Dec 31, 2008		Dec 31, 2007	
	Book value	Nominal value	Book value	Nominal value
Bonds	9,438,980	10,602,767	5,890,788	7,089,892
Other	512,426	514,600	457,006	462,600
Total	9,951,406	11,117,367	6,347,794	7,552,492

13. Other debts	Dec 31, 2008	Dec 31, 2007
Payment transfer	129	139
Other	368	354
Total	497	493

14. Accrued expenses and deferred income	Dec 31, 2008	Dec 31, 2007
Interest	375,199	109,368
Other	608	2,063
Total	375,807	111,431

15. Subordinated liabilities

December 31, 2008	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	34,495	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31.3.2013
Total		86,177	85,672		

December 31, 2007	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,000	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
Total		46,177	46,177		

Loan terms and conditions:

1) The maturity date of the loan is May 9, 2021. The company has the right to repay the loan principal with accumulated interest prematurely on the interest payment date as of May 9, 2016; earlier only with written consent from the Finnish Financial Supervision Authority. In dissolution procedures and bankruptcy, the debenture loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as any debenture loan with a maturity date and equivalent commitments issued or subscribed by the company in the future.

2) The loan does not have a maturity date. 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 may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervision Authority grants permission to repay the loan. Interest accumulated by the end of the financial year is recognised under interest expenses in the financial statements.

In dissolution procedures and bankruptcy, the capital loan principal and accumulated interest are subordinated to all other debts. The company's capital loan has the same priority status as any capital loan and equivalent commitment issued or subscribed in the future. The loan has priority over the company's shares.

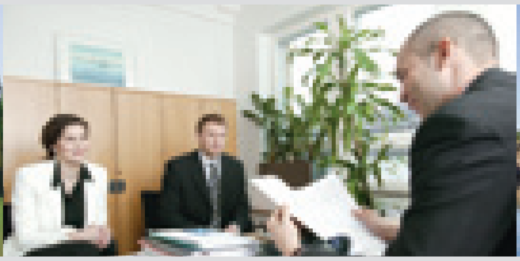
3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervision Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid insofar as the credit institution's profit distribution allows this and the distributable funds are adequate, and the Board of Directors of the credit institution so decides. Entitlement to pay interest is not carried over to future financial years if no interest is paid on earlier years. By permission from the Finnish Financial Supervision Authority (Dnro 1/310/2007), part of the capital investments were converted into shares. The Board of Directors has decided that no interest will be paid on the capital investments (EUR 1,177,000) for 2008.

4) The loan does not have a maturity date. The company has the right to repay the loan principal with accumulated interest prematurely with written consent from the Finnish Financial Supervision Authority on March 31, 2013 at the earliest. The company has the right to delay the payment of interest on the loan if the company's capital adequacy does not meet the criteria laid out in the law, the company has no distributable funds or the company is otherwise unable to distribute a dividend.

In dissolution procedures and bankruptcy, the loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as the company's other corresponding perpetual loans and any corresponding perpetual loans issued or subscribed in the future. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

16. Break-down of financial assets and liabilities by maturity

December 31, 2008	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	193,768	372,043	793,290	30,898	75,325	1,465,324
Loans and advances to credit institutions	115,320	2,100	-	-	-	117,420
Loans and advances to the public and public sector entities	101,952	502,237	2,442,369	2,332,120	2,188,728	7,567,406
Debt securities	816,794	722,199	154,425	26,227	63,947	1,783,592
Total	1,227,834	1,598,579	3,390,084	2,389,245	2,328,000	10,933,742

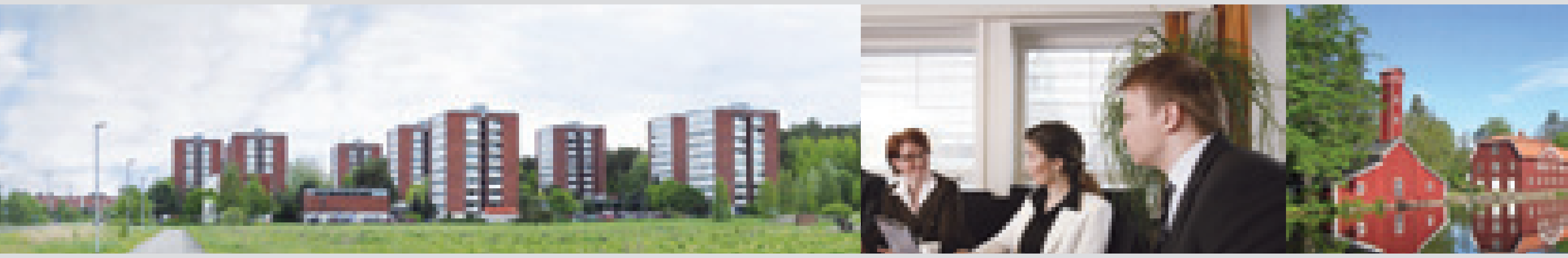

Liabilities to credit institutions	167,875	78,313	356,041	58,133	40,380	700,742
Liabilities to the public	2,907	119,254	42,393	240,021	278,813	683,388
Debt securities issued	1,567,026	3,227,731	3,500,736	1,230,699	425,214	9,951,406
Subordinated Liabilities		-	50,000	34,495	1,177	85,672
Total	1,737,808	3,425,298	3,949,170	1,563,348	745,584	11,421,208

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 5–10% of its loans in 2009.

December 31, 2007	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	73,245	104,826	872,924	83,323	92,089	1,226,407
Loans and advances to credit institutions	35,981	-	-	-	-	35,981
Loans and advances to the public and public sector entities	48,675	299,154	1,999,552	1,815,058	1,722,535	5,884,974
Debt securities	388,607	57,539	175,451	23,706	45,020	690,323
Total	546,508	461,519	3,047,927	1,922,087	1,859,644	7,837,685
Liabilities to credit institutions	41,081	29,982	228,488	59,061	36,982	395,594
Liabilities to the public	6,000	86,364	42,126	221,612	299,453	655,555
Debt securities issued	774,239	1,776,633	2,388,318	999,402	409,202	6,347,794
Subordinated liabilities	-	-	10,000	35,000	1,177	46,177
Total	821,320	1,892,979	2,668,932	1,315,075	746,814	7,445,120

17. Break-down of balance sheet items by denomination (domestic and foreign currency)

December 31, 2008	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	1,465,324	-	1,465,324
Loans and advances to credit institutions	117,419	1	117,420
Loans and advances to the public and public sector entities	7,567,406	-	7,567,406
Debt securities	1,783,592	-	1,783,592
Derivative contracts	1,406,820	-	1,406,820
Other assets, incl. “Liquid assets”	159,120	11,669	170,789
Total	12,499,681	11,670	12,511,351
Liabilities to credit institutions	442,506	258,236	700,742
Liabilities to the public and public sector entities	365,329	318,059	683,388
Debt instruments issued	2,277,505	7,673,901	9,951,406
Derivative contracts	654,778	-	654,778
Subordinated liabilities	85,672	-	85,672
Other liabilities	323,984	111,381	435,365
Total	4,149,774	8,361,577	12,511,351



December 31, 2007	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	1,226,407	-	1,226,407
Loans and advances on credit institutions	35,965	16	35,981
Loans and advances on the public and public sector entities	5,884,974	-	5,884,974
Debt securities	690,323	-	690,323
Derivative contracts	146,802	-	146,802
Other assets, incl. “Liquid assets”	127,641	-	127,641
Total	8,112,112	16	8,112,128
Liabilities to credit institutions	318,120	77,474	395,594
Liabilities to the public and public sector entities	503,976	151,579	655,555
Debt instruments issued	2,608,879	3,738,915	6,347,794
Derivative contracts	478,161	-	478,161
Subordinated liabilities	46,177	-	46,177
Other liabilities	129,543	59,304	188,847
Total	4,084,856	4,027,272	8,112,128

18. Fair values and book values of financial assets and liabilities

	Dec 31, 2008		Dec 31, 2007	
	Book value	Fair value	Book value	Fair value
Financial assets				
Liquid assets	18,055	18,055	11,525	11,525
Debt securities eligible for central bank refinancing	1,465,324	1,465,324	1,226,407	1,226,407
Loans and advances on credit institutions	1,588	1,588	35,981	35,981
Loans and advances on the public and public sector entities	7,567,406	7,567,406	5,884,974	5,848,664
Debt securities	1,783,592	1,783,592	690,323	690,323
Shares and participations	27	27	5,247	5,247
Shares and participations in group companies	100	100	100	100
Derivative contracts	1,406,820	1,406,820	146,802	983,654
Total	12,242,912	12,242,912	8,001,359	8,801,901
Financial liabilities				
Liabilities to credit institutions	700,742	700,742	395,594	389,304
Liabilities to the public and public sector entities	683,388	683,388	655,555	595,961
Debt instruments issued	9,951,406	9,951,406	6,347,794	6,565,148
Derivative contracts	654,778	654,778	478,161	914,957
Subordinated liabilities	85,672	85,672	46,177	45,245
Total	12,075,986	12,075,986	7,923,281	8,510,615

Fair value hedge accounting or fair value option are applied to lending and funding for interest rate and foreign exchange risk as well as for other price risks; thus the book values are equivalent to the fair values of these assets and liabilities.

19. Equity items

December 31, 2008	Share capital	Share issue	Reserve fund	Fair value reserve	Retained earnings	Total
Book value, beginning of FY Jan 1, 2008	43,008	-	277	-15,259	2,660	30,686
+ increase	-	-	-	-	2	2
- decrease	-	-	-	17,625	2,633	20,258
Book value	43,008	-	277	-32,884	29	10,430

December 31, 2007	Share capital	Share issue	Reserve fund	Fair value reserve	Retained earnings	Total
Book value, beginning of FY Jan 1, 2007	16,522	26,486	277	-2,603	1,847	42,529
+ increase	26,486	-	-	-	2,656	29,142
- decrease	-	26,486	-	12,656	1,843	40,985
Book value Dec 31, 2007	43,008	-	277	-15,259	2,660	30,686

The company has recorded an increase in voluntary provisions of EUR 2,790,000, deductible in taxation, in the income statement of the financial statements. In total, the voluntary provisions recorded in the balance sheet amount to EUR 48,630,000. The company may release provisions net of taxes calculated in accordance with the valid tax rate to earnings.

20. Share capital

The shares in Municipality Finance Plc have not been divided into different types. The nominal value of a share is one euro. Each share carries one vote. Acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2008, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008,000.

21. Largest shareholders

The ten largest shareholders/subscribers in terms of voting rights and the number of shares held/subscribed by these, their portion of all shares in the credit institution and of all votes carried by the shares as well as the total number of shareholders.

	December 31, 2008	
	Number	Percentage
1. Local Government Pensions Institution	10,726	40.73
2. City of Helsinki	3,175	12.06
3. City of Espoo	1,171	4.45
4. City of Tampere	722	2.74
5. VAV Asunnot Oy (Vantaa)	658	2.50
6. City of Oulu	624	2.37
7. City of Turku	616	2.34
8. City of Kuopio	394	1.50
9. City of Joensuu	380	1.44
10. Jyväskylän Vuokra-asunnot Oy	351	1.33

The total number of shareholders is 301. The amount of shareholders on January 1, 2009 after the merger of municipalities is 264.

NOTES TO THE INCOME STATEMENT

The company has not combined any items in the income statement under Chapter 2, Section 14(4) of the Ministry of Finance Decree.

22. Break-down of interest income	2008	2007
Loans and advances to credit institutions and central banks	4,316	1,622
Loans and advances to the public and public sector entities	293,780	226,162
Debt securities	122,408	70,297
Derivative contracts	26,719	6,842
Other interest income	3,458	3,832
Total	450,681	308,755

Break-down of interest expenses	2008	2007
Liabilities to the public	19,555	14,422
Liabilities to credit institutions and central banks	19,626	16,756
Debt securities issued	348,383	239,534
Derivative contracts	29,708	13,863
Subordinated liabilities	3,923	2,685
Other interest expenses	-	299
Total	421,195	287,559

23. Commission expense	2008	2007
Commission fees paid	77	87
Other	1,965	2,354
Total	2,042	2,441

24. Net income from securities and foreign exchange transactions

2008	Gains and losses on sales (net)	Fair value change	Total
Measured at fair value through p/l			
Debt securities	327	4,996	5,323
Derivative contracts	-72	-9,499	-9,571
Other financial assets	-	6 241	6,241
Total net income from securities transactions	255	1,738	1,993
Net income from foreign exchange transactions	-	72	72
Total	255	1,810	2 065

2007	Gains and losses on sales (net)	Fair value change	Total
Measured at fair value through p/l			
Debt securities	-	186	186
Derivative contracts	-	1,343	1,343
Total net income from securities transactions	-	1,529	1,529
Net income from foreign exchange transactions	-	-26	-26
Total	-	1,503	1 503

25. Net income from available-for-sale financial assets	2008	2007
Disposal of financial assets	-5,122	141
Impairment		
Lehman Brothers Holdings Inc.	-3,862	-
Claris Ltd	-	-1,676
Transfers from fair value reserve	-2,422	-
Total	-11,406	-1,535

26. Net income from hedge accounting	2008	2007
Net income from hedging instruments	513,783	-
Net income from hedged items	-512,959	-
Total	824	-

27. Other operating income	2008	2007
Profit on the sale of fixed assets	-	12
Income from financial advisory services	-	238
Other income from actual credit institution operations	126	17
Total	126	267

28. Other operating expenses	2008	2007
Rental expenses	941	889
Other expenses from actual credit institution operations	1,396	1,198
Total	2,337	2,087

29. "Depreciation and impairment on tangible and intangible assets" consists of planned depreciation.

30. Impairment losses on other financial assets

Dec 31, 2008	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity		
Glitnir Bank hf.	7,200	7,200
Landsbanki Islands hf.	900	900
Total	8,100	8,100

31. Municipality Finance Plc's sector of operations consists of credit institution operations and the market area for lending in Finland.

Notes on collateral, contingent liabilities and derivative contracts

32. Collateral given

For own liabilities	Dec 31, 2008	Dec 31, 2007
Pledges		
Balance sheet item		
Liabilities to credit institutions	700,742	375,294
Liabilities to the public and public sector entities	683,388	655,555
Debt instruments issued	9,438,980	5,890,788
Total given for own liabilities	10,823,110	6,921,637

Collateral given is presented in accordance with the balance sheet values on December 31.

	Dec 31, 2008	Dec 31, 2007
Liabilities and collateral		
Bonds pledged to the Municipal Guarantee Board	7,521,685	5,880,898
Debt securities pledged to the Municipal Guarantee Board	2,969,026	1,699,322
Total	10,490,711	7,580,220

33. The company's pension coverage has been arranged via an outside pension insurance company..

34. Leasing and other rental liabilities	Dec 31, 2008	Dec 31, 2007
Maturing within one year	553	527
Maturing in one to five years	1,630	1,735
Maturing in more than five years	-	276
Total	2,183	2,538

35. Off-balance-sheet commitments	Dec 31, 2008	Dec 31, 2007
Binding credit commitments	832,161	529,824

Notes on auditing fees

36. Auditing and other fees paid to auditing corporations

	2008	2007
Auditing	90	32
Tax advice	14	11
Other services	82	76
Total	186	119

Notes on personnel and management

37. Municipality Finance Plc's personnel

	2008		2007	
	Average	End of financial year	Average	End of financial year
Permanent full-time	36	36	37	32
Permanent part-time	1	1	1	1
Total	37	37	38	33

On November 1, 2007 four persons transferred to the service of a subsidiary, Financial Advisory Services Inspira Ltd.

Salaries and remuneration paid to management

	2008	2007
CEO	297	329
Executive Vice President	214	238

The members of the Board of Directors are paid an annual remuneration and remuneration for each meeting. The annual remunerations are EUR 13,500 for the Chairman of the Board, EUR 10,000 for the Vice-Chairman and EUR 8,000 for the other members of the Board. The chairmen of the audit and rewarding committees are paid an annual remuneration of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

Related party transactions

38. Municipality Finance does not have any loan or financial claims, or other claims referred to in Section 140(2) of the Act on Credit Institutions to related parties.

THE BOARD OF DIRECTOR'S PROPOSAL ON THE USE OF THE PROFIT FOR THE FINANCIAL YEAR

Municipality Finance Plc's distributable funds amount to EUR 28,532.21, of which the profit for the financial year is EUR 1,950.01.

The Board of Directors will propose to the meeting of shareholders that the profit for the financial year be retained in unrestricted total equity and that no dividend be paid.

Helsinki February 12, 2009

MUNICIPALITY FINANCE PLC

Asko Koskinen
Chairman of the Board

Jari Sokka
Vice-Chairman of the Board

Juhani Alanen
Member of the Board

Tapio Korhonen
Member of the Board

Eva Liljeblom
Member of the Board

Simo Lämsä
Member of the Board

Kari Nars
Member of the Board

Mikko Pukkinen
Member of the Board

Sisko Seppä
Member of the Board

Pekka Averio
CEO and Managing Director

AUDITOR'S NOTE

A report on the audit carried out has been submitted today.

Helsinki February 16, 2009

KPMG OY AB

THE BOARD OF DIRECTORS

TOP ROW FROM LEFT:
Jari Sokka (Vice Chairman of the Board), Simo Lämsä, Mikko Pukkinen, Kari Nars, Tapio Korhonen, Juhani Alanen

BOTTOM ROW FROM LEFT:
Sisko Seppä, Asko Koskinen (Chairman of the Board), Eva Liljeblom

AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Municipality Finance Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Municipality Finance Plc for the period 1.1.2008 – 31.12. 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company, the Managing Director and the deputy Managing Director have complied with the Limited Liability Companies Act and the Finnish Credit Institutions Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Opinion on the discharge from liability and disposal of distributable funds

The consolidated and the parent company's financial statements can be adopted and the members of the Board of Directors of the parent company, the Managing Director and the deputy Managing Director can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Limited Liability Companies Act.

Helsinki, 16 February 2009

KPMG Oy Ab
[signed]
Raija-Leena Hankonen
Authorized Public Accountant

Raija-Leena Hankonen

Kuntarahoitus
MUNICIPALITY FINANCE