Municipality Finance Plc
Financial Statements Bulletin
1 January–31 December 2013

Summary of 2013:

- The Group's net operating profit amounted to EUR 141.3 million (2012: EUR 138.6 million). The growth was 2% year-on-year.
- Net interest income grew by 5% compared with the previous year, totalling EUR 149.5 million (2012: EUR 142.4 million).
- The balance sheet total stood at EUR 26,156 million (2012: EUR 25,560 million).
- The Group's risk-bearing capacity continued to be very strong, with the capital adequacy ratio at 39.88% at year end (2012: 33.87%) and the capital adequacy ratio for Tier I capital at 35.42% (2012: 26.22%).
- Total funding acquisition for 2013 amounted to EUR 10,695 million (2012: EUR 6,590 million). The total amount of funding grew to EUR 23,108 million (2012: EUR 22,036 million).
- Lending increased to EUR 17,801 million (2012: EUR 15,700 million). In total, 9% more loans were withdrawn than in the previous year, amounting to EUR 3,537 million (2012: EUR 3,254 million).
- The leasing portfolio stood at EUR 81 million at year end (2012: EUR 64 million).
- Investments totalled EUR 5,671 million at the end of 2013 (2012: EUR 6,224 million).
- The turnover of Municipality Finance's subsidiary, Inspira, stood at EUR 1.7 million (2012: EUR 1.8 million). Net operating profit at the end of 2013 totalled EUR 0.0 million (2012: EUR 0.2 million).

Key figures (group):	31 Dec 2013	31 Dec 2012
Net interest income (EUR m)	149.5	142.4
Net operating profit (EUR m)	141.3	138.6
New loans issued (EUR m)	3,537	3,254
New funding acquisition (EUR m)	10,695	6,590
Balance sheet total (EUR m)	26,156	25,560
Own funds (EUR m)	511.5	428.9
Capital adequacy ratio for Tier 1 capital, %	35.42	26.22
Capital adequacy ratio, %	39.88	33.87
Return on equity (ROE), %	30.58	38.04
Cost-to-income ratio	0.15	0.14
Number of employees	83	72

CEO Pekka Averio's comments on the financial year:

"2013 was a good year for Municipality Finance, and the company's financial result continued to improve from that of the previous year. The good result allows the company to increase its own funds in order to prepare for regulatory requirements.

Municipality Finance remained by far the largest lender for its customer base. There were no significant changes in customers' financing needs during the year, and the increase in the demand for loans was moderate, as in the past few years.

The municipal sector, as well as the Republic of Finland, were very attractive investment targets for investors looking for safe investments. The company's funding was successful in 2013, with a record amount of EUR 10,695 million in new long-term funding acquired. The early redemptions of the company's bonds substantially increased refinancing needs in the early part of the year.

Regulation in the financial sector progressed in 2013. For Municipality Finance, the most significant aspect of the increased regulation is the potential entry into force of a new leverage ratio requirement at the beginning of 2018. However, due to decisions made by the European Parliament during the year, we will have to wait until 2017 for confirmation of the minimum level of the leverage ratio Municipality Finance will need to comply with. We will therefore need to prepare for a 3% leverage ratio requirement by increasing our own funds through profits.

Municipality Finance is currently carrying out the largest IT system projects in its history. The projects are aimed at improving the efficiency of the company's operations and creating a strong foundation for the development of new services. We are making a strong investment in the development of our operations to ensure our competitiveness in the future."

Credit ratings

Municipality Finance Plc's credit ratings

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

Rating agency	Long-term funding	Outlook	Short-term funding	Outlook
Moody's Investors Service	Aaa	Stable	P-1	Stable
Standard & Poor's	AAA	Stable	A-1+	Stable

The Municipal Guarantee Board's credit ratings

The Municipal Guarantee Board guaranteeing the company's funding has the best possible credit ratings for long-term funding:

Rating agency	Long-term funding	Outlook	Short-term funding	Outlook
Moody's Investors Service	Aaa	Stable	P-1	Stable
Standard & Poor's	AAA	Stable	A-1+	Stable

Operating environment in 2013

The year 2013 was the first fairly calm period on the financial market for quite some time, with no significant new economic crises. The general economic development turned to cautious growth in many European countries and, even in Finland, the decline of the economy appears to have stopped, although there were no clear signs in late 2013 of growth having begun. Late in the year, the threat of deflation arose in the eurozone despite the European Central Bank's efforts to support market recovery by cutting interest rates to a record low.

Municipality Finance is an important part of the basic financial foundation of the Finnish society and the only financial institution in Finland specialising in financing municipal groups and state-subsidised housing production. There were no significant changes in the financing needs of the Finnish municipal sector in 2013 compared to the previous years, and the demand for loans continued to grow at a conservative rate. The competition in lending intensified somewhat towards the end of the year, but nevertheless Municipality Finance maintained its position as the clearly most important and competitive lender for its customers.

The company's funding acquisition was successful during the year, and the company increased the diversification of its funding to new markets and investor categories. In the international financial markets, the company is perceived as one of the most reliable and valued investment targets. At the end of the year, the major international credit rating agencies, Moody's and Standard & Poor's, confirmed the company's credit rating as still the best possible.

Regulatory projects triggered by the financial crisis progressed during the year. For Municipality Finance, the most important aspect of the increased regulation is the new leverage ratio requirement which will potentially come into force in the beginning of 2018. In summer 2013, the European Parliament decided on the calculation and reporting of the leverage ratio as part of the CRR/CRD IV package, but postponed the decision of the most important aspect to Municipality Finance, the level of the ratio, to a later date. The minimum leverage ratio required of the company will not be confirmed until 2017. The company will therefore prepare for a minimum leverage ratio requirement of 3% by increasing its capital through the result of its operations.

Group operating result and balance sheet

The Group's operations continued to be positive in 2013. Net operating profit for the financial year before appropriations and taxes stood at EUR 141.3 million (2012: EUR 138.6 million). The Group's net interest income amounted to EUR 149.5 million (2012: EUR 142.4 million).

Municipality Finance's net operating profit stood at EUR 141.3 million (2012: EUR 138.5 million). Compared with the previous year, net operating profit improved by the increase in business volume, the changes in the margins of new loans granted, successful funding, buybacks of the company's own bonds as well as successful balance sheet management. Income from bond buybacks totalled EUR 10.4 million in 2013 (2012: EUR 9.7 million), which is recognised in net interest income. The result includes EUR 14.4 million in unrealised fair value changes recorded on the basis of valuations (2012: EUR 15.8 million).

The net operating profit of Municipality Finance's subsidiary, Inspira, was EUR 0.0 million in 2013 (2012: EUR 0.2 million).

The Group's commission expenses totalled EUR 4.1 million at the end of the year (2012: EUR 3.2 million). Operating expenses increased by 8% to EUR 20.9 million during 2013 (2012: EUR 19.4 million). The growth in expenses was mainly due to an increase in personnel resulting from changes in business volume and the company's operating environment and on-going IT system development projects.

Administrative expenses totalled EUR 14.8 million (2012: EUR 13.5 million), of which personnel expenses accounted for EUR 10.4 million (2012: EUR 9.2 million). Depreciation of tangible and intangible assets amounted to EUR 1.2 million (2012: EUR 1.1 million). Other operating expenses stood at EUR 4.9 million (2012: EUR 4.9 million). The result also includes a reversal of impairment losses on other financial assets of EUR 0.1 million (2012: EUR 2.0 million).

The Group's balance sheet total was EUR 26,156 million at the end of 2013, compared to EUR 25,560 million at the end of the previous year. The balance sheet grew conservatively during the year. Accounting valuations related to financial items have reduced the net effect of balance sheet growth despite an increase in business volume.

Capital adequacy

The Group's capital adequacy developed favourably during the year. The capital adequacy ratio stood at 39.88% at the end of 2013, compared to 33.87% in 2012. The capital adequacy ratio for Tier 1 capital was 35.42% (2012: 26.22%).

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8% pursuant to the Act on Credit Institutions, was EUR 102.6 million (2012: EUR 101.3 million). The capital adequacy requirement for credit risk tied up the largest amount of the Group's own funds at EUR 87.0 million (2012: EUR 91.0 million), the most significant items being claims on credit institutions and investment firms, as well as securitised items.

Business operations

Funding

Municipality Finance is an active participant in international bond markets and acquires a very significant portion of its funding from international capital markets. Asian markets, particularly Japan, continued to play an important role in Municipality Finance's funding. There was also considerable interest in the company's bonds in Europe and elsewhere in the world. Nevertheless, the company increased the geographical diversification of its funding in 2013 significantly.

The company issued a total of 240 funding transactions in 2013 (2012: 156). The main focus of funding in 2013 was on public markets, which accounted for 46.5% of the total funding acquired during the year. In January 2013, Municipality Finance launched its largest ever Sterling benchmark issue, worth GBP 400 million. In April, Municipality Finance carried out its inaugural bond issue in the United States capital market under the Rule 144A, issuing a benchmark of USD 1.75 billion. This was followed in September by the issue of a benchmark of USD 1 billion, also under the Rule 144A. Through these funding arrangements Municipality Finance further diversified its sources of funding. The public issues were successful despite the challenging market conditions, allowing Municipality Finance to further expand its investor base.

Active investor cooperation has increased the company's reputation in various markets, and diversifying the sources of funding has proven to be a successful strategy. The company diversifies its funding in three ways: geographically, by issuing bonds targeted at different investor groups, and by issuing bonds with different maturities.

Funding was very successful in 2013. Early redemptions of bonds resulted in a substantially increased refinancing need in the early part of the year. In 2013, EUR 10,695 million was acquired in long-term funding (2012: EUR 6,590 million). No Municipal Bonds were issued under the domestic debt programme in 2013 (2012: EUR 8 million). The company issued bonds denominated in 14 different currencies in 2013 (2012: 16 currencies). A total of EUR 9,245 million was issued in short term debt instruments under the Euro-Commercial Paper programme in 2013 (2012: EUR 4,239 million), and total funding under the programme amounted to EUR 1,592 million at year end (2012: EUR 1,377 million). Total funding at the end of the year amounted to EUR 23,108 million (2012: EUR 22,036 million). Of this total amount, 15% was denominated in euros (2012: 16%) and 85% was denominated in foreign currencies (2012: 84%). More than half of the funding acquired during the year were plain vanilla arrangements; the amount of structured funding acquisition decreased in 2013.

Customer financing

In 2013, the funding requirements of municipalities and municipal federations increased compared to the previous year. The amount of lending for housing financing was slightly lower than what was expected at the end of 2012 due to lower conversions of state-subsidised loans. The funding requirements for interest-subsidised housing production, however, remained unchanged from the previous year.

The total number of tender requests received by Municipality Finance in 2013 increased by 13% compared with 2012. The total value of tender requests received was EUR 5,090 million (2012: EUR 4,515 million), of which it won EUR 3,442 million (2012: EUR 3,284 million). Tenders worth EUR 1,969 million were won in the municipalities and municipal federations segment (2012: EUR 1,822 million), EUR 345 million in the municipal enterprises category (2012: EUR 373 million) and EUR 1,128 million in bids to housing corporations (2012: EUR 1,089 million). The company's long term loan portfolio at the end of 2013 amounted to EUR 17,801 million (2012: EUR 15,700 million). This represents an increase of 13% on the previous year. New loans withdrawn amounted to 9% more than in 2012, or EUR 3,537 million (2012: EUR 3,254 million). Municipality Finance's share of the financing of its customer base remains high.

Municipality Finance offers financial leasing services to municipalities, municipal federations and municipally owned or controlled corporations. Leasing services were launched in 2010.

The aim of Municipality Finance's leasing operations is to increase transparency and the range of alternatives available in the leasing market. The company has concluded a number of facility agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is increasingly seen as a viable alternative, particularly for procurement by municipal corporations engaging in municipal operations and hospital districts. The leasing portfolio stood at EUR 81 million at year end (2012: EUR 64 million).

In addition to loans, Municipality Finance offers municipalities, municipal federations and municipal enterprises derivative contracts which are tailored to their needs for the management of interest rate risk. Demand for derivative products was high in 2013. As interest rates remained low, customers increased their hedging against future increases in market rates.

Investment operations

Municipality Finance's investment operations primarily involve investing pre-funding. The funds are invested in highly liquid and rated financial instruments to ensure the company's operations in all market conditions. According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations for at least the six following months. The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments.

At the end of 2013, investments in securities totalled EUR 5,292 million (2012: EUR 5,895 million) and their average credit rating was AA (2012: AA). The average maturity of the security portfolio stood at 3.54 years at the end of 2013 (2012: 2.97 years). In addition to this, the company had EUR 379 million in other investments (2012: EUR 329 million), of which EUR 354 million were in central bank deposits (2012: EUR 228 million), EUR 25 million in money market deposits in credit institutions (2012: EUR 51 million) and EUR 0 million in repurchase agreements (2012: EUR 50 million).

Liquidity remained good during 2013. New investments were mainly made in covered bonds and bonds issued by public sector entities and banks based in strong core countries in the eurozone.

Financial Advisory Services Inspira Ltd

Inspira's turnover in 2013 was EUR 1.7 million (2012: EUR 1.8 million). Net operating profit for the period totalled EUR 0.0 million (2012: EUR 0.2 million).

Risk management

There were no material changes in the company's risk position in 2013. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it.

Prospects for 2014

The international financial markets expect 2014 to be a calm year with no significant fluctuations. The most significant threat to economic growth in Europe is the possibility of deflation. Efforts are being made to prevent deflation by keeping interest rates very low. The low interest rates make the market situation more challenging for Municipality Finance.

Despite the weakened economic outlook, the Republic of Finland and the Finnish municipal sector have maintained the best possible credit ratings, and their relative position within the eurozone has strengthened. The company therefore does not expect significant changes in the availability of financing. The amount of funding acquired in 2014 is expected to be lower than in 2013.

The investment requirements of the municipal sector are increasing in the long term. However, new investment projects initiated by municipalities are expected to remain at their current level or decrease slightly as the general economic uncertainty increases. The ongoing, still unfinished municipal reform may also postpone municipalities' investment decisions in the next few years. State-subsidised housing production is expected to remain unchanged from the previous year.

EU-level regulation will increase substantially in 2014. The revised regulatory framework on capital adequacy and liquidity (CRR/CRD IV), which entered into force at the beginning of the year, increases capital requirements and leaves little room for national regulation or deviation from the common European model. As part of the framework's implementation, the Finnish Act on Credit Institutions will be amended in its entirety in 2014. Another significant regulatory change concerning the banking sector and all other parties that use derivatives is the European Market Infrastructure Regulation (EMIR), the implementation of which will continue in 2014.

Municipality Finance will continue to develop its own operations in a systematic manner, investing in particular in developing services that the company's customers need, adapting to changes in the operating environment and regulatory environment, in addition to renewing information systems and in refining company's processes.

The profitability of Municipality Finance's operations is expected to remain at a strong level in 2014.

The Board's proposal for the distribution of profit for the 2013 financial year

Municipality Finance Plc's distributable funds total EUR 42,232,539.73, of which profit for the financial year is EUR 20,591,419.05. The Board of Directors will propose to the Annual General Meeting that no dividend be distributed and that the distributable funds of EUR 42,232,539.73 be retained in equity.

The Board considers it reasonable to retain the profit of the financial year in the company. The company must prepare for increased own fund requirements by increasing its Tier 1 capital considerably through profits, if the leverage ratio requirement included in credit institution regulation, currently in preparation, will be enforced in its forecasted form.

The Financial Statements for 2013 will be available on the company's website (www.munifin.fi) as of 5 March 2014.

Municipality Finance Plc

Further information:
Pekka Averio, President and CEO,
tel. +358 500 406 856
Esa Kallio, Executive Vice President, Deputy to CEO,
tel. +358 50 337 7953
Marjo Tomminen, Senior Vice President, CFO,
tel. +358 50 386 1764

Municipality Finance Group

Consolidated Statement of Financial Position

(€1,000)	31 Dec 2013	31 Dec 2012
ASSETS		
Cash and cash equivalents	354,232	228,188
Loans and advances to credit institutions	589,144	106,828
Loans and advances to the public and public sector entities	17,882,282	15,764,232
Debt securities	5,985,644	6,637,831
Shares and participations	10,050	10,035
Derivative contracts	1,094,150	2,551,683
Intangible assets	4,740	2,399
Tangible assets	2,525	2,341
Other assets	1,977	2,410
Accrued income and prepayments	231,656	254,214
TOTAL ASSETS	**26,156,402**	**25,560,160**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	2,264,386	3,961,730
Liabilities to the public and public sector entities	929,209	1,049,477
Debt securities issued	20,269,298	18,798,375
Derivative contracts	1,818,359	937,983
Other liabilities	1,395	1,306
Accrued expenses and deferred income	268,590	297,999
Subordinated liabilities	48,974	90,355
Deferred tax liabilities	85,967	77,670
TOTAL LIABILITIES	**25,686,178**	**25,214,895**
EQUITY AND NON-CONTROLLING INTEREST		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	22,285	21,927
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	364,641	239,944
Total equity attributable to parent company equity holders	**470,153**	**345,097**
Non-controlling interest	**71**	**168**
TOTAL EQUITY AND NON-CONTROLLING INTEREST	**470,224**	**345,265**
TOTAL LIABILITIES AND EQUITY	**26,156,402**	**25,560,160**

Municipality Finance Group

Consolidated Income Statement

(€1,000)	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
Interest income	180,014	275,660
Interest expenses	–30,524	–133,259
NET INTEREST INCOME	**149,490**	**142,402**
Commission income	1,933	1,730
Commission expenses	–4,135	–3,225
Net income from securities and foreign exchange transactions	5,023	14,340
Net income from available-for-sale financial assets	214	405
Net income from hedge accounting	9,617	340
Other operating income	5	26
Administrative expenses	–14,802	–13,495
Depreciation and impairment on tangible and intangible assets	–1,196	–1,067
Other operating expenses	–4,937	–4,874
Impairment losses on other financial assets	54	2,020
NET OPERATING PROFIT	**141,266**	**138,601**
Income tax expense	–16,567	–33,991
PROFIT FOR THE PERIOD	**124,699**	**104,611**
Profit attributable to:		
Equity holders of the parent company	124,697	104,510
Non-controlling interest	1	100

Statement of Comprehensive Income

(€1,000)	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
Profit for the period	124,699	104,611
Components of other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods		
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	1,004	47,308
Net amount transferred to profit or loss	–2,356	283
IAS 39 reclassification adjustment	167	272
Taxes related to components of other comprehensive income	290	–11,726
Change in corporate tax rate	1,254	0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**125,057**	**140,747**
Total comprehensive income attributable to:		
Equity holders of the parent company	125,056	140,647
Non-controlling interest	1	100

Municipality Finance Group

Capital Adequacy

Own funds

(€1,000)	31 Dec 2013	31 Dec 2012
Share capital	42,583	42,583
Minority interest	71	168
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	239,944	135,434
Profit for the period	124,697	104,510
Capital loans	11,009	11,009
Intangible assets	−4,740	−2,399
TOTAL TIER 1 CAPITAL	**454,208**	**331,948**
Fair value reserve	22,285	21,927
Subordinated liabilities included in upper Tier 2 capital	–	40,000
Subordinated liabilities included in lower Tier 2 capital	35,000	35,000
TOTAL TIER 2 CAPITAL	**57,285**	**96,927**
TOTAL OWN FUNDS	**511,493**	**428,875**

Risk-weighted assets

(€1,000)	31 Dec 2013		31 Dec 2012	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**86,991**	**1,087,383**	**91,024**	**1,137,809**
Claims on credit institutions and investment firms	38,233	477,916	45,549	569,367
Covered bonds	16,733	209,159	13,528	169,096
Securitised items	29,129	364,112	28,755	359,441
Shares in investment funds	132	1,651	105	1,310
Other items	2,764	34,546	3,087	38,595
Market risk	**0**		**0**	
Operational risk, basic method	**15,609**		**10,270**	
TOTAL	**102,600**	**1,087,383**	**101,294**	**1,137,809**
CAPITAL ADEQUACY RATIO, TIER 1 CAPITAL, %	**35.42%**		**26.22%**	
CAPITAL ADEQUACY RATIO, %	**39.88%**		**33.87%**	

Municipality Finance Plc is the credit institution of the Finnish municipal sector, which is owned by municipalities, Keva and the State of Finland. The company is a key part of the basic economic structure of Finnish society. Its task is to ensure as competitive financing as possible for municipal investments and state-subsidised social housing production under all market conditions.

The Municipality Finance Group also includes the subsidiary company Financial Advisory Services Inspira Ltd.

The company's customers are Finland's municipalities, municipal federations, municipally controlled companies and non-profit housing corporations. Our customers use financing solutions provided by Municipality Finance to finance social and non-profit entities such as day care centres, schools, housing facilities and hospitals, as well as other municipal investments.

Municipality Finance has the highest possible credit rating and its funding is guaranteed by the Municipal Guarantee Board. The company acquires funding in a market-based manner, mainly from international capital markets. The Group's balance sheet is over EUR 26 billion.

Read more: www.munifin.fi

Municipality Finance Plc
Jaakonkatu 3 A, P.O. Box 744
FI-00101 Helsinki
Tel. +358 (0)9 6803 5666
www.munifin.fi
firstname.lastname@munifin.fi