Interim report 1 January – 30 June 2014

CEO's review

The year began as planned

The first half of 2014 saw stability on the international financial markets and an absence of major disruptions. In Europe, the second quarter of the year was the strongest in three years, and signs of positive development could be seen in eurozone crisis economies. As a result, the credit ratings of Greece and Spain, amongst others, increased and Portugal exited financial assistance programme of the EU, ECB and IMF earlier than expected. The interest rates of the peripheral eurozone countries government bonds also decreased markedly.

The increasing threat of deflation across Europe in the first half of the year, led to steps being undertaken by the ECB to accelerate economic growth. One of the ECB's measures was the historic decision to introduce a negative interest rate on central bank deposits. The aim of this measure was to increase banks' supply of loans in particular to the European business sector, which in turn would drive stronger economic growth. These measures are expected to be visible in economic development during 2015 at the latest.

In Finland, economic growth has been weaker than in the other Nordic and Central European countries, and forecasts indicate that 2014 will be the third consecutive year of negative GDP growth. Should this weak economic development continue for a prolonged period of time will it increasingly affect the future economic situation of the municipal sector.

The municipal sector has been expecting policy guidelines on several significant decisions with direct effects on the development and investments of municipalities. Following the agreement on the social and health care reform, the process of amending legislation commenced and is still ongoing at the time of writing. The exact impact of the ongoing reform on municipalities cannot be estimated. Similarly, the reform in local government structures is still underway, and the timeline for final decisions has not been defined. However, what is known is that the future changes in the operating environment of municipalities will most likely be extremely significant.

The financial development and operations of Municipality Finance continued as planned during the first half of the year. The company continues to be the largest lender for its customer base, and its total lending volume increased to EUR 18.4 billion (31 December 2013: EUR 17.8 billion). The demand for alternative financing solutions is a growing trend among our customer base. As a result, we reached a milestone in financial leasing services during the period, with the leasing portfolio exceeding EUR 100 million. The loan demand of the company's customer base has not been as high as during the corresponding period the previous year. The supply of financing to the municipal sector normalised, with banks and other financial institutions actively seeking to join the municipal lending market.

The year has been good in terms of our funding, and we carried out 130 debt issues during the first six months, raising a total of EUR 4.2 billion. Funding was raised in a front-loaded manner again by taking advantage of the positive conditions across the markets as efficiently as possible. We estimate our full-year funding requirement to be approximately EUR 7 billion.

Our largest debt issuance during the first half of the year was the benchmark bond of USD 1 billion in May, which was subscribed in its entirety within an hour and in the end oversubscribed almost 2.5 times. The favourable demand for the bond was a clear sign of international investors' continued trust in the Finnish municipal sector's ability to fulfil its obligations and that the markets believe the Finnish government is able to make the required decisions to turn the direction of the country's economic situation.

Municipality Finance celebrates its 25th anniversary in 2014. In celebration of this milestone, we will continue to focus on our mission of ensuring competitive funding for the Finnish municipal sector and state-subsidized housing production under all market conditions. I would like to wish all of Municipality Finance's customers, shareholders and various stakeholders a relaxing and peaceful rest of the summer.

Helsinki, 8th August 2014

Pekka Averio
President and CEO

Interim report 1 January – 30 June 2014 [1]

The first half of 2014 in brief

- Net interest income grew by 0.5% compared to the previous year, reaching EUR 79.0 million (1 January – 30 June 2013: EUR 78.6 million).
- Operating profit excluding valuation and non-recurring items has continued its strong development. Operating profit decreased as a result of unrealized IFRS fair value changes of financial items and the lower repurchase volume of own bonds. The Group's net operating profit amounted to EUR 63.4 million (1 January – 30 June 2013: EUR 80.7 million). This represents a 21% decrease from the previous year.
- The balance sheet total was EUR 28,211 million (31 December 2013: EUR 26,156 million).
- The Group's capital adequacy remained strong, with the ratio of own funds to risk-weighted assets being 29.04% at the end of June (31 December 2013: 39.88%) and the ratio of Tier 1 capital to risk-weighted assets being 25.70% (31 December 2013: 35.42%). The figures for 2014 have been calculated in accordance with the EU Capital Requirements Regulation that entered into force on 1 January 2014.
- Total funding acquisition from January to June amounted to EUR 4,178 million (1 January – 30 June 2013: EUR 7,133 million). The total amount of funding grew to EUR 25,477 million (31 December 2013: EUR 23,108 million).
- The lending portfolio increased to EUR 18,365 million (31 December 2013: EUR 17,801 million) and the amount of new loans withdrawn in January–June amounted to EUR 1,245 million (1 January – 30 June 2013: EUR 1,858 million).
- The leasing portfolio stood at EUR 106 million at the end of June (31 December 2013: EUR 81 million).
- At the end of June, investments totalled EUR 6,551 million (31 December 2013: EUR 5,671 million).
- The turnover of Municipality Finance's subsidiary Inspira was EUR 1.1 million (1 January – 30 June 2013: EUR 0.8 million). Net operating profit at the end of June was EUR 0.2 million (1 January – 30 June 2013: EUR 0.0 million).

Key figures (Group)	30 Jun 2014	30 Jun 2013	31 Dec 2013
Net interest income (EUR million)	79.0	78.6	149.5
Net operating profit (EUR million)	63.4	80.7	141.3
New loans issued (EUR million)	1,245	1,858	3,537
New funding acquisition (EUR million)	4,178	7,133	10,695
Balance sheet total (EUR million)	28,211	25,533	26,156
Total own funds (EUR million)	559.3	450.8	511.5
Ratio of Tier 1 capital to risk-weighted assets, %	25.70	31.09	35.42
Ratio of total own funds to risk-weighted assets, %	29.04	35.73	39.88
Return on equity (%) (ROE)	20.30	32.34	30.58
Cost-to-income ratio	0.16	0.13	0.15
Number of employees	87	82	83

The calculation formulae for the key figures are given on page 13.
Except where otherwise noted, the figures presented in this interim report are consolidated figures.

[1] This is a translation of the original Finnish interim report "Osavuosikatsaus 1.1.–30.6.2014". Should there be any discrepancies between this translation and the Finnish original, the latter shall prevail.

Credit ratings

Municipality Finance'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	Negative	A-1+	Stable

In April 2014, Standard & Poor's confirmed the AAA credit rating of Municipality Finance's long-term funding, but at the same time, changed the outlook to negative. This change in outlook is a direct consequence of the equivalent change in the corresponding rating of the Republic of Finland. In accordance with the Standard & Poor's credit rating methodology, the credit rating of the municipal sector cannot be higher than the rating of the sovereign.

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	Negative	A-1+	Stable

In April 2014, Standard & Poor's confirmed the Municipal Guarantee Board's AAA credit rating, but at the same time, changed the outlook to negative. This change in outlook is a direct consequence of the equivalent change in the corresponding rating of the Republic of Finland. In accordance with the Standard & Poor's credit rating methodology, the credit rating of the municipal sector cannot be higher than the rating of the sovereign.

Development of business operations

Group structure

The Municipality Finance Group (hereinafter "the Group") consists of Municipality Finance Plc (hereinafter "Municipality Finance" or "the Company") and Financial Advisory Services Inspira Ltd (hereinafter "Inspira").

The role of Municipality Finance is to offer market-based financing to municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA) by acquiring funding from capital markets at competitive costs.

Inspira offers financial advisory services to the public sector. Its advisory services include the analysis and arrangement of various forms of financing for public sector investments. In addition, Inspira offers its services for different public sector ownership arrangements by planning the services, making value assessments and assisting in contract negotiations. Inspira helps the public sector to arrange its services more effectively and invest more economically.

Net operating result and balance sheet

The Group's operations continued positively during the first half of the year. The development of net interest income has remained positive. Net interest income at the end of June was EUR 79.0 million (1 January – 30 June 2013: EUR 78.6 million). Net interest income includes EUR 1.2 million of commissions from the repurchase of own bonds during the first six months of the year (1 January – 30 June 2013: EUR 9.5 million).

Net operating profit for the interim period before appropriations and taxes stood at EUR 63.4 million (1 January – 30 June 2013: EUR 80.7 million). Operating profit excluding valuation and non-recurring items has continued its strong development. The net operating profit for the first six months of the year decreased compared to the previous year due to changes in the IFRS valuation of financial items in proportion to market interest rates. The valuations are unrealized and their amount changes according to the fluctuation of market interest rates. The impact of IFRS valuations on profit was EUR -5.6 million (1 January – 30 June 2013: EUR 14.2 million).

In the first half of the year, the net operating profit of Municipality Finance's subsidiary Inspira was EUR 0.2 million (1 January – 30 June 2013: EUR 0.0 million).

The Group's commission expenses totalled EUR 1.8 million at the end of June 2014 (1 January – 30 June 2013: EUR 2.1 million). Operating expenses were EUR 10.3 in the first half of

2014 (1 January – 30 June 2013: EUR 10.4 million). Administrative expenses were EUR 6.7 million (1 January – 30 June 2013: EUR 7.2 million), of which personnel expenses were EUR 4.2 million (1 January – 30 June 2013: EUR 5.0 million). Depreciation of tangible and intangible assets amounted to EUR 0.7 million (1 January – 30 June 2013: EUR 0.6 million). Other operating expenses were EUR 2.8 million (1 January – 30 June 2013: EUR 2.6 million).

The consolidated balance sheet total amounted to EUR 28,211 million at the end of June 2014 (31 December 2013: EUR 26,156 million).

Capital adequacy

The Group calculates its capital adequacy based on the EU Capital Requirements Regulation (EU 575/2013) and Directive (2013/36/EU). The capital adequacy requirement for credit risk is calculated using the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small and it is not necessary to reserve capital for the currency risk. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. For capital adequacy calculations of credit risk, Municipality Finance uses methods for reducing credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Municipality Finance Group's own funds totalled EUR 559.3 million at the end of June 2014 (31 December 2013: EUR 511.5 million). Tier 1 capital amounted to EUR 494.9 million (31 December 2013: EUR 454.2 million). Tier 1 capital includes the net profit for the period of 1 January – 30 June 2014, EUR 50.6 million, as the result for the period has been subject to a review by the auditors and can therefore be included in the company's own funds under the Act on Credit Institutions. Tier 1 capital at the end of June 2014 does not include a provision for dividend distribution, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its dividend proposal based on the company's financial situation, the applicable regulation and taking into account the company's ownership structure. Tier 2 capital at the end of the review period totalled EUR 64.4 million (31 December 2013: EUR 57.3 million).

Tier 1 capital includes capital investments totalling EUR 1 million. These do not fulfil the criteria of the Capital Requirements Regulation that entered into force in the beginning of 2014. As a result, only a certain proportion, defined by the competent authority, of these items can be included in own funds going forward. During 2014, EUR 0.8 million of the capital investments can be included in additional Tier 1 capital. The subordinated debenture loan (I/2003) of EUR 10 million was included in the additional Tier 1 capital at the end of 2013. This loan was repaid with the permission of the Finnish Financial Supervisory Authority on 10 June 2014. The Tier 2 capital includes a EUR 35 million debenture loan maturing on 9 May 2021. The company has the right to prematurely repay the loan principal and accumulated interest as of 9 May 2016. Detailed descriptions of the subordinated loans and debenture loans are included in Note 7 of this Interim Report.

The Group's capital adequacy has remained good, with the ratio of total own funds to risk-weighted assets being 29.04%. At the end of 2013, the ratio of total own funds to risk-weighted assets based on the new capital adequacy regulation was 32.52%. The capital adequacy ratio based on the capital adequacy regulations in force on 31 December 2013 was 39.88%. The most significant change in regulation, from Municipality Finance's perspective has been the use of the counterparty credit rating instead of the credit rating of the country where the counterparty is located in the calculation of risk-weighted assets for debt securities and derivatives. The capital requirement for credit risk has increased as a result of the new regulation.

The final level and content of the leverage ratio requirement is likely to become known in 2017. Municipality Finance has performed analyses of the impacts the new leverage ratio requirement will have on the company's ability to continue its current operations and grow in accordance with its strategy. One way of achieving the required level is by increasing own funds through the result of its operations. At the end of June 2014, the leverage ratio stood at 1.7% (31 December 2013: 1.7%), calculated using currently known calculation principles.

Consolidated own funds

(EUR 1,000)	30 Jun 2014	31 Dec 2013 *	31 Dec 2013
Common Equity Tier 1 before adjustments	498,563	447,925	447,939
Adjustments to Common Equity Tier 1	−4,477	−4,740	−4,740
COMMON EQUITY TIER 1 (CET1)	**494,086**	**443,185**	**443,199**
Additional Tier 1 capital before adjustments	807	8,807	11,009
Adjustments to Additional Tier 1 capital	–	–	–
ADDITIONAL TIER 1 CAPITAL (AT1)	**807**	**8,807**	**11,009**
TIER 1 CAPITAL (T1)	**494,893**	**451,992**	**454,208**
Tier 2 capital before adjustments	64,414	57,285	57,285
Adjustments to Tier 2 capital	–	–	–
TIER 2 CAPITAL (T2)	**64,414**	**57,285**	**57,285**
TOTAL OWN FUNDS	**559,307**	**509,277**	**511,493**

* Own funds at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

Consolidated key figures for capital adequacy

	30 Jun 2014	31 Dec 2013 *	31 Dec 2013
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	25.65	28.30	34.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	25.70	28.86	35.42
Ratio of total own funds to risk-weighted assets, %	29.04	32.52	39.88

*Consolidated key figures for capital adequacy at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

Minimum requirement for own funds, Group

(EUR 1,000)	30 Jun 2014		31 Dec 2013 *		31 Dec 2013	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**133,818**	**1,672,723**	**109,667**	**1,370,836**	**86,991**	**1,087,383**
Claims on credit institutions and investment firms	84,552	1,056,898	60,869	760,858	38,233	477,916
Covered bonds	17,638	220,470	16,733	209,159	16,733	209,159
Securitised items	28,799	359,993	29,129	364,112	29,129	364,112
Shares in investment funds	100	1,250	132	1,651	132	1,651
Other items	2,729	34,112	2,804	35,056	2,764	34,546
Market risk	**0**		**0**		**0**	
Operational risk, basic method	**19,721**	**246,515**	**15,609**	**195,117**	**15,609**	**195,117**
TOTAL	**153,539**	**1,919,238**	**125,276**	**1,565,953**	**102,600**	**1,282,500**

* Capital requirement and risk-weighted assets at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

Funding

Municipality Finance's funding is based on diversification in the major capital markets as well as reliability, speed and flexibility. The majority of funding is carried out as standardised issues under debt programmes. Municipality Finance has the following debt programmes:

Euro Medium Term Note (EMTN) programme	EUR m	25,000
Domestic debt programme	EUR m	800
Euro Commercial Paper programme	EUR m	4,000
AUD debt programme (Kangaroo)	AUD m	2,000

Municipality Finance's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as Municipality Finance. The Municipal Guarantee Board has granted guarantees for the debt programmes and funding arrangements outside the programmes; as a result, debt instruments issued by Municipality Finance are classified as zero-risk when calculating the capital adequacy of credit institutions in Finland and several other European countries.

In January–June, EUR 4,178 million was acquired in long-term funding (1 January – 30 June 2013: EUR 7,133 million). The company issued bonds denominated in 12 different currencies in the first half of 2014. A total of EUR 3,288 million was issued in short-term debt instruments under the Euro Commercial Paper programme in January–June (1 January – 30 June 2013: EUR 4,649 million), and total funding under the programme amounted to EUR 849 million at the end of June (31 December 2013: EUR 1,592 million). Total funding at the end of June 2014 amounted to EUR 25,477 million (31 December 2013: EUR 23,108 million). Of this total amount, 16% was denominated in euros (31 December 2013: 15%) and 84% was denominated in foreign currencies (31 December 2013: 85%).

Municipality Finance is an active participant in international bond markets and acquires a very significant portion of its funding from international capital markets. A total of 130 funding transactions were made in January–June (1 January – 30 June 2013: 160). During the first half of the year, the emphasis of funding acquisition was on the benchmark markets, which accounted for 48% of the funding acquired during the period. In January 2014, the first benchmark bond of the year was issued: a USD 700 million floating rate note. In addition, a GBP 400 million benchmark bond was issued during the first half of the year. In March, Municipality Finance returned to the Australian public market after five years by issuing an AUD 125 million benchmark bond. A USD 1 billion benchmark was issued in May, meeting very high demand among international investors.

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.

Customer financing

Municipality Finance's customers consist of municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA). Over the years, the company has increased its importance as a financier to its customers and is clearly the largest single operator in its customer segment.

Long-term lending

Customers' demand for loans has been lower during the first half of the year compared to the previous year. The total volume of tender requests received by Municipality Finance in January–June was EUR 2,146 million (1 January – 30 June 2013: EUR 2,868 million). The total amount of new loans withdrawn in the first half of 2014 was lower than in the same period last year at EUR 1,245 million (1 January – 30 June 2013: EUR 1,858 million). At the end of June, Municipality Finance's long-term loan portfolio stood at EUR 18,365 million (31 December 2013: EUR 17,801 million). This corresponds to a 3% increase in the loan portfolio from year end. Municipality Finance's share of the financing of its customer base remains high.

In addition to loans, Municipality Finance offers municipalities, municipal federations and municipal enterprises derivative contracts tailored to their needs for the management of interest rate risk. Demand for derivative products was high in the first half of 2014. As interest rates remained low, customers increased their hedging against future increases in market rates.

Leasing operations

Municipality Finance offers financial leasing services to municipalities, municipal federations and municipally-owned corporations. The aim of Municipality Finance's leasing operations is to increase the range of alternatives available in the leasing market and transparency. 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 seen as a viable alternative, particularly for procurement by municipalities, municipal corporations engaging in municipal operations and hospital districts. The leasing portfolio stood at EUR 106 million at the end of June 2014 (31 December 2013: EUR 81 million).

Short-term lending

Municipalities and municipal federations issue municipal commercial papers to cover their short-term financing needs. Companies under the control of municipalities and municipal federations issue municipal company commercial papers.

With interest rates remaining low, customers continued to be active in using short-term financing. At the end of June 2014, the total value of municipal commercial paper and municipal company commercial paper programmes concluded with Municipality Finance was EUR 3,640 million (31 December 2013: EUR 3,265 million). At the end of the reporting period, the company had EUR 1,117 million in municipal commercial papers and municipal company commercial papers on its balance sheet (31 December 2013: EUR 704 million). During the first six months of the year, customers acquired EUR 4,771 million in financing under short-term programmes (1 January – 30 June 2013: EUR 4,561 million).

Investment operations

Municipality Finance's investment operations primarily involve investing acquired funding before lending it to customers. 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 (including new net lending) 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 June 2014, investments in securities totalled EUR 6,487 million (31 December 2013: EUR 5,292 million) and their average credit rating was AA (31 December 2013: AA). The average maturity of the security portfolio stood at 3.28 years at the end of June 2014 (31 December 2013: 3.54 years). In addition to this, the company had EUR 114 million in other investments (31 December 2013: EUR 379 million), of which EUR 28 million were in central bank deposits (31 December 2013: EUR 354 million), EUR 37 million in money market deposits in credit institutions (31 December 2013: EUR 25 million) and EUR 50 million in repurchase agreements (31 December 2013: -).

Liquidity remained good during the review period. 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. Liquidity will be kept at a high level, as the Company prepares for the refinancing needs of the remaining year and the beginning of 2015.

Inspira

Inspira's turnover in January–June was EUR 1.1 million (1 January – 30 June 2013: EUR 0.8 million). The net operating profit for the first half of the year was EUR 0.2 million (1 January – 30 June 2013: EUR 0.0 million).

Turnover comprised a wide range of advisory assignments related to financing solutions for public sector investments as well as various reorganisations of activities in the municipal sector.

Governance

Corporate Governance Policy

The Board has approved the Company's Corporate Governance policy, which complies, where applicable, with the Finnish Securities Market Association Corporate Governance Code for listed companies in Finland. As Municipality Finance is solely an issuer of bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies directly and in its entirety is not appropriate. Nevertheless, the Company has decided to use the Corporate Governance Code as the basis for preparing its own Corporate Governance Policy. In addition to the Corporate Governance Code for Finnish listed companies, the Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with Finnish Financial Supervisory Authority standard 1.3 on "Internal Governance and Organisation of Activities".

The Board is responsible for ensuring that Municipality Finance complies with its Corporate Governance Policy and is committed to developing it further.

Municipality Finance's Corporate Governance Policy is available in Finnish, English and Swedish online on the company's website www.munifin.fi.

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 26 March 2014. The Annual General Meeting confirmed the financial statements for 2013 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2013. In addition, the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 42,232,539.73 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the Annual General Meeting decided that the Board of Directors shall have eight members during the 2014–2015 term of office, instead of seven members as previously, and elected the members of the Board of Directors. The Annual General Meeting also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

The meeting also elected KPMG Oy Ab as the auditor of the company, with Marcus Tötterman, APA, as the principal auditor.

Board of Directors

At the Annual General Meeting of 26 March 2014, the Shareholders' Nomination Committee made a proposal to the Board Meeting of members to be elected for the term beginning at the end of the Annual General Meeting of 2014 and concluding at the end of the following Annual General Meeting. The Annual General Meeting elected the following members to the Board of Directors:

Eva Liljeblom, Chairman of the Board, member of the Board of Directors since 2003
- Education: D.Sc. (Econ.)
- Year of birth: 1958
- Primary occupation: Rector, Professor, Hanken School of Economics in Helsinki
- Independence: independent of the company and its significant shareholders

Fredrik Forssell, Vice Chairman, member of the Board of Directors since 2011
- Education: M.Sc. (Econ.)
- Year of birth: 1968
- Primary occupation: CIO, Internal equity & FI, Keva
- Independence: independent of the company

Tapani Hellstén, member of the Board of Directors since 2014
- Education: M.A. (Adm. Sci.)
- Year of birth: 1957
- Primary occupation: Executive Vice President, Keva
- Independence: independent of the company

Teppo Koivisto, member of the Board of Directors since 2011
- Education: M.A. (Pol. Sci.)
- Year of birth: 1966
- Primary occupation: Head of Division, State Treasury
- Independence: independent of the company

Sirpa Louhevirta, member of the Board of Directors since 2011
- Education: M.Sc. (Econ.)
- Year of birth: 1964
- Primary occupation: Group Treasurer, Sanoma Oyj
- Independence: independent of the company and its significant shareholders

Tuula Saxholm, member of the Board of Directors since 2013
- Education: M.Sc. (Econ.)
- Year of birth: 1961
- Primary occupation: Finance Director, City of Helsinki
- Independence: independent of the company

Asta Tolonen, member of the Board of Directors since 2011
- Education: M.Sc. (Econ.)
- Year of birth: 1960
- Primary occupation: Municipal Manager, Municipality of Suomussalmi
- Independence: independent of the company and its significant shareholders

Juha Yli-Rajala, member of the Board of Directors since 2011
- Education: M.A. (Adm. Sci.)
- Year of birth: 1964
- Primary occupation: Director, City of Tampere
- Independence: independent of the company and its significant shareholders

In order to organise its work as efficiently as possible, the Board of Municipality Finance has established an Audit Committee and a Remuneration Committee for the preparation of matters. The members of the Audit Committee are Fredrik Forssell (Chairman), Tapani Hellstén, Sirpa Louhevirta and Tuula Saxholm. The members of the Remuneration Committee are Eva Liljeblom (Chairman), Teppo Koivisto, Asta Tolonen and Juha Yli-Rajala.

The work of the Board of Directors and its committees is described in more detail in the company's Corporate Governance Policy, which is available online at www.munifin.fi.

Personnel

At the end of June 2014, Municipality Finance Group had 87 employees (31 December 2013: 83), of whom 75 were staff of the parent company (31 December 2013: 70). The President and CEO of Municipality Finance is Pekka Averio. Executive Vice President Esa Kallio acts as deputy to the CEO. In addition, the Board of Management of Municipality Finance includes Senior Vice President Toni Heikkilä, Senior Vice President Jukka Helminen, Senior Vice President Marjo Tomminen and Senior Vice President Mari Tyster.

The CEO of Municipality Finance's subsidiary Inspira is Kimmo Lehto.

Internal audit

Internal audit has been outsourced to Deloitte & Touche Ltd. The Company's Legal Affairs and Compliance department is responsible for the coordination of the outsourced auditing. Internal audit tasks include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. The tasks also include ensuring that the Company has adequate and properly organised manual and IT systems for its operations and that the risks associated with the operations are being managed sufficiently. The internal audit reports to the Board of Directors and its Audit Committee.

Risk management

Municipality Finance's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk status at such a low level that the company's strong credit rating (Aaa/AAA) is not compromised.

Municipality Finance's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The purpose of risk management is to ensure that the risks associated with lending, funding acquisition, investment and other business operations are in line with Municipality Finance's low risk profile. The risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

There were no material changes in the company's risk position during the review period.

Strategic risks

Strategic risk means that the company would have chosen the wrong strategy for financially profitable operations or that the company would fail to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of the clients' needs, forecasts of market trends, and changes in the competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2018.

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitments to the company. Municipality Finance may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or a state. The amount of the primary pledge must equal 1.2 times the amount of the loan. As such a guarantee is required to reduce the credit risk, allows all loans granted to be classified as zero-risk when calculating capital adequacy. The company does not bear the residual value risk for the objects of its leasing services. Municipality Finance has not had any non-performing loans during its operations or credit losses in the financing of its customers.

Municipality Finance is also exposed to credit risk from its pre-funding investment portfolio and derivative instruments. In selecting counterparties Municipality Finance evaluates credit risk with principles and limits, which have been approved by the Board of Directors, based on external credit ratings. Nominal values of debt securities and exposure values of derivatives (fair value method) are used in monitoring credit risk. Municipality Finance limits credit risk of derivative agreements with ISDA Credit Support Annexes in the case of major derivatives counterparties. The company has 45 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risk related to the derivative contracts of certain counterparties.

Market risk

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

Municipality Finance uses derivative agreements to hedge against interest rate risks arising from business operations. The company hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other market risks. Derivatives may only be used for hedging purposes.

The Board of Directors of Municipality Finance has specified limits for the following market risks:

- Currency position
- Interest rate risk
  - Duration
  - Value-at-Risk
  - Economic Value
  - Income risk
- Price risk of pre-funding investments.

Liquidity risk

Liquidity risk means the risk of the company not being able to perform payment obligations arising from settling financial agreements or other financial activities on their due date. The Board of Directors of Municipality Finance has set the following limits on liquidity risks:

- refinancing gap
- sufficiency of liquid assets measured as a minimum time period.

The company has been approved as a monetary policy counterparty of the Bank of Finland.

Market liquidity risk

Market liquidity risk means that the company would fail to realise or cover its position at the market price because the market lacks depth or is not functioning due to disruption.

The company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are concluded. Almost all market values of debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

Operational risks

Operational risk means the risk of loss due to insufficient or failed internal processes, personnel, systems or external factors. Operational risks also include risks arising from failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or the interruption of operations.

Operational risks are recognised as part of the company's operations and processes. This has been implemented with an annual mapping of operational risk at a unit and company-specific level. The management of operational risks is the responsibility of each function/department. In addition, the company's departments responsible for risk control support the other functions/departments in this effort and have responsibility at the company level for coordinating the management of operational risks.

Municipality Finance uses various methods for managing operational risks. The company has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis. The tasks of trading, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and developed through regular development discussions and training plans. Municipality Finance maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure the company continues functioning and to limit its losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process provide input for the company's continuity planning.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that all regulatory changes are appropriately responded to. The legislation and regulations concerning the operations of credit institutions are facing significant changes, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this by active contacts with the authorities and the internal organisation of the company's compliance operations (incl. reporting and impact evaluation).

The company has significant information system projects aimed at improving the efficiency of operations currently ongoing. The extent of these projects causes operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting).

The realisation of operational risks is monitored with systematic operational risk reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operative risk events are reported to the Board of Management and the Board of Directors. No material losses were incurred as a result of operational risks during the review period.

Prospects for the second half of 2014

The general economic situation in Finland is expected to weaken. Despite the weaker economic outlook, Municipality Finance does not expect substantial changes in its operating environment, or in that of its customers, in the second half of 2014. The company will focus on continuing its primary duty of ensuring competitive funding for its customers under all circumstances.

Municipality Finance is a financing partner of its customer-owners and the company is a key part of the basic financial structure of Finland. The company continues to develop its operations as required by the changing needs of its customers. The company strives to anticipate changes in its customer base and on the market and to adapt to these changes through the long-term development of its operations.

The Group's profitability throughout 2014 is expected to remain at the strong level seen last year.

Helsinki, 8th August 2014
Municipality Finance Plc
Board of Directors

Further information:

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The Group's development

	30 Jun 2014	30 Jun 2013	31 Dec 2013
Turnover (EUR million)	106.4	99.7	196.8
Net interest income (EUR million)	79.0	78.6	149.5
as percentage of turnover	74.28	78.84	75.96
Net operating profit (EUR million)	63.4	80.7	141.3
as percentage of turnover	59.57	80.88	71.78
Cost-to-income ratio	0.16	0.13	0.15
Lending portfolio (EUR million)	18,365	16,839	17,801
Funding portfolio (EUR million)	25,477	22,885	23,108
Balance sheet total (EUR million)	28,211	25,533	26,156
Return on equity (%) (ROE)	20.30	32.34	30.58
Return on assets, % (ROA)	0.37	0.48	0.48
Equity ratio, %	1.87	1.60	1.80
Tier 1 capital (EUR million)	494.9	392.3	454.2
Total own funds (EUR million)	559.3	450.8	511.5
Ratio of Tier 1 capital to risk-weighted assets, %	25.70	31.09	35.42
Ratio of total own funds to risk-weighted assets, %	29.04	35.73	39.88
Number of employees	87	82	83

Calculation of key figures

Turnover
Interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income

Cost-to-income ratio

$$\frac{\text{Commission expenses + administrative expenses + depreciations + other operating expenses}}{\text{Net interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income}}$$

Return on equity (%) (ROE)

$$\frac{\text{Net operating profit – taxes}}{\text{Equity and non-controlling interest (average of values at the beginning and end of the reporting period)}} \times 100$$

Return on assets (%) (ROA)

$$\frac{\text{Net operating profit – taxes}}{\text{Average balance sheet total (average of values at the beginning and end of the reporting period)}} \times 100$$

Equity ratio (%)

$$\frac{\text{Equity and non-controlling interest + appropriations less deferred tax liabilities}}{\text{Balance sheet total}} \times 100$$

Ratio of Common Equity Tier 1 to risk-weighted assets, %

$$\frac{\text{Common equity Tier 1}}{\text{Risk-weighted assets}} \times 100$$

Ratio of Tier 1 capital to risk-weighted assets, %

$$\frac{\text{Tier 1 capital}}{\text{Risk-weighted assets}} \times 100$$

Ratio of total own funds to risk-weighted assets, %

$$\frac{\text{Own funds total}}{\text{Risk-weighted assets}} \times 100$$

Leverage ratio, %

$$\frac{\text{Tier 1 capital}}{\text{Total exposure}} \times 100$$

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Consolidated statement of financial position

(EUR 1,000)	30 Jun 2014	31 Dec 2013
ASSETS		
Cash and cash equivalents	27,877	354,232
Loans and advances to credit institutions	495,177	589,144
Loans and advances to the public and public sector entities	18,471,153	17,882,282
Debt securities	7,594,106	5,985,644
Shares and participations	9,938	10,050
Derivative contracts	1,392,531	1,094,150
Intangible assets	4,477	4,740
Tangible assets	2,502	2,525
Other assets	7,588	1,977
Accrued income and prepayments	205,797	231,656
TOTAL ASSETS	**28,211,146**	**26,156,402**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	3,026,272	2,264,386
Liabilities to the public and public sector entities	967,474	929,209
Debt securities issued	22,145,345	20,269,298
Derivative contracts	1,188,393	1,818,359
Other liabilities	1,746	1,395
Accrued expenses and deferred income	217,827	268,590
Subordinated liabilities	38,562	48,974
Deferred tax liabilities	97,520	85,967
TOTAL LIABILITIES	**27,683,138**	**25,686,178**
EQUITY AND NON-CONTROLLING INTEREST		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	29,414	22,285
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	415,216	364,641
Total equity attributable to parent company equity holders	**527,857**	**470,153**
Non-controlling interest	**151**	**71**
TOTAL EQUITY AND NON-CONTROLLING INTEREST	**528,008**	**470,224**
TOTAL LIABILITIES AND EQUITY	**28,211,146**	**26,156,402**

Consolidated income statement

(EUR 1,000)	1 Jan–30 Jun 2014	1 Jan–30 Jun 2013
Interest income	109,939	85,225
Interest expense	–30,926	–6,604
NET INTEREST INCOME	**79,012**	**78,621**
Commission income	1,786	1,036
Commission expense	–1,823	–2,104
Net income from securities and foreign exchange transactions	–3,048	7,568
Net income from available-for-sale financial assets	170	–905
Net income from hedge accounting	–2,490	6,793
Other operating income	8	2
Administrative expenses	–6,686	–7,214
Depreciation and impairment on tangible and intangible assets	–728	–567
Other operating expenses	–2,843	–2,628
Impairment losses on other financial assets	–	54
NET OPERATING PROFIT	**63,360**	**80,658**
Income tax expense	–12,705	–19,789
PROFIT FOR THE PERIOD	**50,655**	**60,869**
Profit attributable to:		
Equity holders of the parent company	50,575	60,886
Non-controlling interest	80	–17

Statement of comprehensive income

(EUR 1,000)	1 Jan–30 Jun 2014	1 Jan–30 Jun 2013
Profit for the period	50,655	60,869
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	8,998	3,199
Net amount transferred to profit or loss	–133	–1,243
IAS 39 reclassification adjustment	46	95
Taxes related to components of other comprehensive income	–1,782	–502
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**57,784**	**62,417**
Total comprehensive income attributable to:		
Equity holders of the parent company	57,704	62,374
Non-controlling interest	80	44

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–30 Jun 2014	1 Jan–30 Jun 2013
CASH FLOW FROM OPERATING ACTIVITIES	**4,476**	**–717,599**
Net change in long-term funding	2,020,992	1,234,817
Net change in short-term funding	–750,831	1,000,745
Net change in long-term loans	–506,515	–1,252,349
Net change in short-term loans	–413,304	–24,151
Net change in investments	–946,041	–531,516
Net change in collaterals	537,260	–1,205,460
Interest paid	–29,915	–7,788
Interest received	102,566	82,849
Other income	11,944	6,862
Payments of operating expenses	–18,746	–14,597
Taxes paid	–2,934	–7,010
CASH FLOW FROM INVESTING ACTIVITIES	**–390**	**–1,006**
Acquisition of tangible assets	–241	–272
Acquisition of intangible assets	–149	–734
CASH FLOW FROM FINANCING ACTIVITIES	**–10,000**	**–40,098**
Change in subordinated liabilities	–10,000	–40,000
Dividends paid	–	–98
CHANGE IN CASH FUNDS	**–5,914**	**–758,703**
CASH FUNDS AT 1 JANUARY	**1,885,173**	**1,991,448**
CASH FUNDS AT 30 JUNE	**1,879,259**	**1,232,745**

Cash funds include the following balance sheet items:
Cash and cash equivalents, loans and advances to credit institutions and debt securities maturing within three months.

(EUR 1,000)	30 Jun 2014	30 Jun 2013
Cash and cash equivalents	27,877	142,246
Loans and advances to credit institutions	495,177	345,019
Debt securities maturing within three months	1,356,205	745,480
TOTAL CASH FUNDS	**1,879,259**	**1,232,745**

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders							
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
EQUITY AT 31 DECEMBER 2012	**42,583**	**277**	**21,927**	**40,366**	**239,944**	**345,097**	**168**	**345,265**
Dividends paid for 2012	–	–	–	–	–	–	–98	–98
Profit for the period	–	–	–	–	124,698	124,698	1	124,699
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	–	–	1,004	–	1,004
Net amount transferred to profit or loss	–	–	–2,356	–	–	–2,356	–	–2,356
IAS 39 reclassification adjustment	–	–	167	–	–	167	–	167
Taxes related to components of other comprehensive income	–	–	290	–	–	290	–	290
Change in corporate tax rate	–	–	1,253	–	–	1,253	–	1,253
EQUITY AT 31 DECEMBER 2013	**42,583**	**277**	**22,285**	**40,366**	**364,642**	**470,153**	**71**	**470,224**
Dividends paid for 2013	–	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	50,575	50,575	80	50,655
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	–	–	8,998	–	–	8,998	–	8,998
Net amount transferred to profit or loss	–	–	–133	–	–	–133	–	–133
IAS 39 reclassification adjustment	–	–	46	–	–	46	–	46
Taxes related to components of other comprehensive income	–	–	–1,782	–	–	–1,782	–	–1,782
Change in corporate tax rate	–	–	–	–	–	–	–	–
EQUITY AT 30 JUNE 2014	**42,583**	**277**	**29,414**	**40,366**	**415,217**	**527,857**	**151**	**528,008**

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Notes to interim report

Note 1. Basis of preparation of the interim report

The interim report has been prepared in accordance with International Financial Reporting Standards (IFRS). This interim report complies with the standard IAS 34 Interim Financial Reporting and the accounting principles presented in the 2013 consolidated financial statements.

No new IFRS standards entered into force in 2014 that would have had an impact on the presentation of the interim report.

The figures in the notes to the financial statements are presented in thousand euro. This interim report has not been audited.

Note 2. Derivative Contracts

30 Jun 2014 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts not included in hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	5,634,008	69,929	–82,266
Interest rate options	60,865	1,849	–1,595
Forward rate agreements	–	–	–
Currency derivatives			
Cross currency interest rate swaps	32,254	75	–74
Forward exchange contracts	758,750	4,528	–2,149
Equity derivatives	1,806,450	73,708	–73,708
Other derivatives	436,432	33,504	–33,264
Total	**8,728,759**	**183,593**	**–193,056**
Contracts under hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	28,203,263	388,191	–328,507
Interest rate options	71,951	–	–951
Currency derivatives			
Cross currency interest rate swaps	19,206,534	820,747	–665,879
Total	**47,481,748**	**1,208,938**	**–995,337**
Grand total	**56,210,507**	**1,392,531**	**–1,188,393**

31 Dec 2013 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts not included in hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	6,431,774	44,682	–59,360
Interest rate options	42,206	802	–629
Forward rate agreements	5,000	–	–2
Currency derivatives			
Cross currency interest rate swaps	39,160	145	–142
Forward currency interest rate swaps	1,442,027	–	–26,134
Equity derivatives	2,232,366	88,486	–88,486
Other derivatives	253,285	34,422	–34,182
Total	**10,445,819**	**168,537**	**–208,935**
Contracts under hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	25,339,097	273,041	–257,090
Interest rate options	73,461	–	–1,285
Currency derivatives			
Cross currency interest rate swaps	16,886,601	652,572	–1,351,049
Total	**42,299,159**	**925,613**	**–1,609,424**
Grand total	**52,744,978**	**1,094,150**	**–1,818,359**

Note 3. Liabilities and collateral

Liabilities and collateral (EUR 1,000)	30 Jun 2014	31 Dec 2013
Loans pledged to the central bank	2,441,712	2,207,573
Loans pledged to the Municipal Guarantee Board	15,691,271	15,451,996
Debt securities pledged to the Municipal Guarantee Board	6,321,106	5,191,218
Total	**24,454,089**	**22,850,788**

Off-balance-sheet commitments (EUR 1,000)	30 Jun 2014	31 Dec 2013
Binding loan commitments	1,138,148	981,420
Total	**1,138,148**	**981,420**

Note 4. Related-party transactions

Municipality Finance's related parties are shareholders whose ownership and corresponding voting in the company exceed 20%, the CEO, the Deputy to the CEO, members of the board of Management and members of the Board of Directors, the spouses and minor children of the persons and corporations controlled by them. Municipality Finance's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stipulated by law (municipalities, municipal federations, corporations that are wholly owned by municipalities or under their control and corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds). Municipality Finance has not carried out any business transactions with related parties with the exception to employment-based remuneration. Municipality Finance does not have loan or financial receivables from related parties.

Municipality Finance's related parties also include its subsidiary Inspira. Transactions with Inspira comprise of fees related to administrative services. Transactions with, receivables from and liabilities to the subsidiary:

Transactions with, receivables from and liabilities to the subsidiary (EUR 1,000)	30 Jun 2014	31 Dec 2013
Sales	21	41
Purchases	–78	–38
Receivables	0	0
Liabilities	9	10

Note 5. Financial assets and liabilities

Financial assets

30 Jun 2014 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Cash and cash equivalents	27,877	–	–	–	–	27,877	27,877
Loans and advances to credit institutions	495,177	–	–	–	–	495,177	495,197
Loans and advances to the public and public sector entities	18,212,586	–	–	258,567	–	18,471,153	19,637,945
Debt securities	–	5,355,505	1,232,071	1,006,530	–	7,594,106	7,586,112
Shares and participations	–	9,938	–	–	–	9,938	9,938
Derivative contracts	–	–	–	183,594	1,208,938	1,392,532	1,392,532
Total	**18,735,640**	**5,365,443**	**1,232,071**	**1,448,691**	**1,208,938**	**27,990,783**	**29,149,601**

Loans and advances to the public and public sector entities includes EUR 106,397 thousand receivables based on leasing agreements.

Fair value hedge accounting for interest rate risk is applied to EUR 2,972,358 thousand of debt securities available-for-sale in 2014. Loans and advances to the public and public sector entities includes EUR 6,584,554 thousand in loans and receivables included in fair value hedge accounting for interest rate risk.

Financial liabilities

30 Jun 2014 (EUR 1,000)	Other financial liabilities	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	3,026,272	–	–	3,026,272	3,100,260
Liabilities to the public and public sector entities	967,474	–	–	967,474	968,963
Debt securities issued	21,396,642	748,703	–	22,145,345	22,168,623
Derivative contracts	–	193,055	995,338	1,188,393	1,188,393
Subordinated liabilities	38,562	–	–	38,562	38,563
Total	**25,428,950**	**941,758**	**995,338**	**27,366,046**	**27,464,802**

Fair value hedge accounting for interest rate risk is applied to EUR 22,129,519 thousand of other financial liabilities in 2014.

Financial assets

31 Dec 2013 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Cash and cash equivalents	354,232	–	–	–	–	354,232	354,232
Loans and advances to credit institutions	589,144	–	–	–	–	589,144	589,154
Loans and advances to the public and public sector entities	17,604,871	–	–	277,411	–	17,882,282	18,575,989
Debt securities	–	4,348,627	824,824	812,193	–	5,985,644	5,971,460
Shares and participations	–	10,050	–	–	–	10,050	10,050
Derivative contracts	–	–	–	168,537	925,613	1,094,150	1,094,150
Total	**18,548,248**	**4,358,677**	**824,824**	**1,258,141**	**925,613**	**25,915,503**	**26,595,036**

Loans and advances to the public and public sector entities includes EUR 81,044 thousand receivables based on leasing agreements.

Fair value hedge accounting for interest rate risk is applied to EUR 2,539,201 thousand of debt securities available-for-sale in 2013. Loans and advances to the public and public sector entities includes EUR 6,591,034 thousand in loans and receivables included in fair value hedge accounting for interest rate risk.

Financial liabilities

31 Dec 2013 (EUR 1,000)	Other financial liabilities	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	2,264,386	–	–	2,264,386	2,264,267
Liabilities to the public and public sector entities	929,209	–	–	929,209	925,254
Debt securities issued	18,827,657	1,441,641	–	20,269,298	20,268,875
Derivative contracts	–	208,936	1,609,423	1,818,359	1,818,359
Subordinated liabilities	48,974	–	–	48,974	49,849
Total	**22,070,226**	**1,650,577**	**1,609,423**	**25,330,226**	**25,326,604**

Fair value hedge accounting for interest rate risk is applied to EUR 18,783,658 thousand of other financial liabilities in 2013.

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Note 6. Fair values of financial assets and liabilities

30 Jun 2014 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Debt securities	1,006,530	566,767	439,763	–	1,006,530
Loans and advances to the public sector entities*	6,843,121	–	7,149,010	–	7,149,010
Derivative contracts	183,594	–	183,594	–	183,594
Hedging derivatives	1,208,938	–	1,208,938	–	1,208,938
Available-for-sale financial assets					
Debt securities	5,355,505	5,337,906	17,598	–	5,355,505
Shares in investment funds	9,938	9,938	–	–	9,938
Total financial assets at fair value	**14,607,626**	**5,914,611**	**8,998,904**	**–**	**14,913,515**
Financial assets at amortised cost					
Cash and cash equivalents	27,877	27,877	–	–	27,877
Loans and advances to credit institutions	495,177	495,197	–	–	495,197
Loans and advances to the public and public sector entities	11,628,032	–	12,488,934	–	12,488,934
Debt securities	1,232,071	–	1,224,077	–	1,224,077
Total financial assets at amortised cost	**13,383,157**	**523,074**	**13,713,012**	**–**	**14,236,086**
Total financial assets	**27,990,783**	**6,437,685**	**22,711,915**	**–**	**29,149,601**

30 Jun 2014 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Liabilities to credit institutions*	2,319,647	–	2,393,703	–	2,393,703
Liabilities to the public and public sector entities*	757,640	–	762,854	–	762,854
Debt securities issued*	19,763,382	–	19,786,162	–	19,786,162
Subordinated liabilities*	37,553	–	37,554	–	37,554
Derivative contracts	193,055	–	193,055	–	193,055
Hedging derivatives	995,338	–	995,338	–	995,338
Total financial liabilities at fair value	**24,066,615**	**–**	**24,168,666**	**–**	**24,168,666**
Financial liabilities at amortised cost					
Liabilities to credit institutions	706,625	–	706,556	–	706,556
Liabilities to the public and public sector entities	209,834	–	206,109	–	206,109
Debt securities issued	2,381,963	–	2,382,461	–	2,382,461
Subordinated liabilities	1,009	–	1,009	–	1,009
Total financial liabilities at amortised cost	**3,299,431**	**–**	**3,296,136**	**–**	**3,296,136**
Total financial liabilities	**27,366,046**	**–**	**27,464,802**	**–**	**27,464,802**

*The carrying amounts of items included in these rows have been fair valued with respect to interest rate risk. The carrying amounts of these items differ from the fair values shown in the table above. Note 5 shows how the financial statement line items are classified into different financial asset and financial liability categories.

31 Dec 2013 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Debt securities	812,193	692,297	119,896	–	812,193
Loans and advances to the public sector entities	6,868,445	–	6,868,445	–	6,868,445
Derivative contracts	168,537	–	168,537	–	168,537
Hedging derivatives	925,613	–	925,613	–	925,613
Available-for-sale financial assets					
Debt securities	4,348,627	4,337,483	11,145	–	4,348,627
Shares in investment funds	10,050	10,050	–	–	10,050
Total financial assets at fair value	**13,133,465**	**5,039,830**	**8,093,635**	**–**	**13,133,465**
Financial assets at amortised cost					
Cash and cash equivalents	354,232	354,232	–	–	354,232
Loans and advances to credit institutions	589,144	589,154	–	–	589,154
Loans and advances to the public and public sector entities	11,013,837	–	11,707,544	–	11,707,544
Debt securities	824,824	–	810,640	–	810,640
Total financial assets at amortised cost	**12,782,037**	**943,386**	**12,518,184**	**–**	**13,461,570**
Total financial assets	**25,915,502**	**5,983,216**	**20,611,820**	**–**	**26,595,035**

31 Dec 2013 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Liabilities to credit institutions	1,856,371	–	1,856,371	–	1,856,371
Liabilities to the public and public sector entities	723,136	–	723,136	–	723,136
Debt securities issued	17,607,827	–	17,607,827	–	17,607,827
Subordinated liabilities	37,965	–	37,965	–	37,965
Derivative contracts	208,936	–	208,936	–	208,936
Hedging derivatives	1,609,423	–	1,609,423	–	1,609,423
Total financial liabilities at fair value	**22,043,658**	**–**	**22,043,658**	**–**	**22,043,658**
Financial liabilities at amortised cost					
Liabilities to credit institutions	408,015	–	407,896	–	407,896
Liabilities to the public and public sector entities	206,072	–	202,118	–	202,118
Debt securities issued	2,661,471	–	2,661,048	–	2,661,048
Subordinated liabilities	11,009	–	11,884	–	11,884
Total financial liabilities at amortised cost	**3,286,568**	**–**	**3,282,946**	**–**	**3,282,946**
Total financial liabilities	**25,330,226**	**–**	**25,326,604**	**–**	**25,326,604**

Level 1 Valuation is based on quoted prices for identical assets or liabilities on active and functioning markets. A market is considered to be functioning if trading is frequent and price data is regularly available. Level 1 financial assets comprise investments in debt securities.

Level 2 Measurement is based on input data other than Level 1 quoted prices. Prices can be verified either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods. These valuation methods utilise input data based on market observations. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issues and lending.

Level 3 Measurement is based on input data that are not based on verifiable market prices.

During the 2014 financial year, no reclassifications have been made between Level 1 and Level 2.
During the 2013 financial year, no reclassifications have been made between Level 1 and Level 2.

During the 2014 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.
During the 2013 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

Note 7. Subordinated liabilities

30 Jun 2014 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,553	Fixed	9 May 2016
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		36,009	38,562		

31 Dec 2013 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,965	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10 Dec 2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		46,009	48,974		

Loan terms and conditions:

1) The maturity date of the loan is 9 May 2021. The company has the right to prematurely repay the loan principal and accumulated interest as of 9 May 2016, or earlier only with written consent from the Finnish Financial Supervisory 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 seniority as any debenture loan with a 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 amount 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 on the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervisory Authority grants permission to repay the loan. Under the terms of the loan, the company has the right on 10 December 2010, and each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the financial year 2013. The interest accumulated by the end of the financial year 2013 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 seniority as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loan has priority over the company's shares.

On 10 June 2014, the Company repaid the capital loan of EUR 10 million (Capital loan 1/03) with the permission of the Finnish Financial Supervisory Authority.

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory 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 sufficient, and the Board of Directors of the credit institution approves. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2013 and 2014.

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