



Developing better Finland together





## Municipality Finance – financier to Finland's municipalities

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**Credit ratings: Moody's Aaa (stable)  
and Standard & Poor's AA+ (stable)**

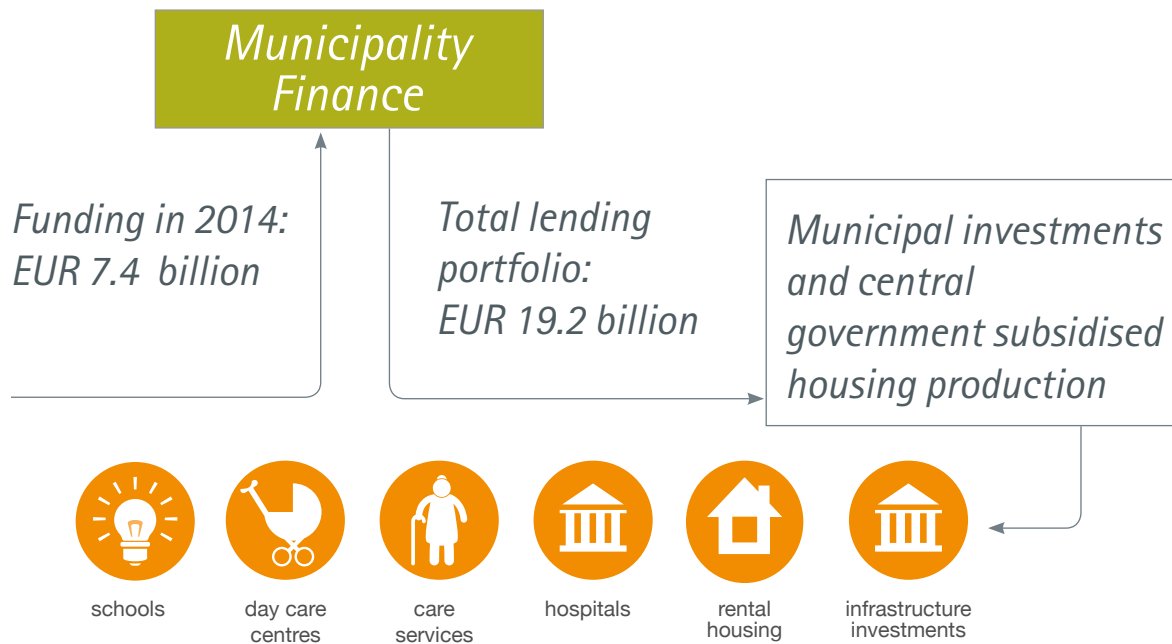
The only financial institution  
exclusively specialising in the  
municipal sector and central  
government subsidised housing  
production in Finland



## Municipality Finance is an important part of the basic financial structure of Finnish society

The financing granted by Municipality Finance is used for socially important investments. The company provides financing for schools, hospitals, health centres, day care centres, retirement homes, care homes, social housing production as well as various infrastructure projects that improve the functioning of our living environment.

# An enabler of well-being



It is the duty of Municipality Finance to secure the availability of competitive financing for its customers in changing operational environment

## Municipality Finance in brief

Municipality Finance Plc has a duty to ensure the availability of competitive financing for the municipal sector and central government subsidised housing production under all market conditions. According to its duty, Municipality Finance is an important part of the basic financial structure of Finnish society and the only financial institution exclusively specialising in financing the municipal sector and central government subsidised housing production in Finland.

All taxpayers share the benefit of Municipality Finance's operations. The financial benefit of the company is accumulated as savings in the financing costs of investments that are important from a social point of view.

Municipality Finance is owned by the Finnish municipal sector, Keva and the Republic of Finland. For its long-term funding, the company has equal credit ratings as the Republic of Finland: Aaa from Moody's and AA+ from Standard & Poor's. Good credit ratings and the efficiency of operations form the foundation of the company's strong competitiveness as a provider of financing.

Funding is acquired in a diversified manner from both international and domestic capital markets. The company's funding is guaranteed by the Municipal Guarantee Board. The company operates efficiently and grows profitably. The company aims to build the capital needed for growth through profits and thereby ensure its capital adequacy.

## 2014 in brief

Municipality Finance's business operations continued to grow in 2014. The Group's operating profit grew by 2 per cent to EUR 144.2 million. The Group's net interest income grew by 7 per cent to EUR 160.0 million. The balance sheet total increased by 15 per cent to EUR 30.0 billion. The company's Tier 1 capital adequacy was 29.98 per cent at the end of the year.

The total amount of lending granted by the company grew by 8 per cent to EUR 19.2 billion. EUR 2.8 billion in new loans were withdrawn during the year. The growth of the company's leasing services continued, with the leasing portfolio reaching EUR 133 million at year-end.

Funding acquisition was highly successful during the year. Municipality Finance concluded a total of 264 funding arrangements and the total funding amount was EUR 7.4 billion.

### Key figures (Group)

	2014	2013	Change, %
Net interest income (EUR million)	160.0	149.5	7
Net operating profit (EUR million)	144.2	141.3	2
Lending portfolio (EUR million)	19,205	17,801	8
Total funding acquired (EUR million)	26,616	23,108	15
Balance sheet total (EUR million)	30,009	26,156	15
Tier 1 capital (EUR million)	557.2	452.0	23
Ratio of total own funds to risk-weighted assets, %	33.53	32.52	3
Ratio of Tier 1 capital to risk-weighted assets, %	29.98	28.86	4
Total own funds (EUR million)	623.1	509.3	22

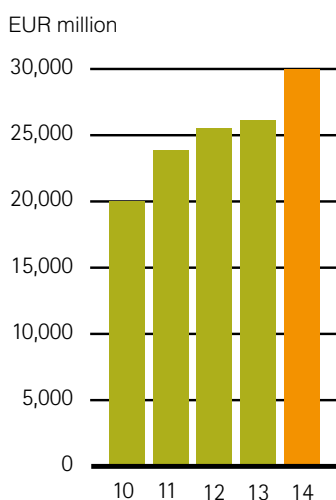
Tier 1 capital adequacy

**29.98%**

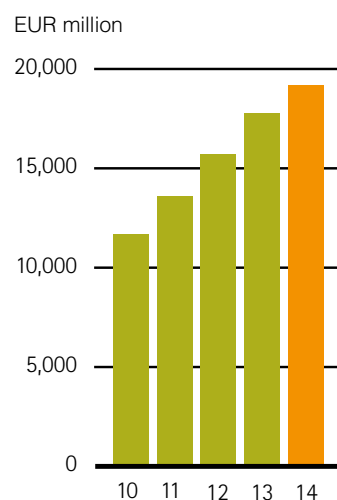
Tier 1 capital

**EUR 557.2 million**

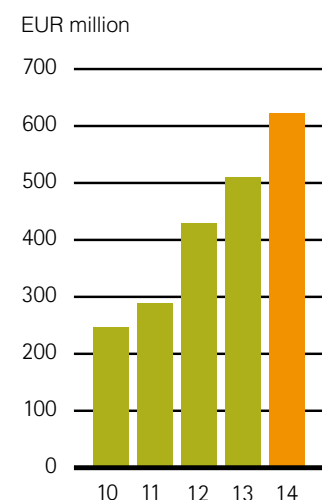
Balance sheet total 2010–2014



Lending portfolio 2010–2014



Own funds 2010–2014



Balance sheet total of  
Municipality Finance  
at the end of 2014 **EUR 30.0** billion

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## CEO's Review

In 2014, the European financial market was characterised by increasing uncertainty, resulting from both increasing tension in the international political situation and weaker-than-expected economic development especially in the eurozone. At the same time, the structural problems of several EU Member State economies remained unsolved.

The ECB's measures to reverse the trend of economic development in Europe significantly increased market liquidity during the year. As a result, the financial markets were excessively liquid, which led to a decline in risk margins and a decrease in margin differences between different issuers.

In Finland, the economic situation continued to decline in 2014. According to estimates, Finland's exports have already decreased by one fifth following the financial crisis. The situation is aggravated by the increase in public expenditure. Weak economic development was also reflected in Finland's credit rating during the year: Standard & Poor's lowered the rating to AA+ (stable). At the same time, Municipality Finance's credit rating also declined correspondingly. On the other hand, Moody's kept both ratings at the best possible level, Aaa.

The ongoing structural changes in the Finnish municipal sector are extremely important for the development of the country's economy. The structural reform of the municipal sector has been the subject of planning for a long time, but it is still uncertain when the reform will reach the implementation phase and how significant the financial benefits it yields will actually be. From the perspective of the financial markets, it is important that the reforms are completed without delay so that uncertainty in the markets does not increase.

In 2014, Municipality Finance's operations developed as planned despite the challenging market situation. The company continued to be the single most important financier for its customers. There were no significant changes in the loan needs of the municipal sector, and the financing needs of central government subsidised housing production also developed as expected.

As far as the company's funding was concerned, the year was a successful one. The company continued to diversify its funding, which further ensures the availability of funding over the long term.

In line with its strategy the company was able to increase its own funds, so that the tightening leverage ratio requirement of increased regulation will be met in the future. By operating according to its strategy, the company has managed to triple its Tier 1 capital to more than EUR 500 million during the last four years.

Along with the implementation of the common European crisis resolution regulation, Municipality Finance's costs will also increase from this year onwards. Increases in costs are mainly due to the new contributions payable to the crisis resolution fund as well as expenses related to the administration of the system. According to the still unpublished allocation bases, the contributions will be focused on those operators for which market financing plays a key role in funding as such operators are considered to bear the highest risk.

Municipality Finance's funding is solely based on market financing. However, thanks to its business model, the company is a low-risk institution, which can be seen in the company's credit rating and high Tier 1 capital adequacy (31 December 2014: 29.98%).



By operating according to its strategy, the company has managed to triple its Tier 1 capital to more than EUR 500 million during the last four years.

As far as Municipality Finance is concerned, preliminary estimates on the crisis resolution fund contributions amount to several million euros per year. While the company's operating expenses totalled EUR 21.7 million in 2014, the planned contributions to the crisis resolution fund may increase them by more than one third.

Municipality Finance's view is that the contributions should not be collected from public sector operators at all, because in practice, it would constitute a transfer of funds from taxpayers to the crisis resolution framework of the European bank sector. The whole point of crisis resolution is to avoid a situation in which taxpayers would become payers of a crisis.

During the year, Municipality Finance continued the development of its operations and focused especially on developing its customer relationship management and customer service. Related to this, we reorganised the Customer Finance function from the beginning of 2015, with the aim of meeting our customers'

changing needs even better in the future.

The year 2014 was a busy one and the workload was further increased by development projects carried out in addition to normal tasks. I would therefore like to thank our personnel for their uncompromising commitment to the development of the company's operations throughout the year.

I also want to thank our customers, shareholders and other stakeholders for the work carried out for Municipality Finance. Thanks to this cooperation, we can continuously develop our operations according to our customers' evolving needs.

Pekka Averio  
President and CEO  
Municipality Finance Plc

# Finland and Finnish municipalities as an investment target

## Finland is a strong and stable Nordic society

Finland is a stable Nordic society that, in the post-war period, has managed to gain a position among the leading European countries. Finland's strengths include a relatively high GDP per capita, as is typical of Nordic societies, a low debt ratio when viewed on an international scale, as well as a highly-developed infrastructure and a diverse business life structure.

Finland is politically stable and offers its residents unique welfare services, including free health care and one of the best education systems in the world, up to university level. Finland is an EU Member State and belongs to the eurozone.

One of the characteristics of the development of Finnish society has been the ability to tackle economic crises in society by jointly agreeing on measures to remedy the crisis in question. In this way, it has been possible to avoid the escalation of crises and social harmony has been maintained even in difficult times, such as in the period immediately after the Second World War and during the deep recession of the early 1990s. Currently, Finland is

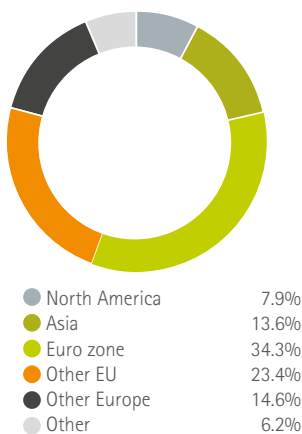
## Key figures about Finland:

- Population: 5.5 million
- GDP per capita in 2014: EUR 37,351
- GDP growth in 2014: -0.1%
- Credit ratings: Moody's Aaa (stable), S&P AA+ (stable), Fitch AAA (stable)

undergoing a process to renew the economic structure of society, concerning especially social and healthcare services and municipal restructuring. These changes are expected to significantly improve the efficiency on the public sector.

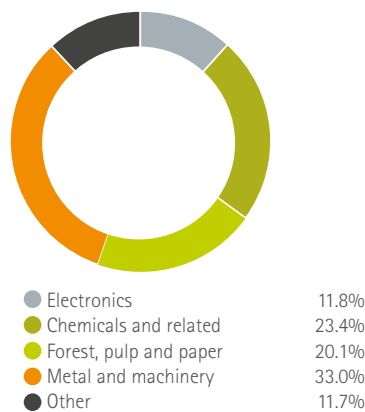
As an investment target, Finland is an innovation-based, development-oriented society that makes good use of high technology and is stable from the point of view of both domestic and foreign policy.

Finland's Exports by Region 2014\*



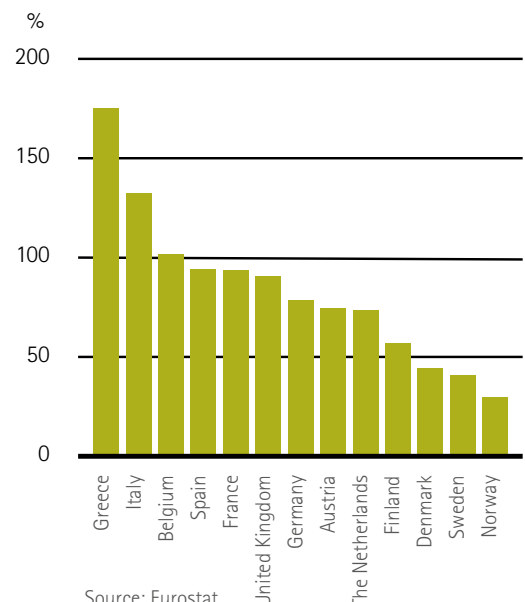
\* January–November 2014  
Source: Official Statistics of Finland

Finland's exports by Sector 2014\*



\* January–November 2014  
Source: Official Statistics of Finland

Government Debt as Percentage of GDP 2013





## Finnish municipalities

The duties of the Finnish public sector have been divided among the state and municipalities, working in close cooperation. According to the division of duties, municipalities are responsible for local government and the majority of society's basic services. Consequently, municipalities play a key role in the arrangement of public sector services. The foundation for the financing of municipalities is their independent and unrestricted right to collect taxes, the most significant of which is the income-based municipal tax.

### Strengths of municipalities:

- According to the Constitution of Finland, municipalities are independent local government operators.
- Municipalities have an unrestricted right to collect taxes on income, they receive their share of corporate taxes and they also earn other revenues from service production.
- On an international scale, the relative indebtedness of municipalities is at a low level.
- The Ministry of Finance monitors municipal finances and maintains a crisis management system that is used for solving the problems faced by municipalities that have ended up in severe financial difficulties.
- Municipalities have a legal obligation to balance their finances.
- According to Finnish law, a municipality cannot go bankrupt.

## Municipality Finance as a credit institution:

- Municipality Finance Plc is a credit institution that provides financing exclusively to the Finnish municipal sector and central government subsidised housing production.
- The company acquires funding globally from international and domestic financial markets by issuing bonds guaranteed by the Municipal Guarantee Board (MGB).
- The company's duty is to secure the availability of competitive funding under all market conditions.
- Municipality Finance is owned by the Finnish municipal sector (53%), Keva (31%) and the Republic of Finland (16%).
- Municipality Finance's credit ratings are Aaa and AA+ with stable outlook.

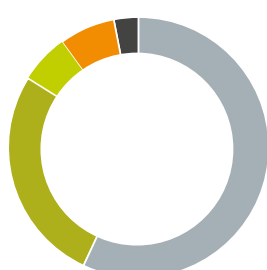
## MGB as a part of municipalities' funding system:

- The basis for municipal funding has been secured with a joint and independent funding system which is established by law and guaranteed by the MGB.
- All municipalities in Mainland Finland are permanent members of the MGB and have a joint responsibility for the MGB's guarantees.
- The MGB's credit ratings are Aaa and AA+ with stable outlook.
- In bank capital adequacy calculations, issued bonds guaranteed by the MGB are considered equal to government bonds (a 0% risk weight in the EU area).

## Key figures:

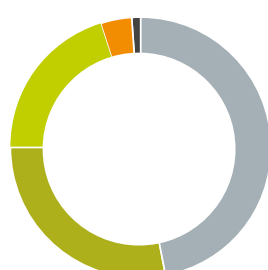
- The number of municipalities in Mainland Finland on 1 January 2015: 301
- Total annual revenues of municipalities in 2013: EUR 46.6 billion
- The average tax rate in municipalities in 2014: 19.74%
- The total debt of municipalities in 2014: 8.5% of GDP

Revenues of Municipalities 2013



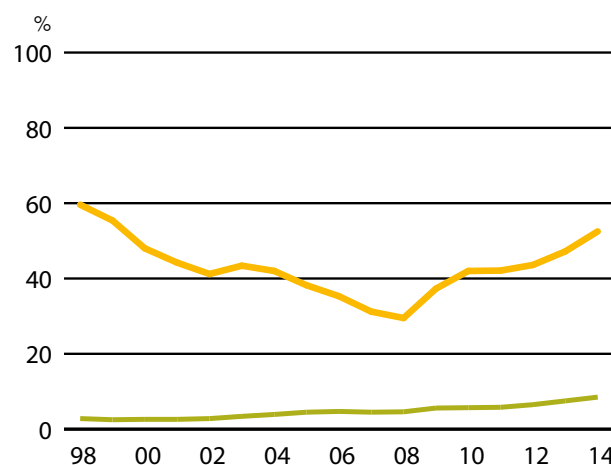
Income taxes	57%
Sales of services	27%
Other taxes	6%
Borrowing	7%
Other	3%

Expenditure of Municipalities 2013



Social and healthcare	47%
Education and culture	28%
Other duties	20%
Financing costs	4%
Other	1%

EDP Debt in Finland, Percentage of GDP 1998–2014\*



● State % of GDP  
● Municipalities % of GDP

\* Preliminary data for 2014  
Source: Statistics Finland



# The market leader in financial services for municipalities

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Municipality Finance offers financing products and financing-related advisory services to the Finnish municipal sector and non-profit organisations engaged in central government subsidised housing production. The company is the most significant financing partner for its customers and the only financial institution in Finland that specialises exclusively in serving the municipal sector. Municipality Finance's municipal customers are also its shareholders, directly or indirectly.

New loans  
withdrawn in  
2014

EUR **2.8**  
billion



**M**unicipality Finance's basic duty is to secure the availability of competitive funding for its customers under all market conditions. The company is a key part of the basic financial structure of Finland and provides financing for municipalities and social housing production also in times of crisis in the financial market. The company's funding is guaranteed by the Municipal Guarantee Board, the members of which include all municipalities in Mainland Finland.

### Extensive range of services

Municipality Finance offers a versatile range of financing solutions to its customers to suit their individual needs. The company may finance municipalities, municipal federations, municipality-controlled entities and non-profit housing organisations approved by The Housing Finance and Development Centre of Finland (ARA).

The company's services include:

- Loans to municipalities, municipal federations and companies
- Interest-subsidised housing loans for new construction and renovation with up to 40-year loan periods
- Derivative contracts for hedging
- Debt Capital Market services
- Financial leasing: framework agreements and leasing solutions for capital asset investments
- Real-estate leasing and financing for lifecycle projects
- Financial advisory services offered by Inspira

The long-term loans granted by Municipality Finance are used to finance investments that support and improve the functioning of society. The majority of the financing from Municipality Finance is used for maintaining and developing the basic structures of Finnish society, such as construction projects in the

## CASE

### *New terraced houses on Kolmenkoivunkuja street in Espoo*

*Espoon Asunnot Oy had four two-storey terraced houses and a service building built at Kolmenkoivunkuja 3 in Lähleranta, Espoo. The project, consisting of 21 apartments, was completed in 2014.*

*Municipality Finance acted as the financier of the project by granting a 41-year loan that amounted to nearly EUR 6 million. The project is one of the central government subsidised residential projects, and it was executed with central government subsidised lending.*

*Municipality Finance is practically the sole financier for central government subsidised housing production. The share of all housing loans in the company's entire lending is 41%, altogether EUR 7,9 billion.*





fields of education, social services and health care, as well as infrastructure and energy projects.

Financing for housing production is provided for municipally owned housing corporations as well as for non-profit organisations for the production of central government subsidised social rental housing and housing construction for special groups, such as the elderly, the disabled and students.

### Demand for loans unchanged

In 2014, there were no significant changes in the demand for loans in the Finnish municipal sector. The lending portfolio continued to grow moderately and the company's total lending amount at year-end stood at EUR 19.2 billion. The lending portfolio grew by 8 per cent from 2013. During the year, the low interest rate level attracted municipalities to short-term financing for long-term investments. This increases the borrower's refinancing and price risks.

Demand for alternative financing solutions offered by the company continued to increase strongly. The leasing portfolio stood at EUR 133 million at year-end, showing an increase of 64 per cent year-on-year.

The demand for loans for central government subsidised housing production was at the same level as in the previous year. As far as housing loans are concerned, loans for right-of-occupancy apartment production and renovation increased, whereas the share represented by production of rental housing and housing for special groups decreased slightly. However, the changes were not substantial.

Municipality Finance has complemented its range of services by preparing its organisation for arranging DCM services.

## CASE

### *Leasing financing for the world's largest wooden log-school campus*

*A historic building project is under construction in the City of Pudasjärvi. The world's largest wooden log-school campus is being financed through a real-estate leasing agreement. Municipality Finance, the financier, owns the buildings, and the City of Pudasjärvi has committed to renting them for 25 years. After the rental period, the city has the right to buy the buildings at a pre-agreed price.*

*Log was selected as the building material for the school campus because of its environmental friendliness and health effects. Hundreds of students in the City of Pudasjärvi are currently studying in temporary facilities due to indoor air quality problems.*

*"Partly due to leasing financing, we also ended up using the life cycle model: consequently, the outcome is of higher quality than in ordinary building projects," says Kari Rissanen, Property Manager at the City of Pudasjärvi.*

*For Pudasjärvi, a significant reason for using leasing was to prevent investment costs from burdening the city's balance sheet.*

*"The school campus aroused the interest of other municipalities due to its building material, lifecycle model and financing method. Real-estate leasing is certainly an emerging financing model that will interest an increasing number of municipalities," says Rissanen.*

## The long-term loans granted by Municipality Finance are used to finance investments that support and improve the functioning of society.



In these operations, the company's strengths include extremely good funding expertise and profound knowledge of its customers' financing needs.

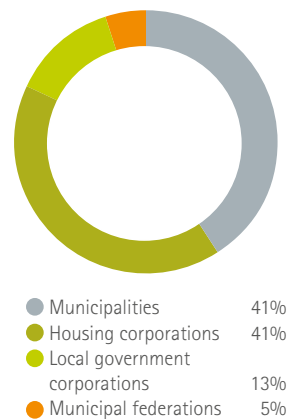
### The lifecycle model becoming more common in commercial premises construction

The company's financing products are constantly being developed according to the changing needs of customers. During the past few years, the main focus area in development activities has been alternative financing models for lifecycle projects, such as real-estate leasing. Growth is driven by the good experiences gained in using the lifecycle model, especially in commercial premises constructions in which contractual technique and practices related to project planning have already been tested and found to be well-functioning.

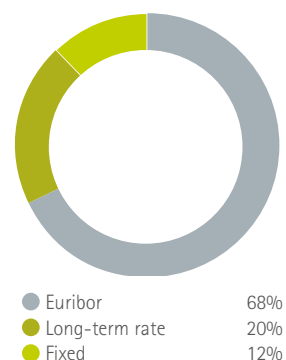
Lifecycle models for commercial premises constructions are of particular interest to municipalities as their financing solution is lighter for the party commissioning the project. In the lifecycle model, municipalities' responsibility for building, owning and maintaining properties is transferred to the service provider; the municipality only pays for the use of the premises and the municipality's financial assets are not tied up with construction. The municipality can concentrate on its basic duty of service production, and the lifecycle partner looks after the property and its functionality as agreed.

In the future, Municipality Finance will concentrate on developing its financing services further. With this in mind, the company's Customer Finance function was reorganised from the beginning of 2015. The goal is to develop both financing products and customer service according to changing customer needs and to develop the company's competitiveness further.

Lending portfolio by customer type 2014



Lending portfolio by rate type 2014





# Diversification ensures the availability of funding

Municipality Finance's basic duty is to secure the availability of funding for its customers under all market conditions. The company acquires funding from both domestic and foreign markets, following the principle of diversifying funding as effectively as possible.

In the highly reactive international financial markets, Municipality Finance's funding strategy is to build trusting relationships with global investors. Funding is diversified both geographically and among different investor types. In addition, issues are carried out with different maturities in order to mitigate refinancing risk.

In line with its strategy, Municipality Finance is an active operator in all of the most important financial markets in the world. The company is also a desired partner in its size range for investors seeking reliable investment targets.

Municipality Finance's key strengths in funding include high expertise, flexibility and ability to react quickly. Funding is supported by the company's extremely effective forecasting and risk management models, which allow the company to which allow the company to prepare for future needs and tactically plan the timing of issues, taking the prevailing market situation into account. This has a significant impact on the competitiveness of the company's funding costs.

In 2014, Municipality Finance's relative position in the international financial markets weakened slightly as the credit rating agency Standard & Poor's lowered the company's credit rating from AAA (negative) to AA+ (stable) in October. The downgrade was a consequence of the equivalent action on the rating of the Republic of Finland. However, the credit rating agency Moody's confirmed the highest credit rating, Aaa (stable), for both Finland and Municipality Finance.

The decrease in credit rating by S&P did not cause major

reactions with regard to Municipality Finance's funding as the market already expected the change since the spring when S&P changed the outlook of both Finland and Municipality Finance to negative. Nevertheless, the change was a serious warning of a decline in investors' trust in Finland if the country's economic development remains weak and the structural problems in the country's economy are not solved.

The base of the company's funding is formed by benchmark-sized issues, of which a few are arranged annually. In addition, the company issues more than 200 smaller funding arrangements each year. With these, the company managed to control the increase in its average funding cost in 2014, which is important for the competitiveness of the entire company.

By actively carrying out private placement transactions, the company aims to take advantage of the changing market conditions in the international capital markets as effectively as possible. In 2014, the U.S Rule 144A documentation was added to the company's EMTN debt programme, which also opened up the U.S. market for the company's tailored notes. As an alternative to the current versatile funding strategy, the company could alternatively arrange only a small number of large benchmark issues per year, but this would increase funding costs to a substantially higher level than currently.

In 2014, a total of 264 issues were arranged, yielding EUR 7.4 billion in funding. The share of public investors in the company's investor base grew and, at the same time, an increasing number of major institutional investors joined the investor base. This development complied with the company's strategy and aimed to ensure the availability of funds even when market conditions change.

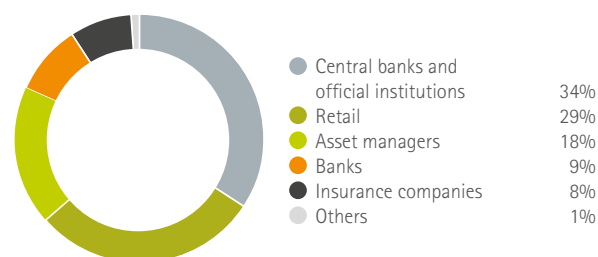
## CASE

### Benchmark bonds form the basis of funding

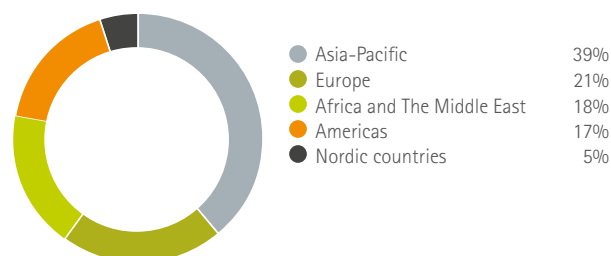
*In the international financial markets, benchmarks refer to bonds that serve as the basis for the pricing of other bonds. Typically, benchmark bonds are large nominals and issued by governments or large institutions. Benchmarks have an extensive investor base, and they are traded actively in the secondary market. The benchmark bonds issued by governments often form starting point for pricing riskier bonds.*

*Benchmark-size issues form the basis of Municipality Finance's funding and they ensure the availability of funding under all market conditions. At the end of 2014, the company had nine benchmarks totalling more than USD 10 billion. In 2014, the company issued two benchmarks, both of which were clearly oversubscribed. In addition to the benchmarks, the company issues more than 200 smaller debt arrangements each year.*

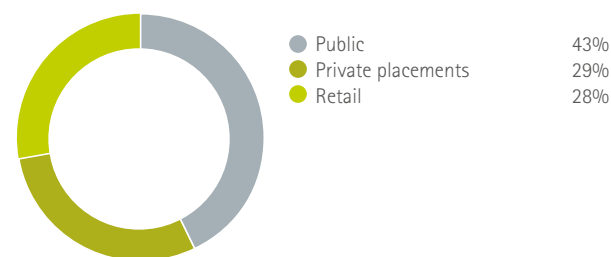
Acquired funding by investor type 2014



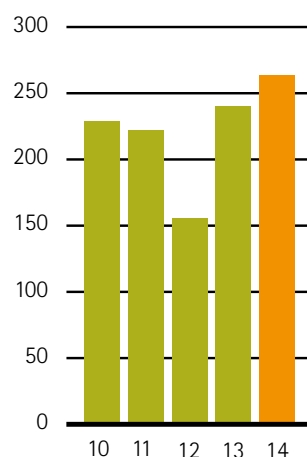
Acquired funding by region 2014



Acquired funding by issue type 2014



Total number of funding transactions 2010–2014





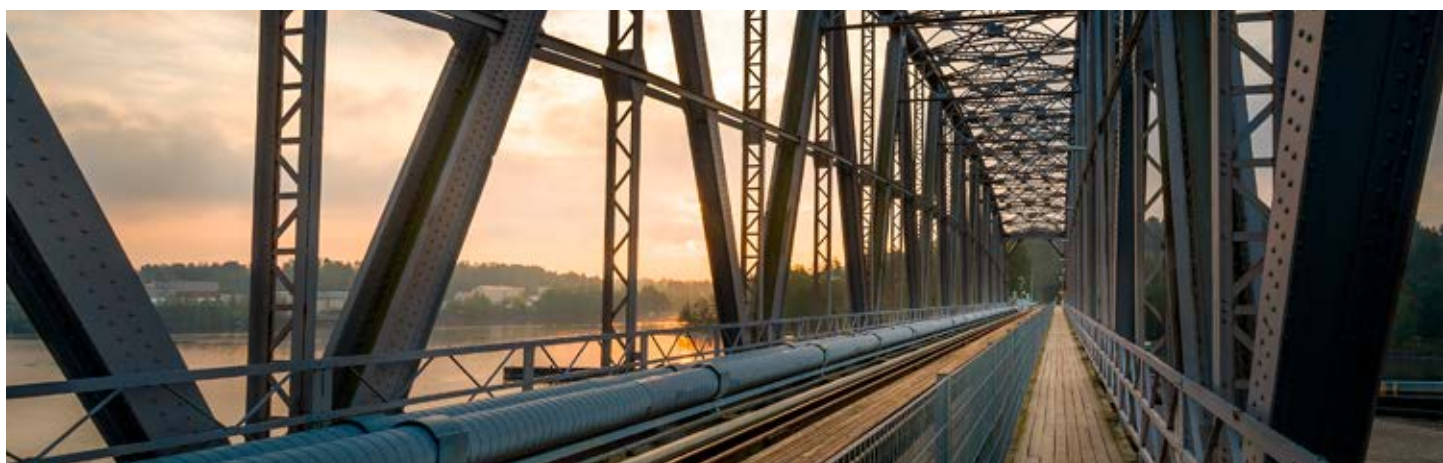
# Safe return on investment

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Municipality Finance's investment operations comprise the investment of acquired funding. The funds are invested in highly liquid and rated financial instruments to ensure the company's operations in all market conditions.



The primary goal in the company's investments is to secure its capital.



According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations for at least the following six months. At the end of 2014, the company's liquidity was exceptionally good the company prepared for refinancing needs in the end of 2014 and in early 2015. At the turn of the year, the liquidity buffer covered financing needs for approximately 12.6 months. Municipality Finance's liquid funds amounted to EUR 6.7 billion at the end of 2014.

The primary goal in the company's investments is to secure its capital. Investments should also yield sufficient return and be available for sale under all market conditions. Return and risk are managed through strict credit rating requirements, efficient geographical diversification, and active monitoring of investment targets, among other means. The most important investment criteria are low risk, good secondary-market liquidity and sufficient return.

In 2014, yield spreads in the bond market decreased mainly due to stimulus measures by central banks and the increasing liquidity in the market. The credit ratings of financial institutions

and eurozone countries continued to decline but more moderately than in the previous year. The average credit rating of the company's investments remained at the AA level. The average maturity of the liquidity investments decreased to 2.3 years (2013: 3.5).

The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments.



# Inspira as an expert in public projects

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Municipality Finance's subsidiary Financial Advisory Services Inspira Ltd provides independent expert advisory services in financing solutions related to public projects. The company's customers include different state administration units, municipal sector operators as well as private companies and organisations. The company's experts have participated in the planning of the largest public investment projects in Finland, from the very beginning to project execution.

The company's mission is to help the public sector carry out its financial arrangements with more versatility, more cost-effectively, with higher quality and according to a faster schedule. Inspira's strength is knowledge of the special needs of the public sector. The benefits of Inspira's operations for customers often take shape in various change processes being managed in the most sensible way possible.

In 2014, Inspira's business developed favourably. The company was involved as a financing expert in several major investment projects, such as the preliminary planning of the E18 Hamina–Vaalimaa motorway project and the feasibility study of the Tampere tram project. Inspira also participated in planning the implementation model for the world's largest school made of timber, to be built in Pudasjärvi, as well as in planning the financing models related to several other customers' premises projects.

During the year, another prominently visible area was the several broadband projects launched by regional consortia. The projects seek to improve the competitiveness of their areas of influence and to ensure modern data communications connections in sparsely populated areas and smaller municipal centres. Such projects are about to start in several locations in Finland, such as Satakunta, the Kuopio region, North Karelia and Savo. Inspira has special expertise that allows these projects to be executed smoothly, with risks safely under control.

In the largest projects, Inspira cooperates with consulting agencies that focus on technical project planning and special legal questions as well as with companies specialising in law. This operating model based on a consortium of several companies has proved to be a good method to carry out extensive expert projects.

## Inspira's services

### Feasibility studies

Inspira carries out feasibility studies related to investment projects as well as restructuring and financing arrangements. The feasibility studies can be focused on the key issues of the project at hand, such as financial calculations, alternative methods of implementation, investigating the synergies of restructuring arrangements, testing to determine the attractiveness of the project, analysing the loan portfolio, and so on. The purpose of feasibility studies is to create a solid foundation for the project's decision-making and implementation.

### Financial advisory services for investments

Inspira advises its customers on the implementation and financing of investment projects, spanning the entire project lifecycle. The company acts as an advisor to both the public sector and various parties in the private sector. The company's experts plan the implementation and contracting models to be used, as well as the financing solution and the procurement method used in tendering. Inspira then manages the practical tendering process for an implementation and financing solution that matches the objectives.

### Restructuring arrangements

Inspira provides services related to the restructuring of public sector property and service production. The arrangements can involve reorganising or incorporating operations, or establishing a regional public utility municipal federation or a joint enterprise between municipalities. Inspira's services also extend to joint enterprises with market operators and the selling and purchasing of assets.

## CASE

### The E18 Hamina – Vaalimaa motorway project seeks a PPP contractor

*The E18 Hamina–Vaalimaa motorway project is being executed with the PPP model (Public Private Partnership). Inspira is acting as the economic and financial advisor in the project.*

*In the project, a new 32-kilometre motorway section is being built to the north of the existing road. In addition, five graded interchanges and more than 40 bridges will be built along this section. The budget for the project is EUR 660 million, and it is one of the most extensive infrastructure projects in Finland.*

*Inspira with its legal partner are responsible for the financial and legal consulting services. These services include, for instance, financial modelling of the project, an assessment of risks, the preparation of tender and contract documentation, and participation in contractual negotiations.*



# The increasingly complex operating environment poses more challenges

**M**unicipality Finance is the only Finnish financial institution that specialises exclusively in financing the municipal sector and central government subsidised housing production. The company's organisation forms Finland's largest centre of expertise specialising in the financing needs of its customers. This expertise, for its part, is the company's most important success factor.

During the past few years, the banking and financial sector has undergone major changes due to a substantial increase in regulation. Regulation has made the operating environment more complicated in many ways and has constantly increased the personnel's competence requirements.

Throughout the year, Municipality Finance invested in the planning of processes that aim to maintain well-being at work. The goal is to create permanent practices that support the personnel's ability to cope with and develop in their tasks in line with changing requirements.

Despite the challenging operating environment, the personnel's job satisfaction remained high in 2014. This is a clear indication of the personnel's high level of commitment to and motivation for the company's development as well as of the company's investment in well-being at work and management and leadership development. Municipality Finance was ranked as one of the best places to work in Finland in the Great Place to Work survey published at the beginning of 2015. The company was ranked 25th in the general category.

MuniFin Group's number of personnel continued to grow in 2014. As in previous years, the majority of the growth resulted from the new tasks introduced by regulation and the continuous development of the company's operations and systems. At the end of the year, the Group had 90 employees.

## Expanding expertise through training

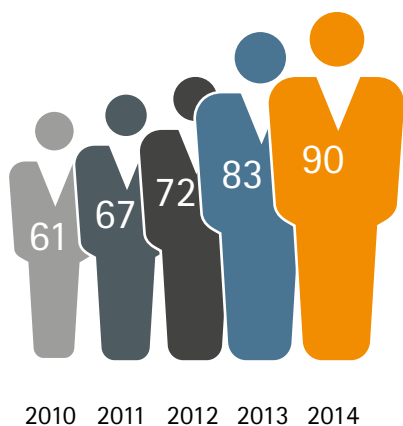
During the year, a training programme was carried out among all employee groups in the company to expand knowledge about financing theories and practices. It also aimed to improve cooperation between business operations and support functions, for instance, in the constantly evolving operating environment. The training was tailored according to Municipality Finance's needs together with AaltoEE, Aalto University's training company.

During the year, courses on the special questions related to municipal finances were also organised, especially for experts of the reorganised Customer Finance function.

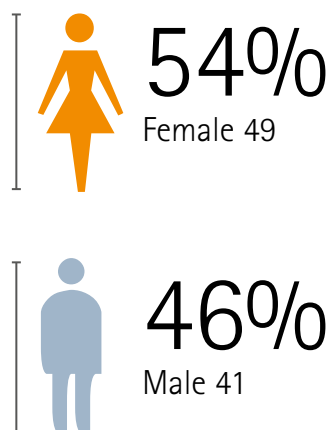
The coaching training, targeted at managers and launched in 2013, was also continued. The method works well in managerial coaching as it enables people to focus on both current and individual areas of development.

The trainee programme continued with a new one-year program started in June. A person selected to the programme visits practically all units of the company to learn more about the company's operations. The method is an effective way to give recent graduates a comprehensive overview of the different aspects of the company's business.

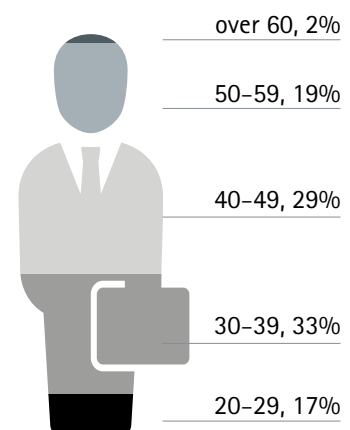
Number of employees in MuniFin Group 2010–2014,



Employees by gender



Employees by age





The number of personnel  
in MuniFin Group was

**90**

at the end of 2014.



Municipality Finance's operations require its employees to have broad and in-depth knowledge and expertise in many different areas of the financial industry.



# *The Board of* Directors



FROM THE LEFT TO RIGHT > Front: Tapani Hellstén, Eva Liljebloom and Juha Yli-Rajala.  
Back: Tuula Saxholm, Sirpa Louhevirta, Fredrik Forssell, Teppo Koivisto and Asta Tolonen.

## Composition of the Board of Directors

Under the Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2014 Annual General Meeting elected the following persons to the Board of Directors for the 2014-2015 term (from the Annual General Meeting to the next Annual General Meeting):

### Eva Liljebloom

Chairman

On 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

### Tapani Hellstén

Vice Chairman

On the Board of Directors since 2014

Education: M.A. (Adm. Sci)

Year of birth: 1957

Primary occupation: Deputy CEO, Keva

Independence: Independent of the company

### Fredrik Forssell

On the Board of Directors since 2011

Education: M.Sc. (Econ)

Year of birth: 1968

Primary occupation: CIO, Internal equity & FI Management, Keva

Independence: Independent of the company

### Teppo Koivisto

On 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

On the Board of Directors since 2011

Education: M.Sc. (Econ)

Year of birth: 1964

Primary occupation: Senior Vice President, Group Treasury and Real Estate, Sanoma Corporation

Independence: Independent of the company and its significant shareholders

### Tuula Saxholm

On 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

On 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

On 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

# *The Board of* Management



FROM THE LEFT TO RIGHT > Front: Esa Kallio, Jukka Helminen and Toni Heikkilä.  
Back: Mari Tyster, Pekka Averio and Marjo Tomminen.



## CEO and the Board of Management

Under the Articles of Association, the company has a CEO appointed by the Board of Directors and a Deputy to the CEO. The CEO's duty is to manage the company's operations in order to implement the resolutions made by the Board of Directors and maintain the company's operations in line with the strategy, risk management principles and limits set by the Board of Directors. Supported by the Board of Management, the CEO is responsible for monitoring the effectiveness of the company's day-to-day operations (including internal control, risk management and supervision of regulatory compliance), maintaining an effective organisational structure and reporting to the Board of Directors.

CEO and the Board of Management at the end of the 2014 financial year:

### **Pekka Averio**

President and CEO  
At Municipality Finance since 1993

Education: Master of Laws, MBA  
Year of birth: 1956

### **Esa Kallio**

Deputy to the CEO, Executive Vice President  
At Municipality Finance since 2005

Education: M.Sc. (Econ)  
Year of birth: 1963

### **Toni Heikkilä**

Senior Vice President, CRO, Risk management & IT  
At Municipality Finance since 1997

Education: Lic.Sc. (Econ), M.Sc. (Finance)  
Year of birth: 1965

### **Jukka Helminen**

Senior Vice President, Customer Finance  
At Municipality Finance since 2013

Education: M.Sc. (Tech)  
Year of birth: 1964

### **Marjo Tomminen**

Senior Vice President, CFO  
At Municipality Finance since 1992

Education: vocational qualification in Business Administration, EMBA  
Year of birth: 1962

### **Mari Tyster**

Senior Vice President, Administration and Legal  
At Municipality Finance since 2009

Education: Master of Laws  
Year of birth: 1975