



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)**

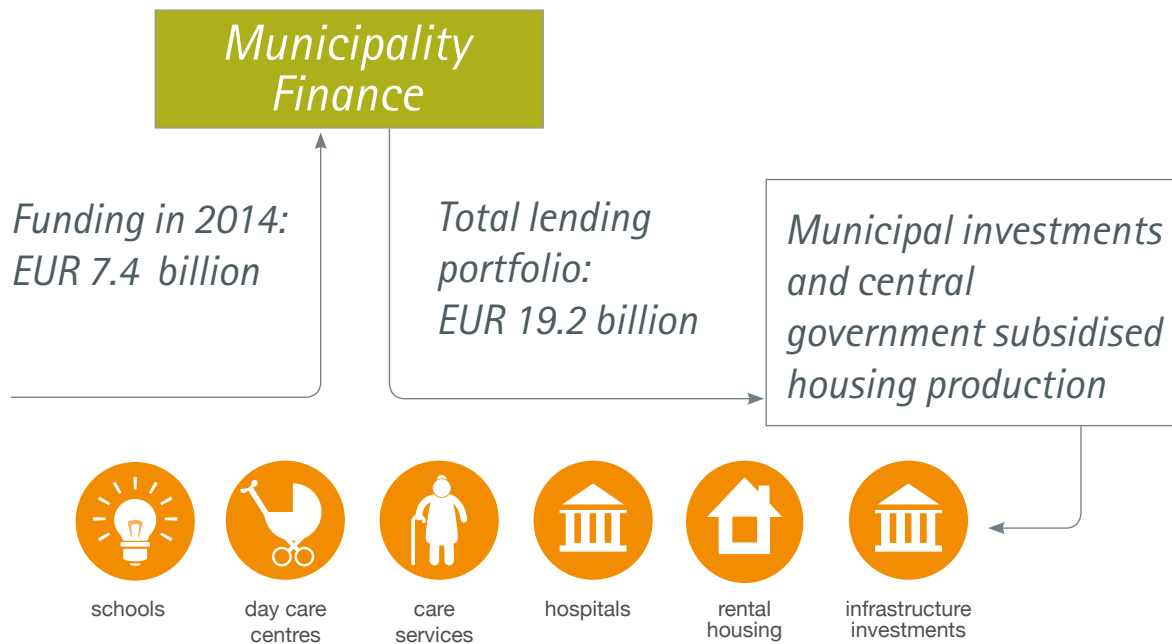
The only financial institution
exclusively specialising in the
municipal sector and central
government subsidised housing
production in Finland



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

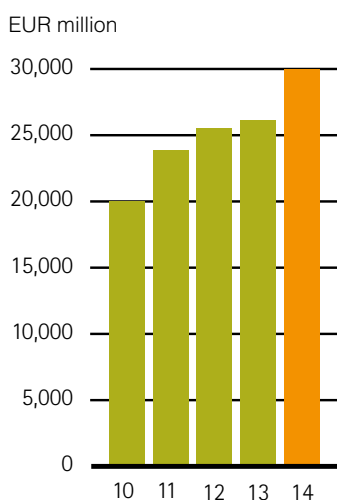
Tier 1 capital adequacy

29.98%

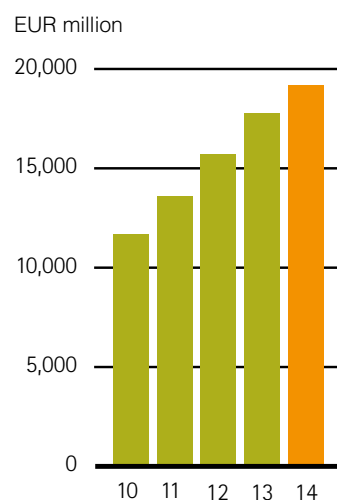
Tier 1 capital

EUR 557.2 million

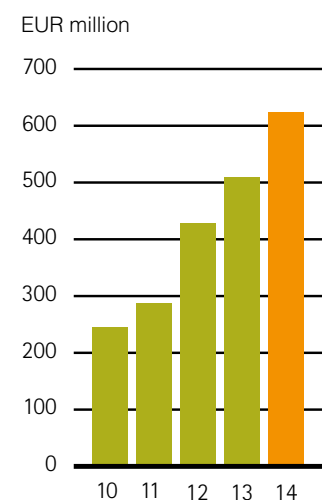
Balance sheet total 2010–2014



Lending portfolio 2010–2014



Own funds 2010–2014



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

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

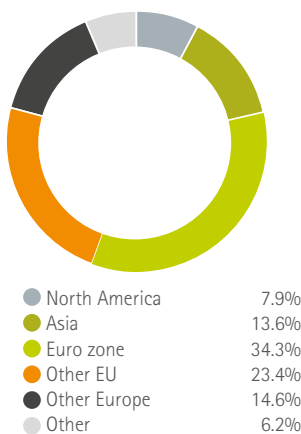
Key figures about Finland:

- 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.

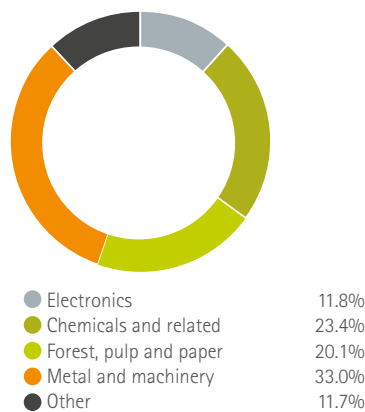
As an investment target, Finland is an innovation-based, development-oriented society that makes good use of high technology and is stable from the point of view of both domestic and foreign policy.

Finland's Exports by Region 2014*



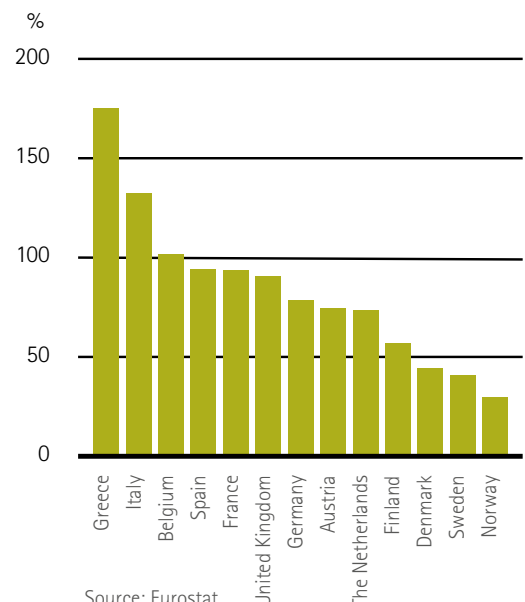
* January–November 2014
Source: Official Statistics of Finland

Finland's Exports by Sector 2014*



* January–November 2014
Source: Official Statistics of Finland

Government Debt as Percentage of GDP 2013



Source: Eurostat

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.

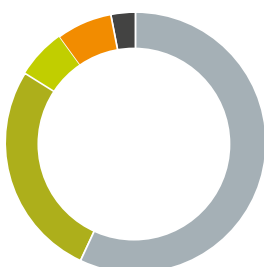
MGB as a part of municipalities' funding system:

- 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:

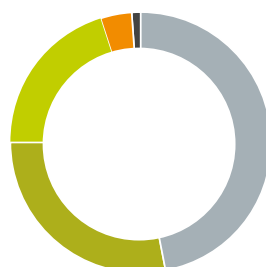
- The number of municipalities in Mainland Finland on 1 January 2015: 301
- Total annual revenues of municipalities in 2013: EUR 46.6 billion
- The average tax rate in municipalities in 2014: 19.74%
- The total debt of municipalities in 2014: 8.5% of GDP

Revenues of Municipalities 2013



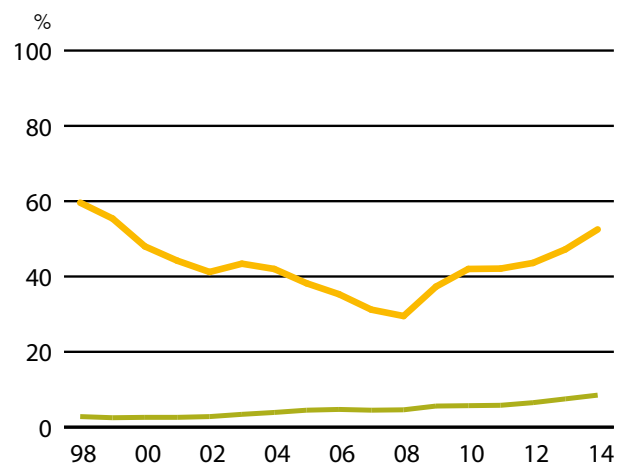
Income taxes	57%
Sales of services	27%
Other taxes	6%
Borrowing	7%
Other	3%

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

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



Municipality 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.

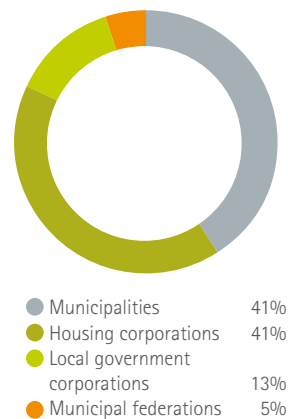
The lifecycle model becoming more common in commercial premises construction

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.

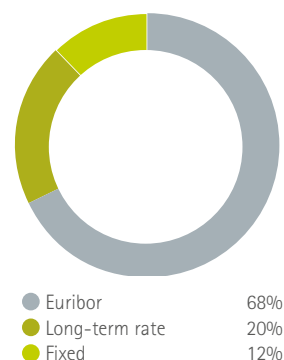
Lifecycle models for commercial premises constructions are of particular interest to municipalities as their financing solution is lighter for the party commissioning the project. In the lifecycle model, municipalities' responsibility for building, owning and maintaining properties is transferred to 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 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

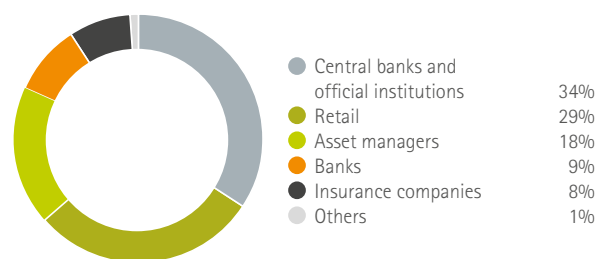
market already expected the change since the spring when S&P changed the outlook of both Finland and Municipality Finance to negative. Nevertheless, the change was a serious warning of a decline in investors' trust in Finland if the country's economic development remains weak and the structural problems 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.

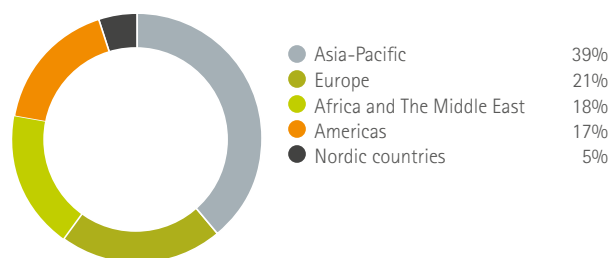
By actively carrying out private placement transactions, the company aims to take advantage of the changing market conditions in the international capital markets as effectively as possible. In 2014, the U.S Rule 144A documentation was added to the company's EMTN debt programme, which also opened up 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.

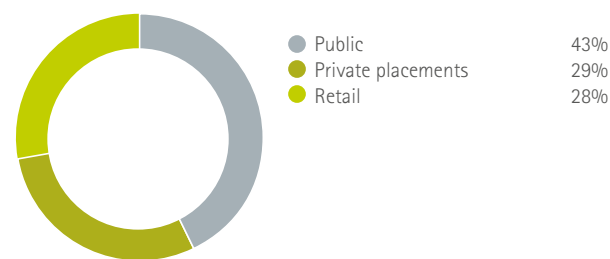
Acquired funding by investor type 2014



Acquired funding by region 2014



Acquired funding by issue type 2014



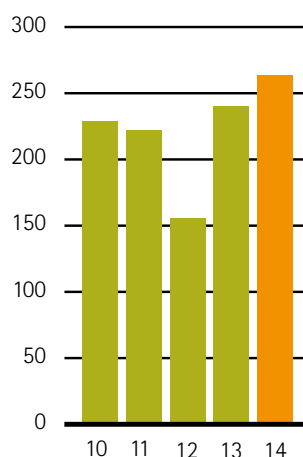
CASE

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.

Total number of funding transactions 2010–2014





Safe return on investment

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

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

Municipality 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

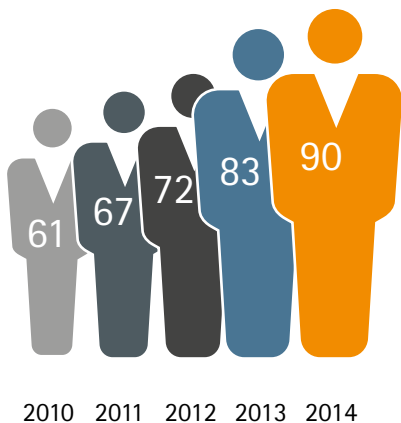
During the year, a training programme was carried out among all employee groups in the company to expand knowledge about financing theories and practices. It also aimed to improve cooperation between business operations and support functions, for instance, in the constantly evolving operating environment. 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.

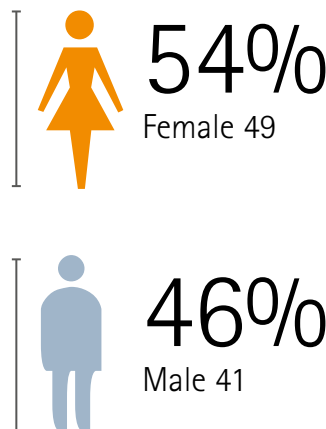
The coaching training, targeted at managers and launched in 2013, was also continued. The method works well in managerial coaching as it enables people to focus on both current and individual areas of development.

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.

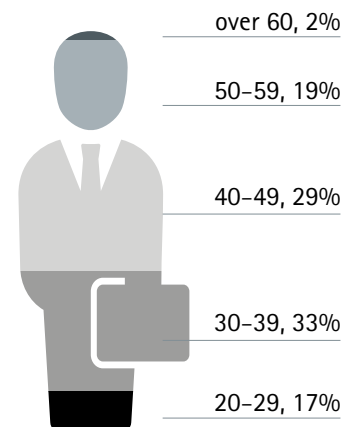
Number of employees in MuniFin Group 2010–2014



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 Liljeblom

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

Municipality Finance Financial Statements 1 January–31 December 2014

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Report of the Board of Directors

Summary of 2014:

- Net interest income grew by 7% compared with the previous year, totalling EUR 160.0 million (2013: EUR 149.5 million).
- The Group's net operating profit amounted to EUR 144.2 million (2013: EUR 141.3 million). The growth was 2% year-on-year.
- The balance sheet total stood at EUR 30,009 million (2013: EUR 26,156 million).
- The Group's capital adequacy remained strong, with the ratio of own funds to risk-weighted assets being 33.53% at the end of the year (2013: 32.52%) and the ratio of Tier 1 capital to risk-weighted assets being 29.98% (2013: 28.86%). The figures for the comparison year 2013 have been calculated in accordance with the EU Capital Requirements Regulation that entered into force on 1 January 2014.
- The leverage ratio at the end of 2014 was 1.8% (2013: 1.7%).
- Total funding acquisition for 2014 amounted to EUR 7,440 million (2013: EUR 10,695 million). The total amount of funding grew to EUR 26,616 million (2013: EUR 23,108 million).
- Lending increased to EUR 19,205 million (2013: EUR 17,801 million) and the amount of new loans withdrawn amounted to EUR 2,775 million (2013: EUR 3,537 million).
- The leasing portfolio stood at EUR 133 million at year end (2013: EUR 81 million).
- Investments totalled EUR 6,751 million at the end of 2014 (2013: EUR 5,671 million).
- The turnover of Municipality Finance's subsidiary, Inspira, stood at EUR 2.5 million (2013: EUR 1.7 million). Net operating profit at the end of 2014 totalled EUR 0.4 million (2013: EUR 0 million).

Key figures (Group):

	31 Dec 2014	31 Dec 2013
Net interest income (EUR million)	160.0	149.5
Net operating profit (EUR million)	144.2	141.3
New loans issued (EUR million)	2,775	3,537
New funding acquisition (EUR million)	7,440	10,695
Balance sheet total (EUR million)	30,009	26,156
Tier 1 capital (EUR million)	557.2	452.0
Total own funds (EUR million)	623.1	509.3
Ratio of Tier 1 capital to risk-weighted assets, %	29.98	28.86
Ratio of total own funds to risk-weighted assets, %	33.53	32.52
Leverage ratio, %	1.8	1.7
Return on equity (ROE), %	21.66	30.58
Cost-to-income ratio	0.15	0.15
Number of employees	90	83

The calculation formulas for the key figures are given on page 31.

Consolidated key figures for capital adequacy at 31 December 2013 have been calculated in accordance with the EU Capital Requirements Regulation (EU 575/2013) effective from 1 January 2014.

All figures presented in the Report of The Board of Directors are those of the Municipality Finance Group unless otherwise stated.

Credit ratings

Municipality Finance's credit ratings

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

The Municipal Guarantee Board's credit ratings

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

The credit rating agency Standard & Poor's lowered the long-term funding credit rating of Municipality Finance and the Municipal Guarantee Board, the guarantor of Municipality Finance's funding, from AAA to AA+ in October 2014. The outlook of the rating is stable. The downgrade of the long-term funding rating of Municipality Finance and the Municipal Guarantee Board is a direct

consequence of the equivalent change in the corresponding rating of the Republic of Finland. In accordance with the credit rating methodology of Standard & Poor's, the credit rating of Municipality Finance and the Municipal Guarantee Board cannot be higher than the rating of the sovereign.

Operating environment in 2014

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 credit risk categories. However, the increase of liquidity in the market did not significantly reverse the trend of economic development in Europe.

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 country's credit 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.

Municipality Finance is an important part of the basic financial structure of Finnish society and the only credit institution in Finland exclusively specialising in financing the municipal sector and central government subsidised housing production. During the year, there were no significant changes in the financing needs of the Finnish municipal sector, and the demand for loans continued to grow at a conservative rate. Municipality Finance continued to be the single most important financier for its customers.

As far as the company's funding was concerned, the year was a successful one. The company continued to diversify funding, with the aim of ensuring the availability of funding over the long term.

The implementation of the common European crisis resolution framework will bring about significant additional costs to be paid by financial sector operators starting from 2015. It is also likely that the contributions payable to the crisis resolution fund and expenses related to the administration of the system will also cause a significant increase in the Municipality Finance's costs.

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 ensure the availability of marketbased funding 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 under all market conditions.

Inspira offers financial advisory services to the public sector. Its 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 interest income and net operating profit

The Group's operations continued to be positive in 2014. The development of net interest income has remained good. Net interest income at the end of the year was EUR 160.0 million (2013: EUR 149.5 million). Net interest income includes EUR 1.5 million of commissions from the repurchase of own bonds (2013: EUR 10.4 million).

Consolidated net operating profit for the financial year before appropriations and taxes stood at EUR 144.2 million (2013: EUR 141.3 million). Municipality Finance's net operating profit stood at EUR 143.8 million (2013: EUR 141.3 million). The profit includes changes in IFRS fair valuation of financial items that are unrealised and change with the fluctuation of market interest rates. The impact of IFRS valuations on profit was EUR -2.1 million (2013: EUR 14.4 million).

The net operating profit of Municipality Finance's subsidiary, Inspira, was EUR 0.4 million in 2014 (2013: EUR 0.0 million).

Expenses

The Group's commission expenses totalled EUR 3.8 million at the end of the year (2013: EUR 4.1 million). Operating expenses increased by 4% to EUR 21.7 million during 2014 (2013: EUR 20.9 million). The growth in expenses was mainly due to an increase in administrative expenses resulting from changes in the company's operating environment as well as on-going IT system development projects.

Administrative expenses totalled EUR 14.7 million (2013: EUR 14.8 million), of which personnel expenses accounted for EUR 9.3 million (2013: EUR 10.4 million). Depreciation of tangible and intangible assets amounted to EUR 1.4 million (2013: EUR 1.2 million). Other operating expenses stood at EUR 5.5 million (2013: EUR 4.9 million).

Balance sheet

The Group's balance sheet total was EUR 30,009 million at the end of 2014, compared to EUR 26,156 million at the end of the previous year. Balance sheet growth is explainable by the fact that liquidity has been kept at a high level in 2014 as the company prepared for refinancing needs in early 2015. Furthermore, the CSA collateral received increased the balance sheet.

Capital adequacy

Municipality Finance Group's own funds totalled EUR 623.1 million at the end of 2014 (2013: EUR 511.5 million). Tier 1 capital amounted to EUR 557.2 million (2013: EUR 454.2 million). Tier 2 capital totalled EUR 65.9 million (2013: EUR 57.3 million), of which the fair value reserve accounted for EUR 30.9 million (2013: EUR 22.3 million).

The Group's capital adequacy has remained good, with the ratio of total own funds to risk-weighted assets being 33.53%. 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 decrease in the capital adequacy ratio since the end of 2013 is explainable by the changes in the capital adequacy regulation (the new Capital Requirements Directive and Regulation, CRD4/CRR), according to which, as of the beginning of 2014, risk-weighted assets for debt securities and derivatives are calculated on the basis of the counterparty credit rating instead of the previous practice of using the credit rating of the country where the counterparty is located. The new regulation has increased the capital requirement for credit risk.

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. The company's own funds can be increased amongst other through the result of its operations and by issuing an equity capital loan in the domestic and international capital markets. At the end of 2014, the leverage ratio stood at 1.8% (2013: 1.7%), calculated using currently valid calculation principles.

The capital adequacy management principles applied are described in the Financial Statements after the Report of the Board of Directors in the section "Capital adequacy management principles and key figures for capital adequacy".

Consolidated own funds

(EUR 1,000)	31 Dec 2014	31 Dec 2013*	31 Dec 2013
Common Equity Tier 1 before adjustments	561,112	447,925	447,939
Adjustments to Common Equity Tier 1	-4,757	-4,740	-4,740
COMMON EQUITY TIER 1 (CET1)	556,354	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)	557,162	451,992	454,208
Tier 2 capital before adjustments	65,914	57,285	57,285
Adjustments to Tier 2 capital	-	-	-
TIER 2 CAPITAL (T2)	65,914	57,285	57,285
TOTAL OWN FUNDS	623,075	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

	31 Dec 2014	31 Dec 2013*	31 Dec 2013
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	29.94	28.30	34.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	29.98	28.86	35.42
Ratio of total own funds to risk-weighted assets, %	33.53	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.

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 (ECP) 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 the EU.

In 2014, EUR 7,440 million was acquired in long-term funding (2013: EUR 10,695 million). The company issued bonds denominated in 15 different currencies in 2014 (2013: 14 currencies). A total of EUR 5,904 million was issued in short-term debt instruments under the Euro Commercial Paper programme in 2014 (2013: EUR 9,245 million), and total funding under the programme amounted to EUR 1,259 million at year end (2013: EUR 1,592 million). Total funding at the end of the year amounted to EUR 26,616 million (2013: EUR 23,108 million). Of this total amount, 18% was denominated in euros (2013: 15%) and 82% was denominated in foreign currencies (2013: 85%).

Municipality Finance is an active participant in international bond markets and acquires its funding almost exclusively from international capital markets. A total of 264 funding transactions were made in 2014 (2013: 240). The main focus of funding in 2014 was on public markets, which accounted for 43% of the total funding acquired during the year. During the year, Municipality Finance issued two U.S. dollar-denominated benchmarks. These issues were carried out under the EMTN programme which was updated to also fulfill the U.S. Rule 144A requirements. The public issues were successful despite the challenging market conditions, allowing Municipality Finance to further expand its investor base.

Active investor cooperation has increased Municipality Finance'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

The total volume of tender requests received by Municipality Finance in 2014 was EUR 4,387 million (2013: EUR 5,090 million), of which it won EUR 2,814 million (2013: EUR 3,442 million). The

total amount of new loans withdrawn in 2014 was lower than in the previous year, EUR 2,775 million (2013: EUR 3,537 million). At the end of the year, the company's long-term loan portfolio stood at EUR 19,205 million (2013: EUR 17,801 million). This represents an increase of 8% on the previous year.

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 2014. As interest rates remained low, customers hedged their loans against future increases in market rates.

Leasing operations

Municipality Finance offers financial leasing services to municipalities, municipal federations and municipally owned or controlled corporations. The aim of Municipality Finance's leasing operations is to increase transparency and the range of alternatives available in the leasing market. The company has concluded a number of facility agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is seen as a viable alternative, particularly for procurement by municipalities, municipal corporations engaging in municipal operations and hospital districts. The leasing portfolio grew by 64% during the year and stood at EUR 133 million at year end (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 2014, the total value of municipal paper and municipal commercial paper programmes concluded with Municipality Finance was EUR 3,787 million (2013: EUR 3,265 million). At the end of the year, the company had EUR 845 million in municipal papers and municipal commercial papers on its balance sheet (2013: EUR 704 million) and during the entire year, customers acquired EUR 9,638 million in financing under short-term programmes (2013: EUR 8,993 million).

Investments

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

At the end of 2014, investments in securities totalled EUR 5,581 million (2013: EUR 5,292 million) and their average credit rating was AA (2013: AA). The average maturity of the security portfolio stood at 2.3 years at the end of 2014 (2013: 3.5 years). In addition to this, the company had EUR 1,170 million in other investments (2013: EUR 379 million), of which EUR 593 million were in central bank deposits (2013: EUR 354 million), EUR 27 million in money market deposits in credit institutions (2013: EUR 25 million) and EUR 550 million in repurchase agreements (2013: EUR - million).

Liquidity remained good during 2014. New investments were made in covered bonds and bonds issued by public sector entities and banks based in strong countries in the eurozone.

Inspira

Inspira's turnover in 2014 was EUR 2.5 million (2013: EUR 1.7 million). Net operating profit for the period totalled EUR 0.4 million (2013: EUR 0.0 million).

Turnover comprised a wide range of assignments related to financing arrangements for public sector investments as well as various reorganisations of activities in the municipal sector. The demand for the services offered by Inspira increased in 2014, which was reflected in the number of tender requests received.

Governance

Corporate Governance Policy

At the same time as the Annual Report is published, Municipality Finance publishes on its website a Corporate Governance Statement, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act, that is separate from this Report of the Board of Directors and includes the description of the main features of the internal control and risk management systems pertaining to the financial reporting process. The Corporate Governance Statement also includes information on how the company complies with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. As Municipality Finance is solely an issuer of listed bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies directly in its entirety is not appropriate. Nevertheless, the company has used the Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy. In addition to the Finnish Corporate Governance Code for listed companies, Municipality Finance's internal Corporate Governance Policy takes into account the legislation concerning credit institutions as well as regulations/guidelines issued by authorities.

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 (more information on remuneration of Board members is provided in Note 27, Salaries and remuneration, to the consolidated financial statements).

The meeting also elected KPMG Oy Ab as the auditor of the company, with Marcus Tötterman, APA, as the principal auditor. Marcus Tötterman also acted as the principal auditor in the previous financial year.

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 Liljebloom (chairman), Tapani Hellstén (vice chairman), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala.

In order to organise its work as efficiently as possible, the Board 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 Liljebloom (chairman), Teppo Koivisto, Asta Tolonen and Juha Yli-Rajala.

The work of the company's Board of Directors and its Committees is described in more detail in Municipality Finance's Corporate Governance Statement available on the company's website.

Personnel

Municipality Finance Group employed 90 people at the end of 2014 (2013: 83), of whom 78 worked for the parent company (2013: 70). Wages and salaries paid to the personnel totalled EUR 7.5 million in the Group (2013: EUR 8.4 million).

The President and CEO of Municipality Finance is Pekka Ave-rio. 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.

Salaries and remuneration

The remuneration paid to the management and employees of Municipality Finance consists of fixed remuneration (base salary and fringe benefits) and variable remuneration based on the conditions of the remuneration system. The Board of Directors confirms the principles of the remuneration system and these are evaluated annually. The Remuneration Committee of the Board of Directors assists the Board in matters related to the remuneration systems and remunerations. More information on salaries and remuneration is provided in Note 27, Salaries and remuneration, to the consolidated financial statements and on the company's website at www.munifin.fi.

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 audit. Internal audit's tasks include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. The tasks also include making sure 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 adequately. The internal audit reports to the Board of Directors and its Audit Committee.

Risk management

There were no material changes in the company's risk position in 2014. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it. The risk management principles applied are described in the Financial Statements after the Report of the Board of Directors in the section "Risk management principles and the Group's risk position".

Share capital and owners

At the end of the 2014 financial year, Municipality Finance's paid share capital registered in the Trade Register was EUR 43.0 million and the number of shares was 39,063,798. Each share confers one vote at the Annual General Meeting.

At the end of 2014, Municipality Finance had 284 shareholders (31 December 2013: 284).

10 largest shareholders 31 December 2014

	No. of shares	%
1. Keva	11,975,550	30.66
2. Republic of Finland	6,250,000	16.00
3. City of Helsinki	4,066,525	10.41
4. City of Espoo	1,547,884	3.96
5. VAV Asunnot Oy (City of Vantaa)	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	903,125	2.31
8. City of Turku	615,681	1.58
9. City of Kuopio	569,450	1.46
10. City of Lahti	502,220	1.29

Events after the reporting period

The Board of the company is not aware of any events having taken place after the end of the reporting period that would have a material effect on the company's financial situation.

Prospects for 2015

At the beginning of 2015, there are no signs of significant improvement in the general weak economic situation in Europe. In the eurozone, the fear of descending into deflation has further increased and the weakening of the euro in relation to other key currencies of the world has also continued. In January, the European Central Bank announced a bond purchase programme with

which it will support the eurozone markets. In the inter-national political situation, there are no factors visible yet that would support opportunities the acceleration of economic growth in Europe. In the financial market, the impact of weak economic development and the tense international political situation can be seen as nervousness, which may even lead to fast overreactions when new negative news emerge.

In Finland, there are no clear indications of improvement of the economy and forecasts predict that economic growth will remain weak. The Finnish government has launched an extensive reform in which the structures of social welfare, health care and the municipal sector will be changed thoroughly. However, the reform is still in its early stages and the final implementation method and structure are still unknown. Consequently, its impact on the overall costs of the public sector cannot be estimated precisely.

In 2015, there will be a significant change in the operating environment as the European crisis resolution regulation and banking union enter into force. The crisis resolution regulation includes the obligation for all credit institutions to contribute to the crisis resolution fund with annual fees. As a consequence, Municipality Finance's annual costs may increase, depending on the final contribution allocation bases. Furthermore, it is possible that Municipality Finance will be transferred, in line with the banking union regulation, under the direct supervision of the European Central Bank as the company's balance sheet exceeds EUR 30 billion.

Municipality Finance continues to develop its operations systematically with the aim of meeting the changing financing needs of its customers in the best possible way. In 2015, the main focus areas will be customer relationship management and customer service. The company will also continue the ongoing system projects in order to improve the efficiency of its operations even further.

The profitability of Municipality Finance's operations is expected to remain at a strong level in 2015. Profitability may be affected by the new mandatory costs brought about by EU regulation which may increase the company's operating expenses significantly.

The Group's development

	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
Turnover (EUR million)	222.0	196.8	292.5	319.0	198.9
Net interest income (EUR million)	160.0	149.5	142.4	94.2	78.7
% of turnover	72.1	76.0	48.7	29.5	39.6
Net operating profit (EUR million)	144.2	141.3	138.6	65.3	58.3
% of turnover	64.9	71.8	47.4	20.5	29.3
Cost-to-income ratio	0.15	0.15	0.14	0.23	0.23
Loan portfolio (EUR million)	19,205	17,801	15,700	13,625	11,698
Funding portfolio (EUR million)	26,616	23,108	22,036	20,092	17,162
Balance sheet total (EUR million)	30,009	26,156	25,560	23,842	20,047
Return on equity, % (ROE)	21.66	30.58	38.04	27.08	28.42
Return on assets, % (ROA)	0.41	0.48	0.42	0.23	0.42
Equity ratio, %	1.98	1.80	1.35	0.86	0.85
Tier 1 capital (EUR million)	557.2	454.2	331.9	227.6	177.5
Total own funds (EUR million)	623.1	511.5	428.9	288.4	245.9
Ratio of Tier 1 capital to risk-weighted assets, %	29.98	35.42	26.22	19.04	13.92
Ratio of total own funds to risk-weighted assets, %	33.53	39.88	33.87	24.13	19.28
Leverage ratio, %	1.8	1.7	-	-	-
Number of employees	90	83	72	67	61

The consolidated key figures for capital adequacy for 2014 have been calculated in accordance with the EU Capital Requirements Regulation effective from 1 January 2014.

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

Commission expenses + administrative expenses + depreciation + other operating expenses

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)

Net operating profit - taxes

Equity and non-controlling interest (average year beginning and year end) × 100

Return on assets (%) (ROA)

Net operating profit - taxes

Balance sheet total (average year beginning and year end) × 100

Equity ratio (%)

Equity and non-controlling interest + appropriations less deferred tax liabilities

Balance sheet total × 100

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

Common Equity Tier 1

Risk-weighted assets × 100

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

Tier 1 capital

Risk-weighted assets × 100

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

Total own funds

Risk-weighted assets × 100

Leverage ratio, %

Tier 1 capital

Total exposure × 100

Risk management principles and the Group's risk position

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/AA+) 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 Investments department is responsible for managing the company's long liquidity. The Treasury department is in charge of the sufficiency of the company's overall liquidity and of managing the balance sheet risk position with regard to market and financial risks. The company's Middle Office department is responsible for managing the supervision and reporting tasks related to financial and operational risks. The risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

The company has mapped risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results.

A comprehensive stress test is conducted at the company annually by an independent external party. The main aims for the test conducted in the autumn of 2014 were to analyse the development of Municipality Finance's equity and its range in 2014–2020. The testing applied to operational market and credit risks and their estimated financial impact under different scenarios. The test also included a so-called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. As in the previous years, the results of the test showed that with the current capital requirements, the level of the company's capital is sufficient in the review period even in highly unfavourable circumstances.

There were no material changes in the company's risk position in 2014. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it. The company's risk position is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the company's risk position in relation to various risk areas every six months.

Strategic risks

Strategic risk means that the company would choose 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 customers' 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 2020.

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. Because such a guarantee is required to reduce the credit risk, all loans granted are 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 assets during its operations or credit losses in the financing of its customers.

Municipality Finance is also exposed to credit risk from its prefunding investment portfolio and derivative instruments. In selecting counterparties, Municipality Finance evaluates credit risk with principles and limits, approved by the Board of Directors, based on external credit ratings. Nominal values of debt securities and equivalent credit values of derivatives (fair value method) are used in monitoring credit risk.

Balance sheet and binding loan commitment liabilities

31 Dec 2014 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	11,521,754	9,232,118	-	2,234,429	55,206
Enterprises and housing corporations	10,745,015	9,818,925	-	84,796	841,294
Non-profit organisations	349,962	286,687	-	-	63,275
Credit institutions	5,065,445	-	1,072,099	3,993,346	-
Other	104,014	-	-	104,014	-
Total	27,786,191	19,337,730	1,072,099	6,416,586	959,776

31 Dec 2013 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	10,093,785	8,410,342	-	1,578,395	105,049
Enterprises and housing corporations	10,216,288	9,287,948	-	51,968	876,371
Non-profit organisations	183,992	183,992	-	-	-
Credit institutions	4,806,755	-	589,144	4,217,610	-
Other	137,672	-	-	137,672	-
Total	25,438,491	17,882,282	589,144	5,985,644	981,420

Municipality Finance limits credit risk of the derivative contracts with ISDA Credit Support Annexes in case of major derivative counterparties. The company has 44 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.

Breakdown of nominal value of derivative agreements by counterparty credit rating

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Finnish municipalities	1,715,694	1,460,644
AAA	-	-
AA	14,664,222	12,551,206
A	40,265,860	38,458,997
BBB	34,371	274,131
Total	56,680,147	52,744,978

Given and received cash collateral based on CSA agreements

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Given collateral	-299,100	-553,200
Received collateral	1,460,140	354,890
Net collateral	1,161,040	-198,310

Credit Valuation Adjustments (CVA) that take credit risk into account and Municipality Finance's own Debt Valuation Adjustment (DVA) are applied to counterparties of derivatives. CVA is calculated on a derivative counterparty specific basis by simulating Municipality Finance's expected positive exposures throughout the maturity of the portfolio, taking into account the probability of default and loss given default. Similarly, DVA is determined on the basis of Municipality Finance's expected negative exposures, taking into account the probability of Municipality Finance's default and loss given default.

Market risk

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, exchange rate, share price and other price risks. Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes.

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Breakdown of funding into domestic and foreign currency

31 Dec 2014 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	2,360,389	61,922	2,422,311
Liabilities to the public and public sector entities	718,270	245,392	963,662
Debt securities issued	1,711,144	21,519,155	23,230,298
Total	4,789,803	21,826,468	26,616,271

Carrying amounts of liabilities and their hedges split by currency

31 Dec 2014 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	11,061,315	2,505,767	1,915,662	1,805,862	3,689,333	20,977,939
Short-term funding	848,529	-	-	-	-	848,529
Currency risk total	11,909,844	2,505,767	1,915,662	1,805,862	3,689,333	21,826,468
Hedging derivatives	-11,909,844	-2,505,767	-1,915,662	-1,805,862	-3,689,333	-21,826,468
Unhedged currency risk	0	0	0	0	0	0

Breakdown of funding into domestic and foreign currency

31 Dec 2013 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	1,737,464	172,032	1,909,496
Liabilities to the public and public sector entities	683,417	245,791	929,209
Debt securities issued	950,752	19,318,547	20,269,299
Total	3,371,633	19,736,370	23,108,003

Carrying amounts of liabilities and their hedges split by currency

31 Dec 2013 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	7,895,399	3,099,051	1,644,929	2,045,878	3,609,472	18,294,729
Short-term funding	1,441,641	-	-	-	-	1,441,641
Currency risk total	9,337,040	3,099,051	1,644,929	2,045,878	3,609,472	19,736,370
Hedging derivatives	-9,337,040	-3,099,051	-1,644,929	-2,045,878	-3,609,472	-19,736,370
Unhedged currency risk	0	0	0	0	0	0

The company 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

Currency position

The currency position is calculated as the euro-denominated difference between assets and liabilities in various currencies.

(EUR 1,000)	Currency	Currency position
31 Dec 2014	USD	-4
31 Dec 2013	USD	-12

Duration

Duration refers to an interest rate risk over time, describing the average remaining maturity at the prevailing interest rate level.

	Receivables	Liabilities	Difference
31 Dec 2014	1.744 years	1.617 years	46 days
31 Dec 2013	1.538 years	1.470 years	25 days

Value-at-Risk

The VaR figure describes the maximum negative change in the market value of the balance sheet during 10 days at a probability of 99% in euros. The VaR model used by the company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2014	1,430	1,093	570	1,470
2013	1,110	749	560	1,110

Economic Value

Economic Value describes the interest rate sensitivity of the present value of the balance sheet. It is measured by calculating the change in the present value of the interest rate sensitive cash flows at different interest rate curve changes. The basic scenario is a 200 basis point increase and decrease of the interest rate curve.

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2014	19,700	3.2%
31 Dec 2013	10,000	2.0%

Income risk

Income risk refers to the negative impact of interest rate changes on the company's net interest income. The basis scenario is a 100 basis point shift throughout the interest rate curve. The impact is evaluated in proportion to the company's profitability and own funds.

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2014	-8,438	6.1%
31 Dec 2013	-3,096	2.4%

Price risk

Price risk refers to the possibility of changes in the market values of pre-funding investments due to a change in the market's required return as a consequence of a change in the investment's risk or the market's risk sensitivity. The change in required return is calculated at a 99% confidence level.

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2014	0.23%	-31,300	5.0%
31 Dec 2013	0.33%	-53,046	10.4%

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

Liquidity risk

Liquidity risk means the risk of the company not being able to perform payment obligations arising from settling funding agreements or other funding activities on their due date. The company manages the liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a minimum level for available liquidity which should be sufficient for at least six months' liquidity needs.

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

Breakdown of financial liabilities by maturity

31 Dec 2014 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	1,603,076	134,533	2,145,162	3,882,771
Liabilities to the public and public sector entities	28,254	421,997	513,411	963,662
Debt securities issued	8,206,570	12,993,300	2,030,428	23,230,298
Subordinated liabilities	-	36,934	1,009	37,943
Total	9,837,900	13,586,764	4,690,010	28,114,674

31 Dec 2013 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	578,651	45,290	1,640,446	2,264,386
Liabilities to the public and public sector entities	20,087	353,027	556,095	929,209
Debt securities issued	7,718,594	10,884,367	1,666,337	20,269,298
Subordinated liabilities	10,000	37,965	1,009	48,974
Total	8,327,332	11,320,648	3,863,887	23,511,867

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible call date.

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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.

The company has been approved as a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against these collaterals (Note 24 to the consolidated financial statements).

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 department and company 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 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. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis,

and compliance with them is supervised. 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 has the insurance policies related to its operations 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 support 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 any regulatory changes are appropriately responded to. The legislation and regulations concerning the operations of credit institutions have faced significant changes during the past few years and will continue such changes in the future, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this by active contact with the authorities and interest groups as well as organisation of the company's internal compliance function (incl. reporting, evaluation of effects).

The company has significant information system projects aimed at improving the efficiency of operations currently ongoing. The extent of these projects creates 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 event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operational 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 in 2014.

Capital adequacy management principles and key figures for capital adequacy

Municipality Finance's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to 2020, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan annually.

Controlling capital adequacy is continuous and an essential part of the company's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in co-operation with management and the Board. The Board of the company approves the final strategy. Management ensures that the operative measures of the company correspond with the principles determined in the strategy approved by the Board. As part of the annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. The company's risk position and its effect on the company's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring risks. Based on these, the capital adequacy plan is updated annually and actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored through monthly business analyses.

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 and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small. 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. In capital adequacy calculations for the credit risk, Municipality Finance uses methods for reducing the 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 623.1 million at the end of 2014 (2013: EUR 511.5 million). Common Equity Tier 1 (CET1) totalled EUR 556.4 million (2013: EUR 443.2

million), and it takes into account Municipality Finance's own Debt Valuation Adjustment (DVA) amounting to EUR -1.9 million (2013: -). Tier 1 capital amounted to EUR 557.2 million (2013: EUR 454.2 million). Own funds include the profit of the financial year 2014 based on the permission received from the Finnish Financial Supervisory Authority. Tier 1 capital 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 year was EUR 65.9 million (2013: EUR 57.3 million), of which the fair value reserve accounted for EUR 30.9 million (2013: EUR 22.3 million). Additional 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 at 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 from 9 May 2016. Detailed descriptions of the subordinated loans and debenture loans are included in Note 21, Subordinated liabilities, to the consolidated financial statements.

The Group's capital adequacy has remained good, with the ratio of total own funds to risk-weighted assets being 33.53%. 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 decrease in the capital adequacy ratio since the end of 2013 is explainable by the changes in the capital adequacy regulation, according to which, from the beginning of 2014, risk-weighted assets for debt securities and derivatives are calculated on the basis of the counterparty credit rating instead of the previous practice of using the credit rating of the country where the counterparty is located. 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. The company's own funds can be increased amongst other through the result of its operations and by issuing an equity capital loan in the domestic and international capital markets. At the end of 2014, the leverage ratio stood at 1.8% (2013: 1.7%), calculated using currently valid calculation principles.

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Consolidated own funds, Group

(EUR 1,000)	31 Dec 2014	31 Dec 2013*	31 Dec 2013
Common Equity Tier 1 before adjustments	561,112	447,925	447,939
Adjustments to Common Equity Tier 1	-4,757	-4,740	-4,740
COMMON EQUITY TIER 1 (CET1)	556,354	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)	557,162	451,992	454,208
Tier 2 capital before adjustments	65,914	57,285	57,285
Adjustments to Tier 2 capital	-	-	-
TIER 2 CAPITAL (T2)	65,914	57,285	57,285
TOTAL OWN FUNDS	623,075	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

	31 Dec 2014	31 Dec 2013*	31 Dec 2013
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	29.94	28.30	34.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	29.98	28.86	35.42
Ratio of total own funds to risk-weighted assets, %	33.53	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)	31 Dec 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	128,664	1,608,297	109,667	1,370,836	86,991	1,087,383
Claims on credit institutions and investment firms	80,793	1,009,912	60,869	760,858	38,233	477,916
Covered bonds	15,258	190,731	16,733	209,159	16,733	209,159
Securitised items	27,028	337,851	29,129	364,112	29,129	364,112
Shares in investment funds	101	1,258	132	1,651	132	1,651
Other items	5,484	68,545	2,804	35,056	2,764	34,546
Market risk	6	73	0	0	0	0
Operational risk, basic method	19,994	249,928	15,609	195,117	15,609	195,117
TOTAL	148,664	1,858,298	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.

Exposure by category

(EUR 1,000)	Total exposure	Risk-weighted assets	Total exposure	Risk-weighted assets	Risk-weighted assets
Exposure category	2014	2014	2013	2013*	2013
Claims on governments and central banks	1,136,655	-	871,488	-	-
Claims on local government and local authorities	9,905,111	-	9,042,168	-	-
Claims on international organisations	253,326	-	223,518	-	-
Claims on international development banks	215,418	-	172,063	-	-
Claims on credit institutions and investment firms	4,852,459	1,009,912	3,459,078	760,858	477,916
Claims on corporates	4,370,988	-	4,177,264	-	-
Claims covered by mortgaged real property	6,079,832	-	5,415,371	-	-
Covered bonds	1,708,802	190,731	1,943,658	209,159	209,159
Securitised items	104,014	337,851	142,995	364,112	364,112
Shares in investment funds	9,761	1,258	10,023	1,651	1,651
Other items	253,724	68,545	236,189	35,056	34,546
Off-balance-sheet items	959,776	-	981,420	-	-
Total	29,849,866	1,608,297	26,675,235	1,370,836	1,087,383

*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.

Exposure by geographic region and exposure category

31 Dec 2014 (EUR 1,000)	Finland	Other Nordic countries	Other EU countries	Other countries
Exposure category				
Claims on governments and central banks	776,274	-	360,381	-
Claims on local government and local authorities	9,905,111	-	-	-
Claims on international organisations	-	-	253,326	-
Claims on international development banks	-	-	162,486	52,932
Claims on credit institutions and investment firms	350,131	616,396	3,233,049	652,883
Claims on corporates	4,370,988	-	-	-
Claims covered by mortgaged real property	6,079,832	-	-	-
Covered bonds	270,532	691,582	548,183	198,505
Securitised items	-	-	104,014	-
Shares in investment funds	-	-	9,761	-
Other items	77,213	13,781	151,627	11,103
Off-balance-sheet items	959,776	-	-	-
Total	22,789,857	1,321,759	4,822,827	915,423

Remaining maturity of exposures by category

31 Dec 2014 (EUR 1,000)	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Exposure category						
Claims on governments and central banks	642,942	-	219,984	225,144	48,585	1,136,655
Claims on local government and local authorities	981,757	968,115	4,165,609	2,518,627	1,271,003	9,905,111
Claims on international organisations	50,069	15,343	109,198	78,716	-	253,326
Claims on international development banks	20,009	-	81,560	113,849	-	215,418
Claims on credit institutions and investment firms	1,631,437	475,553	2,259,429	171,932	314,108	4,852,459
Claims on corporates	170,082	210,680	1,170,888	1,114,325	1,705,012	4,370,988
Claims covered by mortgaged real property	41,372	94,069	663,498	600,589	4,680,305	6,079,832
Covered bonds	98,299	306,537	916,705	387,260	-	1,708,802
Securitised items	-	9,987	-	49,508	44,519	104,014
Shares in investment funds	-	-	-	-	9,761	9,761
Other items	144,859	106,399	2,465	-	-	253,723
Off-balance-sheet items	959,776	-	-	-	-	959,776
Total	4,740,602	2,186,684	9,589,337	5,259,949	8,073,294	29,849,866

■ Municipality Finance Group

Remaining maturity of exposures by category

31 Dec 2013 (EUR 1,000)	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Claims on governments and central banks	404,241	-	199,207	227,567	40,473	871,488
Claims on local government and local authorities	683,479	290,124	2,133,158	4,282,262	1,653,145	9,042,168
Claims on international organisations	-	-	136,375	87,143	-	223,518
Claims on international development banks	12,006	-	102,237	57,821	-	172,063
Claims on credit institutions and investment firms	1,378,092	160,883	1,681,615	210,972	27,516	3,459,078
Claims on corporates	38,523	50,591	294,014	534,120	3,260,015	4,177,264
Claims covered by mortgaged real property	39,575	43,479	349,817	468,559	4,513,942	5,415,371
Covered bonds	20,025	239,486	1,300,089	384,058	-	1,943,658
Securitised items	-	-	30,435	24,946	87,614	142,995
Shares in investment funds	-	-	-	-	10,023	10,023
Other items	80,126	139,584	16,479	-	-	236,189
Off-balance-sheet items	981,420	-	-	-	-	981,420
Total	3,637,487	924,146	6,243,426	6,277,448	9,592,728	26,675,235

Exposures by risk weight before and after credit risk mitigation

31 Dec 2014 (EUR 1,000)	Exposure before credit risk mitigation	Exposure after credit risk mitigation	Risk-weighted assets
0	12,541,280	24,815,038	-
10	1,534,000	1,534,000	153,400
20	3,866,916	2,043,977	408,795
50	1,418,676	1,418,676	709,338
100	10,454,253	3,434	3,434
Other risk weights	34,741	34,741	313,500
Total	29,849,866	29,849,866	1,588,468

Exposures by risk weight before and after credit risk mitigation

31 Dec 2013 (EUR 1,000)	Exposure before credit risk mitigation	Exposure after credit risk mitigation*	Exposure after credit risk mitigation	Risk-weighted assets*	Risk-weighted assets
0	11,189,545	22,057,824	22,058,589	-	-
10	1,820,240	1,821,447	1,820,240	182,145	182,024
20	3,973,745	1,752,159	2,697,336	350,432	539,467
50	28,311	996,278	51,542	498,139	25,771
100	9,622,694	6,828	6,828	6,828	6,828
Other risk weights	40,700	40,699	40,700	333,293	333,293
Total	26,675,235	26,675,235	26,675,235	1,370,836	1,087,383

*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.

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Consolidated statement of financial position

(EUR 1,000)	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Cash and cash equivalents	(6)	592,907	354,232
Loans and advances to credit institutions	(7)	1,072,099	589,144
Loans and advances to the public and public sector entities		19,337,730	17,882,282
Debt securities	(8)	6,416,586	5,985,644
Shares and participations	(9)	9,789	10,050
Derivative contracts	(5, 10)	2,321,699	1,094,150
Intangible assets	(11, 13)	4,757	4,740
Tangible assets	(12, 13)	2,465	2,525
Other assets	(14)	2,196	1,977
Accrued income and prepayments	(15)	249,032	231,656
TOTAL ASSETS	(2, 3, 4)	30,009,259	26,156,402
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions	(17)	3,882,771	2,264,386
Liabilities to the public and public sector entities		963,662	929,209
Debt securities issued	(18)	23,230,298	20,269,298
Derivative contracts	(5, 10)	934,399	1,818,359
Other liabilities	(19)	2,056	1,395
Accrued expenses and deferred income	(20)	249,902	268,590
Subordinated liabilities	(21)	37,943	48,974
Deferred tax liabilities	(16)	114,124	85,967
TOTAL LIABILITIES	(2, 3, 4)	29,415,155	25,686,178
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(22)	42,583	42,583
Reserve fund	(22)	277	277
Fair value reserve		30,914	22,285
Reserve for invested non-restricted equity	(22)	40,366	40,366
Retained earnings		479,686	364,641
Total equity attributable to parent company equity holders		593,825	470,153
Non-controlling interest		279	71
TOTAL EQUITY AND NON-CONTROLLING INTEREST		594,104	470,224
TOTAL LIABILITIES AND EQUITY	(2, 3, 4)	30,009,259	26,156,402

Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
Interest income	(28)	212,351	180,014
Interest expense	(28)	-52,343	-30,524
NET INTEREST INCOME	(28)	160,008	149,490
Commission income	(29)	5,047	1,933
Commission expense	(30)	-3,834	-4,135
Net income from securities and foreign exchange transactions	(31, 32)	-5,711	5,023
Net income from available-for-sale financial assets	(33)	6,629	214
Net income from hedge accounting	(34)	3,693	9,617
Other operating income	(35)	11	5
Administrative expenses	(36)	-14,721	-14,802
Depreciation and impairment on tangible and intangible assets	(13)	-1,442	-1,196
Other operating expenses	(37)	-5,521	-4,937
Impairment losses on other financial assets	(38)	-	54
NET OPERATING PROFIT		144,160	141,266
Income tax expense	(39)	-28,908	-16,567
PROFIT FOR THE PERIOD		115,252	124,699
Profit attributable to:			
Equity holders of the parent company		115,044	124,697
Non-controlling interest		207	1

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
Profit for the period		115,252	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		14,462	1,004
Net amount transferred to profit or loss	(33)	-3,769	-2,356
IAS 39 reclassification adjustment	(8)	92	167
Taxes related to components of other comprehensive income		-2,157	290
Change in corporate tax rate		-	1,254
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		123,880	125,057
Total comprehensive income attributable to:			
Equityholders of the parent company		123,673	125,056
Non-controlling interest		207	1

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
CASH FLOW FROM OPERATING ACTIVITIES	1,307,834	-62,468
Net change in long-term funding	1,502,695	3,381,994
Net change in short-term funding	-402,107	234,714
Net change in long-term loans	-1,293,531	-2,271,953
Net change in short-term loans	-141,407	52,280
Net change in investments	128,411	397,440
Net change in collateral	1,359,670	-1,970,860
Interest paid	-59,423	-28,664
Interest received	210,535	171,333
Other income	32,799	16,716
Payments of operating expenses	-24,318	-31,525
Taxes paid	-5,489	-13,943
CASH FLOW FROM INVESTING ACTIVITIES	-1,348	-3,709
Acquisition of tangible assets	-523	-748
Acquisition of intangible assets	-825	-2,961
CASH FLOW FROM FINANCING ACTIVITIES	-10,000	-40,098
Change in subordinated liabilities	-10,000	-40,000
Dividends paid	-	-98
CHANGE IN CASH FUNDS	1,296,486	-106,275
CASH FUNDS AT 1 JANUARY	1,885,173	1,991,448
CASH FUNDS AT 31 DECEMBER	3,181,659	1,885,173

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)	31 Dec 2014	31 Dec 2013
Cash and cash equivalents	592,907	354,232
Loans and advances to credit institutions	1,072,099	589,144
Debt securities maturing within three months	1,516,653	941,796
TOTAL CASH FUNDS	3,181,659	1,885,173

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders						Non-controlling interest	Total equity
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
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	-	-	-	-	115,044	115,044	208	115,252
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	-	-	14,462	-	-	14,462	-	14,462
Net amount transferred to profit or loss	-	-	-3,769	-	-	-3,769	-	-3,769
IAS 39 reclassification adjustment	-	-	92	-	-	92	-	92
Taxes related to components of other comprehensive income	-	-	-2,157	-	-	-2,157	-	-2,157
EQUITY AT 31 DECEMBER 2014	42,583	277	30,913	40,366	479,686	593,825	279	594,104

Notes to the consolidated financial statements

Note 1. Summary of significant accounting policies

Notes to the consolidated statement of financial position and other notes

- Note 2. Financial assets and liabilities
- Note 3. Fair values of financial assets and liabilities
- Note 4. Breakdown of the balance sheet by maturity
- Note 5. Offsetting financial assets and liabilities
- Note 6. Cash and cash equivalents
- Note 7. Loans and advances to credit institutions
- Note 8. Debt securities
- Note 9. Shares and participations
- Note 10. Derivative contracts
- Note 11. Intangible assets
- Note 12. Tangible assets
- Note 13. Changes in intangible and tangible assets during the financial year
- Note 14. Other assets
- Note 15. Accrued income and prepayments
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- Note 18. Debt securities issued
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- Note 20. Accrued expenses and deferred income
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- Note 22. Equity
- Note 23. Contingent assets
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Notes to the consolidated income statement

- Note 28. Interest income and expense
- Note 29. Commission income
- Note 30. Commission expense
- Note 31. Net income from securities and foreign exchange transactions
- Note 32. Financial assets designated using fair value option
- Note 33. Net income from available-for-sale financial assets
- Note 34. Net income from hedge accounting
- Note 35. Other operating income
- Note 36. Administrative expenses
- Note 37. Other operating expenses
- Note 38. Impairment losses on other financial assets
- Note 39. Income tax expense
- Note 40. Events after the reporting period

Note 1. Summary of significant accounting policies

General information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (referred to as Municipality Finance or the company) and Financial Advisory Services Inspira Ltd (subsidiary). The role of Municipality Finance is to ensure the availability of market-based funding 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 under all market conditions.

The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domiciled in Helsinki. Its registered address is Jaakonkatu 3 A, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Jaakonkatu 3 A, 00100 Helsinki. A copy of the consolidated financial statements is available online at www.munifin.fi or from the Group's parent company at Jaakonkatu 3 A, 00100 Helsinki.

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 13 February 2015. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also alter the financial statements.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2014. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) no. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

The consolidated financial statements have been prepared under historical cost convention, except for financial assets and liabilities recorded at fair value through profit or loss, available-for-sale financial assets, derivative contracts and hedged items in fair value hedge accounting for the risk hedged.

Capital adequacy information according to Part Eight of the EU Capital Requirements Regulation (EU 575/2013) is presented in the financial statements. In preparing the financial statements under IFRS, the Group management is required to make certain estimates and use its judgement in the application of the accounting policies. The section "Accounting policies requiring management judgement and key uncertainty factors related to estimates" under "Summary of significant accounting policies" provides information on the items in which the figures presented may be most affected by management judgement or uncertainty factors.

The Group's functional currency is the euro and the notes to the financial statements are presented in thousands of euros. All figures in the notes have been rounded, so the total of individual figures may differ from the total figure presented.

Basis of consolidation

The consolidated financial statements contain the financial statements of Municipality Finance Plc, the parent company, and Financial Advisory Services Inspira Ltd, a subsidiary directly owned by it. Inter-company share ownership has been eliminated by using the acquisition method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement. Non-controlling interest is presented in the statement of financial position as a separate item under "Equity".

Segment reporting

Municipality Finance Group's line of business is credit institution operations and providing financial advisory services. The Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decisionmaker. Group-level information pursuant to IFRS 8 with respect to information on products and services are presented in Note 28. Breakdown of net interest income and expense and 29. Commission income. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The Group does not have any single customer that constitutes more than 10% of its income.

Translation of foreign currency denominated items

Transactions denominated in a foreign currency have been recorded in euro, the Group's functional currency, using the exchange rates of the transaction dates. On the balance sheet date, monetary receivables and liabilities denominated in a foreign currency have been translated into euros using the European Central Bank's average exchange rate of that date and the resulting translation differences are recorded through profit or loss under Net income from foreign exchange transactions. The fair value changes of monetary securities denominated in a foreign currency and classified as available-for-sale are divided into translation differences arising from changes to the amortised cost of the security and other changes in carrying amount. Translation differences related to changes in amortised cost are recorded through profit or loss, while other changes in carrying amount are recognised in Other comprehensive income.

Classification of financial instruments and measurement principles

Based on IAS 39 *Financial Instruments: Recognition and Measurement* the company's financial assets and liabilities have been classified into the following categories: loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial assets and liabilities at fair value through profit or loss. The classification depends on the purpose for acquiring the financial assets upon acquisition. The groups are measured as follows:

■ Municipality Finance Group

Loans and receivables

These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and which are not held for trading or designated on initial recognition as assets measured at fair value through profit or loss or as available-for-sale.

The items are initially recognised at fair value adjusted by transaction costs and subsequently measured at amortised cost. Loans and receivables include Municipality Finance's loan portfolio, leasing agreements and repurchase agreements. As a rule, Municipality Finance hedges fixed rate lending tied to long-term reference rates and including structured interest rate terms and applies fair value hedge accounting for the interest rate risk to these. Lending included in hedge accounting is measured at fair value for the risk hedged.

Available-for-sale financial assets

Available-for-sale financial assets are assets not included in derivative assets that have either been specifically classified in this category or not classified in any other category. The company includes investments in debt securities and fund units in this category.

Available-for-sale financial assets are initially measured at fair value, and subsequent changes in fair value are recognised in Other comprehensive income and presented in the fair value reserve net of deferred tax liabilities. As for debt securities denominated in foreign currencies, exchange rate gains & losses are recognised through profit or loss under Net income from securities and foreign exchange transactions. Interest received on debt securities is recognised through profit or loss under Interest income. Income from fund units and realised capital gains and losses from available-for-sale financial assets are recognised in the income statement under Net income from available-for-sale financial assets.

Held-to-maturity investments

The financial assets classified in this category are non-derivative financial assets with fixed or determinable payments that mature on a specific date and that the company intends and is able to hold to maturity. These financial assets are recorded at amortised cost using the effective interest method upon initial recognition. In 2008, Municipality Finance reclassified debt securities as held-to-maturity. Based on the amendments to IAS 39 and IFRS 7, debt securities classified as available-for-sale were transferred to held-to-maturity at their fair value on 1 January 2008 and 1 July 2008. The transfers and their impacts are shown in Note 8. Held-to-maturity investments include municipal papers, municipal commercial papers and the debt securities reclassified in 2008.

Financial assets and liabilities at fair value through profit or loss

Derivatives are recognised at fair value through profit or loss, and derivative contracts are recognised on the balance sheet. Positive fair value changes of derivative contracts that are recorded on the balance sheet are recognised in balance sheet assets under Derivative contracts and negative fair value changes in balance sheet liabilities under the corresponding item Derivative contracts. Fair value changes of derivatives which are included in fair value hedge accounting are reported in the income statement under Net income from hedge accounting. Changes in the fair values of other derivatives are recognised in the income statement under Net income from securities and foreign exchange transactions.

Fair value option

The company classifies certain financial assets and liabilities at fair value through profit or loss under the fair value option. Financial assets that are classified as fair value through profit or loss under the fair value option include certificates of deposit, certain debt securities of which the interest rate risk is hedged with interest rate derivatives as well as certain floating rate lending. In financial liabilities, the fair value option is applied to short-term debt instruments denominated in foreign currencies for which the currency risk is hedged with currency swaps. The fair value option is applied to debt securities of which the interest rate risk is hedged with interest rate swaps but not included in hedge accounting as well as short-term debt instruments denominated in foreign currencies in order to eliminate the accounting mismatch between the derivative and the hedged item. The fair value option is also applied to certificates of deposit and certain loans, as the items in question are reported to the management and managed on the basis of their fair value. Changes in the fair values of these items are recognised in the income statement under Net income from securities and foreign exchange transactions. The impact of the fair value option on profit is presented in Notes 31 and 32.

Impairment of financial assets

At the end of each reporting period the group assesses whether there is objective evidence a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment of an item or group recognised under financial assets can include information on the following loss events: the issuer or debtor is experiencing significant financial difficulty, or breach of contract, such as default or delinquency in interest or principal payments.

If objective evidence exists that impairment losses have been incurred for loans and receivables or held-to-maturity investments, which are at amortised cost on the balance sheet, the amount of the loss is determined as the difference between the asset's carrying amount and the present value of its cash flows discounted with the original effective interest rate. The loss is recognised through profit or loss.

If the impairment loss decreases in a subsequent financial period and the decrease can be objectively considered to be associated with an event after the recognition of the impairment loss, the impairment loss is reversed through profit or loss.

If objective evidence exists that impairment losses have been incurred for an item recognised under available-for-sale financial assets, the accumulated loss recognised in other comprehensive income is recycled from equity and recognised in profit or loss. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively considered to be associated with an event after the recognition of the impairment loss in profit or loss, the impairment loss is reversed through profit or loss.

Municipality Finance's lending to businesses and non-profit organisations are secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee.

Recognition and derecognition of financial assets and liabilities

Loans and receivables are recognised on the balance sheet upon the customer withdrawing the loan, available-for-sale financial assets and derivative contracts on the settlement day and financial liabilities when the consideration is received.

Financial assets are derecognised when the contractual right to the assets expires or when the rights have been transferred to another party. Financial liabilities are derecognised when the obligations have been fulfilled.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Determination of fair value

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

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying valuation techniques. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates and valuation methods widely recognised on the market. Fair value levels are described in Note 3.

Hedge accounting

Municipality Finance manages its interest rate and foreign exchange risks using derivative contracts to translate foreign currency denominated items into euros and both fixed rate and long-term reference rates into shorter term rates. Fair value hedge accounting is applied to those financial assets and liabilities of which the hedged item's interest has been hedged to a floating rate and therefore resembles the current market level of interest rates. The company applies fair value hedge accounting to the following financial assets: fixed-rate lending, lending tied to long-term reference rates, lending based on structured interest rate terms, financial leasing at fixed rates and both fixed-rate investments and investments denominated in foreign currencies. In financial liabilities, fair value hedge accounting is applied to floating rate funding denominated in foreign currencies and to fixed-rate funding. Municipality Finance has defined interest rate risk as the hedged item in hedge accounting. The profit or loss that results from the hedged risk of the hedged item is recognised through profit or loss as an adjustment to the carrying amount of the hedged item. Hedged items classified as loans and receivables and other financial liabilities are at amortised cost with exception to the interest rate risk to which fair value hedge accounting is applied. Municipality Finance uses interest rate swaps, currency and interest rate swaps as well as interest rate options as hedging instruments. The fair values of derivatives used in hedging are presented in Note 10.

The changes in the fair value of derivative contracts in hedge accounting and the fair value changes of the hedged items related to the hedged risk are recognised in the income statement under Net income from hedge accounting. The interest received and paid on derivative contracts is recognised as an adjustment to interest expenses of the hedged liability or as an adjustment to interest income on a hedged asset. Gains and losses resulting from fair value changes that are not part of the hedge relationship, such as exchange rate gains or losses, are recognised through profit or loss.

Hedging is considered effective when the hedge ratio is at least 80% and at the most 125%. Hedge effectiveness is verified at inception in fair value hedge accounting and subsequently at least every six months.

Leases

Leases are classified as financial leases and other leases depending on whether the essential risks and benefits of ownership are transferred to the lessee.

Financial leasing agreements where Municipality Finance is the lessor are recorded on the balance sheet as an asset at an amount corresponding to the net investment in the lease agreement. The proceeds from the lease are divided into repayment and interest income. Interest income is recognised over the term of the lease to have the return on the remaining net investment match the corresponding rate of return for the period of the lease. Financial leasing agreements are classified under the financial asset category Loans and receivables. Interest received is presented in the income statement under Interest income.

In the case of other leases, Municipality Finance is the lessee. Other leases are primarily related to operating premises. Rents payable on the basis of lease agreements are recognised as expenses in the income statement in equal instalments over the duration of the lease.

Intangible and tangible assets

Intangible and tangible assets are recognised in the balance sheet at historical cost, net of accumulated depreciation and impairment. Assets are depreciated on a straight-line basis over their estimated useful lives.

Machinery and equipment are depreciated according to plan on a straight-line basis over five years. Capitalised IT hardware is depreciated on a straight-line basis over four years and capitalised software based on its estimated useful life over four, seven or ten years. Office renovation costs are depreciated on a straight-line basis by the expiry of the fixed-term lease of the office. Real estate is depreciated on a straight-line basis over 25 years.

The assets' residual values and useful lives are reviewed at the end of each financial year and, if necessary, adjusted to reflect the changes in the expected economic benefit.

Impairment of intangible and tangible fixed assets

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

■ Municipality Finance Group

Recognition of income and expenses

Net interest income

The effective interest method is applied to interest income and interest expenses. Commissions and fees received and paid, transaction expenses as well as any differences between the issue price and the nominal value are taken into account when the effective interest rate is calculated.

Commission income and expenses

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

Net income from hedge accounting

Net income from hedge accounting includes the net result from recognising financial assets and liabilities and the derivative contracts hedging them at fair value.

Net income from securities and foreign exchange transactions

Net income from securities includes fair value changes of items valued using the fair value option, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items.

Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies. Translation differences related to the hedged items and hedging instruments in hedge accounting are also presented under this item as the exchange rate risk has not been defined as a hedged risk.

Employee benefits

The company's remuneration system is contribution based. Its description is available online at www.munifin.fi. Pension coverage has been arranged via an external pension insurance company. Pension plans are classified as defined contribution plans. The contributions payable are recognised as expenses in the income statement of the period to which the payments relate.

Provisions

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

Income taxes

Income taxes in the consolidated income statement comprise accrual-based taxes that are determined based on the profits generated by the Group companies, and changes in deferred taxes in accordance with IAS 12 *Income Taxes*. Taxes are recognised in the income statement, except if they relate to items recognised in other comprehensive income or in equity. In this case, the tax is

also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

Deferred taxes may be comprised of temporary differences between accounting book value and taxable value, as well as confirmed tax losses. Deferred taxes in the company consist of the release and transfer to equity of the voluntary credit loss provision recorded by the parent company and the fair value change of available-for-sale investments. Deferred tax liabilities and assets are calculated based on the tax rate that is anticipated to be in force at the time of the temporary difference being released. If a deferred tax arises from balance sheet items for which changes do not have an impact on the income statement, the change in deferred tax is recognised in other comprehensive income, not in the income statement.

Exceptional items

Transactions that are not part of ordinary business operations and are of exceptional size or nature are recognised as exceptional items. The income statements and cash flow statements for 2014 and the comparison year 2013 do not include any exceptional items.

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

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates at the financial statement date. These are related to, among other things, the determination of fair value and the impairment of financial assets.

Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles applied to the determination of fair value are described in the section Determination of fair value.

The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

The risk management principles applied are described as part of the financial statements.

Application of new standards

The consolidated financial statements have been prepared in accordance with the same accounting policies as in 2013, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2014.

IFRS 10 *Consolidated Financial Statements and subsequent amendments* (effective in the EU for financial years beginning on or after 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor

when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard did not impact the companies to be incorporated into the Group.

IFRS 11 *Joint Arrangements and subsequent amendments* (effective in the EU for financial years beginning on or after 1 January 2014): In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future, jointly controlled entities are to be accounted for using only one method, the equity method, and the other alternative, proportionate consolidation is no longer allowed. The new standard did not have an impact on the company's consolidated financial statements.

IFRS 12 *Disclosures of Interests in Other Entities and subsequent amendments* (effective in the EU for financial years beginning on or after 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard did not have an impact on the company's consolidated financial statements.

IAS 27 *Separate Financial Statements* (revised 2011) and subsequent amendments (effective in the EU for financial years beginning on or after 1 January 2014): The revised standard includes the provisions on separate IFRS financial statements that were left after the control provisions were included in the new IFRS 10. The revised standard did not have an impact on the company's consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures* (revised 2011) (effective in the EU for financial years beginning on or after 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be accounted for using the equity method. The revised standard did not have an impact on the company's consolidated financial statements.

Amendments to IAS 32 *Financial Instruments: Presentation* (effective for financial years beginning on or after 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amendments did not have a significant impact on the company's consolidated financial statements.

Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (effective for financial years beginning on or after 1 January 2014): The aim of the amendments is to clarify that the scope of application of the recoverable amount of assets is restricted to impaired assets if the amount in question is based on fair value less costs of disposal. The amended standard did not have a significant impact on the company's consolidated financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for financial years beginning on or after 1 January 2014): The amendments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting

in certain circumstances in which a derivative instrument defined as a hedging instrument is changed from a single counterparty to a central counterparty as a result of regulations.

Other new or amended standards that entered into effect in 2014 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted

The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. Standards published by IASB that enter into effect after 1 January 2014:

Annual Improvements to IFRSs (2011–2013 cycle and 2010–2012 cycle, December 2013) (effective for financial years beginning on or after 1 July 2014): The amendments cover in total four (2011–2013 cycle) and seven (2010–2012 cycle) standards. Their impacts vary standard by standard, but are assessed not to be significant.

Annual Improvements to IFRSs (2012–2014 cycle) (effective for financial years beginning on or after 1 January 2016): The amendments cover four standards. The EU has not yet approved these improvements. Their impacts vary standard by standard, but are assessed not to be significant.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 will replace most of the guidelines in IAS 39. Three main measurement categories have been defined for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is based on the entity's business models and the contractual cash flow characteristics of a financial asset. The IAS 39 model based on realised impairment losses will be replaced with a new model that is based on expected losses. The requirements related to the effectiveness of hedging will become less strict as the requirement to carry out precise effectiveness testing will be eliminated. The new standard will have a material impact on the company's consolidated financial statements, but the assessment of the impact is still on-going.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017): This is a new standard on revenue recognition that will replace IAS 11 Construction Contracts, IAS 18 Revenue and their interpretations. Revenue is recognised at the time when the customer acquires control over goods or services. The customer acquires control when they are able to direct the use of goods or services and obtain the benefits related to it. The core principle of IFRS 15 is that an entity will recognise revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The EU has not yet approved this standard. The amendments are not expected to have a significant impact on the company's consolidated financial statements.

Other standards and interpretations to be applied in future financial periods are not assessed to have an impact on the consolidated financial statements.

Notes to the consolidated statement of financial position and other notes

Note 2. Financial assets and liabilities

Financial assets

31 Dec 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	592,907	-	-	-	-	592,907	592,907
Loans and advances to credit institutions	1,072,099	-	-	-	-	1,072,099	1,072,128
Loans and advances to the public and public sector entities	19,099,105	-	-	238,625	-	19,337,730	20,714,399
Debt securities	-	4,596,958	934,468	885,159	-	6,416,586	6,409,852
Shares and participations	-	9,789	-	-	-	9,789	9,789
Derivative contracts	-	-	-	276,663	2,045,036	2,321,699	2,321,699
Total	20,764,111	4,606,747	934,468	1,400,447	2,045,036	29,750,809	31,120,774

Loans and advances to the public sector entities includes EUR 132,951 thousand receivables based on leasing agreements.

Fair value hedge accounting for interest rate risk is applied to EUR 2,791,201 thousand of debt securities available-for-sale in 2014. Loans and advances to the public and public sector entities includes EUR 6,825,907 thousand in loans and receivables included in fair value hedge accounting for interest rate risk.

Financial liabilities

31 Dec 2014 (EUR 1,000)	Other financial liabilities	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	3,882,771	-	-	3,882,771	3,962,901
Liabilities to the public and public sector entities	963,662	-	-	963,662	974,891
Debt securities issued	22,381,769	848,529	-	23,230,298	23,252,961
Derivative contracts	-	241,632	692,767	934,399	934,399
Subordinated liabilities	37,943	-	-	37,943	38,060
Total	27,266,145	1,090,161	692,767	29,049,073	29,163,212

Fair value hedge accounting for interest rate risk is applied to EUR 24,130,880 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 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 finan- cial 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.

Note 3. Fair values of financial assets and liabilities

31 Dec 2014 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value					
Debt securities	885,159	475,179	409,980	-	885,159
Loans and advances to the public sector entities*	7,064,532	-	7,403,773	-	7,403,773
Derivative contracts	276,662	-	276,662	-	276,662
Hedging derivatives	2,045,036	-	2,045,036	-	2,045,036
Available-for-sale financial assets					
Debt securities	4,596,958	4,582,130	14,828	-	4,596,958
Shares in investment funds	9,789	9,789	-	-	9,789
Total financial assets at fair value	14,878,136	5,067,098	10,150,279	-	15,217,377
Financial assets at amortised cost					
Cash and cash equivalents	592,907	592,907	-	-	592,907
Loans and advances to credit institutions	1,072,099	1,072,099	-	-	1,072,128
Loans and advances to the public and public sector entities	12,273,198	-	13,310,626	-	13,310,626
Debt securities	934,468	-	927,735	-	927,735
Total financial assets at amortised cost	14,872,672	1,665,006	14,238,361	-	15,903,396
Total financial assets	29,750,808	6,732,103	24,388,640	-	31,120,773

31 Dec 2014 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value					
Liabilities to credit institutions*	2,289,602	-	2,369,790	-	2,369,790
Liabilities to the public and public sector entities*	759,298	-	764,726	-	764,726
Debt securities issued*	21,045,047	-	21,067,414	-	21,067,414
Subordinated liabilities*	36,934	-	37,051	-	37,051
Derivative contracts	241,632	-	241,632	-	241,632
Hedging derivatives	692,767	-	692,767	-	692,767
Total financial liabilities at fair value	25,065,280	-	25,173,380	-	25,173,380
Financial liabilities at amortised cost					
Liabilities to credit institutions	1,593,169	-	1,593,111	-	1,593,111
Liabilities to the public and public sector entities	204,363	-	210,164	-	210,164
Debt securities issued	2,185,252	-	2,185,548	-	2,185,548
Subordinated liabilities	1,009	-	1,009	-	1,009
Total financial liabilities at amortised cost	3,983,793	-	3,989,832	-	3,989,832
Total financial liabilities	29,049,073	-	29,163,212	-	29,163,212

* 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 2 shows how the financial statement line items are classified into different financial asset and financial liability categories.

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31 Dec 2013 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
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			Total
		Level 1	Level 2	Level 3	
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. The valuations are based on methods in which contractual future cash flows are projected using forward curves and these cash flows are discounted using currency and interest rate term based yield curves. Widely recognized interest and option pricing models are used to value contracts with option features. 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 and 2013 financial years, no reclassifications have been made between Level 1 and Level 2. During the 2014 and 2013 financial years, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

Note 4. Breakdown of the balance sheet by maturity

31 Dec 2014 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Cash and cash equivalents	592,907	-	-	-	-	592,907
Loans and advances to credit institutions	1,057,099	15,000	-	-	-	1,072,099
Loans and advances to the public and public sector entities	425,576	1,189,083	5,963,742	4,155,385	7,603,944	19,337,730
Debt securities	1,516,653	805,833	2,992,145	976,659	125,295	6,416,586
Shares and participations	-	-	-	-	9,789	9,789
Derivative contracts	111,790	213,094	937,744	276,349	782,721	2,321,699
Intangible assets	-	-	-	4,757	-	4,757
Tangible assets	-	-	2,465	-	-	2,465
Other assets	2,196	-	-	-	-	2,196
Accrued income and prepayments	142,632	106,399	-	-	-	249,032
Total	3,848,854	2,329,410	9,896,097	5,413,150	8,521,749	30,009,259

31 Dec 2014 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	1,559,419	43,657	134,533	595,759	1,549,403	3,882,771
Liabilities to the public and public sector entities	17,968	10,286	421,997	299,176	214,235	963,662
Debt securities issued	3,858,019	4,348,551	12,993,300	1,272,668	757,760	23,230,298
Derivative contracts	4,505	46,266	395,967	283,561	204,100	934,399
Other liabilities	2,056	-	-	-	-	2,056
Accrued expenses and deferred income	122,298	111,946	11,876	3,783	-	249,902
Subordinated liabilities	-	-	36,934	-	1,009	37,943
Deferred tax liabilities	114,124	-	-	-	-	114,124
Equity	-	-	-	-	594,104	594,104
Total	5,678,388	4,560,706	13,994,607	2,454,947	3,320,611	30,009,259

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40–60% of its callable liabilities in 2015. In 2014, the company called 62% of its callable liabilities.

31 Dec 2013 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Cash and cash equivalents	354,232	-	-	-	-	354,232
Loans and advances to credit institutions	584,144	5,000	-	-	-	589,144
Loans and advances to the public and public sector entities	302,766	1,209,954	5,683,637	4,136,665	6,549,260	17,882,282
Debt securities	941,796	445,780	3,449,959	992,506	155,603	5,985,644
Shares and participations	-	-	-	-	10,050	10,050
Derivative contracts	-475	95,045	326,944	225,718	446,918	1,094,150
Intangible assets	-	-	-	4,740	-	4,740
Tangible assets	-	-	2,525	-	-	2,525
Other assets	1,977	-	-	-	-	1,977
Accrued income and prepayments	78,149	139,554	13,954	-	-	231,656
Total	2,262,590	1,895,332	9,477,019	5,359,629	7,161,830	26,156,402

31 Dec 2013 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	362,527	216,123	45,290	428,906	1,211,540	2,264,386
Liabilities to the public and public sector entities	17,450	2,637	353,027	261,835	294,260	929,209
Debt securities issued	3,484,291	4,234,304	10,884,367	1,107,874	558,463	20,269,298
Derivative contracts	112,855	130,844	993,041	421,750	159,869	1,818,359
Other liabilities	1,395	-	-	-	-	1,395
Accrued expenses and deferred income	74,777	129,949	50,653	13,212	-	268,590
Subordinated liabilities	-	10,000	37,965	-	1,009	48,974
Deferred tax liabilities	85,967	-	-	-	-	85,967
Equity	-	-	-	-	470,224	470,224
Total	4,139,261	4,723,857	12,364,342	2,233,576	2,695,366	26,156,402

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40–60% of its callable liabilities in 2014. In 2013, the company called 73% of its callable liabilities.

Note 5. Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to enforceable master netting agreements:

31 Dec 2014 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Amounts not offset in the statement of financial position		
				Received cash collateral	Given cash collateral	Net
Financial assets						
Derivative contracts	2,321,699	-	2,321,699	-1,460,140	-	861,559
Total	2,321,699	-	2,321,699	-1,460,140	-	861,559
Financial liabilities						
Derivative contracts	934,399	-	934,399	-	-299,100	635,299
Total	934,399	-	934,399	-	-299,100	635,299

The company has not offset any financial assets or liabilities in its statement of financial position in 2014.

31 Dec 2013 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Amounts not offset in the statement of financial position		
				Received cash collateral	Given cash collateral	Net
Financial assets						
Derivative contracts	1,094,150	-	1,094,150	-354,890	-	739,260
Total	1,094,150	-	1,094,150	-354,890	-	739,260
Financial liabilities						
Derivative contracts	1,818,359	-	1,818,359	-	-553,200	1,265,159
Total	1,818,359	-	1,818,359	-	-553,200	1,265,159

The company has not offset any financial assets or liabilities in its statement of financial position in 2013.

Note 6. Cash and cash equivalents

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Cash	3	3
Central bank deposits payable on demand	592,904	354,229
Total	592,907	354,232

Note 7. Loans and advances to credit institutions

31 Dec 2014 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	136,455	109,553	26,903
Foreign credit institutions	935,644	86,544	849,100
Total	1,072,099	196,096	876,003

Liabilities to credit institutions other than repayable on demand includes reverse repo agreements of EUR 550,000 thousand.

31 Dec 2013 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	34,356	9,133	25,223
Foreign credit institutions	554,788	1,588	553,200
Total	589,144	10,721	578,423

Note 8. Debt securities

Debt securities issued by public sector entities			
31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	760,583	760,583
Municipal commercial papers	-	760,583	760,583
Available-for-sale	1,411,914	-	1,411,914
Government bonds	543,752	-	543,752
Bonds issued by other public sector entities	868,162	-	868,162
Fair value through profit or loss	61,932	-	61,932
Bonds issued by other public sector entities	61,932	-	61,932
Total	1,473,846	760,583	2,234,429
Eligible for central bank refinancing	1,453,255	-	1,453,255
Total non-interest bearing	-	-	-

Debt securities issued by other than public sector entities			
31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	173,885	173,885
Bank bonds	-	5,000	5,000
Commercial papers	-	84,796	84,796
Other debt securities	-	84,090	84,090
Available-for-sale	3,170,215	14,829	3,185,044
Bank bonds	3,165,120	-	3,165,120
Other debt securities	5,096	14,829	19,924
Fair value through profit or loss	413,247	409,980	823,227
Bank certificates of deposit	-	409,980	409,980
Bank bonds	413,247	-	413,247
Total	3,583,463	598,693	4,182,156
Eligible for central bank refinancing	3,201,319	109,876	3,311,195
Total non-interest bearing	-	5,000	5,000

Debt securities includes EUR 96,598 thousand of securities given as repo agreement collateral.

Debt securities issued by public sector entities			
31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	652,008	652,008
Municipal commercial papers	-	652,008	652,008
Available-for-sale	900,169	-	900,169
Government bonds	517,258	-	517,258
Bonds issued by other public sector entities	382,910	-	382,910
Fair value through profit or loss	26,217	-	26,217
Bonds issued by other public sector entities	26,217	-	26,217
Total	926,386	652,008	1,578,395
Eligible for central bank refinancing	926,386	-	926,386
Total non-interest bearing	-	-	-

Debt securities issued by other than public sector entities			
31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	172,816	172,816
Bank bonds	-	4,999	4,999
Commercial papers	-	51,968	51,968
Other debt securities	-	115,849	115,849
Available-for-sale	3,437,314	11,145	3,448,459
Bank bonds	3,426,636	-	3,426,636
Other debt securities	10,678	11,145	21,823
Fair value through profit or loss	666,079	119,896	785,975
Bank certificates of deposit	-	119,896	119,896
Bank bonds	666,079	-	666,079
Total	4,103,393	303,856	4,407,250
Eligible for central bank refinancing	3,728,004	3,903	3,731,907
Total non-interest bearing	-	4,999	4,999

■ Municipality Finance Group

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

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

Without this reclassification, changes in fair value of these investments would have had the following impact on the fair value reserve:

2014	7,001
2013	1,139
2012	2,182
2011	5,238
2010	3,903
2009	-3,487
2008	-22,319
Cumulative	-6,343

The valuation difference resulting from the transfer of debt securities to held-to-maturity investments has been released from the fair value reserve as follows:

2014	92
2013	167
2012	272
2011	652
2010	765
2009	953
2008	852

Note 9. Shares and participations

31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,762	27	9,789	-
Total	9,762	27	9,789	-

31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	10,023	27	10,050	-
Total	10,023	27	10,050	-

Note 10. Derivative contracts

31 Dec 2014 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity			Total	Positive	Negative
Less than 1 year	1 – 5 years	Over 5 years				
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,351,910	1,343,475	2,638,204	5,333,590	143,914	-151,784
Interest rate options	133	62,527	-	62,661	2,752	-2,948
Forward rate agreements	-	-	-	-	-	-
Currency derivatives						
Cross currency interest rate swaps	3,380	24,457	-	27,838	33	-33
Forward exchange contracts	898,665	-	-	898,665	42,978	-1
Equity derivatives	194,381	1,348,482	25,000	1,567,862	64,723	-64,723
Other derivatives	140,596	20,000	5,500	166,096	22,263	-22,143
Total	2,589,065	2,798,941	2,668,704	8,056,710	276,663	-241,632
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,489,587	13,719,451	13,578,885	28,787,923	599,447	-441,699
Interest rate options	51,654	16,390	-	68,044	-	-588
Currency derivatives						
Cross currency interest rate swaps	4,013,847	13,481,441	2,272,183	19,767,470	1,445,589	-250,480
Total	5,555,087	27,217,281	15,851,068	48,623,437	2,045,036	-692,767
Grand total	8,144,153	30,016,222	18,519,772	56,680,147	2,321,699	-934,399

31 Dec 2013 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity				Positive	Negative
	Less than 1 year	1 – 5 years	Over 5 years	Total		
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,688,698	2,650,033	2,093,043	6,431,774	44,682	-59,360
Interest rate options	-	42,206	-	42,206	802	-629
Forward rate agreements	5,000	-	-	5,000	-	-2
Currency derivatives						
Cross currency interest rate swaps	-	23,807	15,354	39,160	145	-142
Forward exchange contracts	1,442,027	-	-	1,442,027	-	-26,134
Equity derivatives	216,133	1,989,851	26,382	2,232,366	88,486	-88,486
Other derivatives	29,896	166,888	56,500	253,285	34,422	-34,182
Total	3,381,755	4,872,785	2,191,279	10,445,819	168,537	-208,935
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,685,500	10,568,883	13,158,175	25,339,097	273,041	-257,090
Interest rate options	5,417	68,044	-	73,461	-	-1,285
Currency derivatives						
Cross currency interest rate swaps	3,476,168	11,039,449	2,370,984	16,886,601	652,572	-1,351,049
Total	5,161,668	21,608,332	15,529,159	42,299,159	925,613	-1,609,424
Grand total	8,543,423	26,481,118	17,720,438	52,744,978	1,094,150	-1,818,359

Note 11. Intangible assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
IT systems	4,757	4,740
Total	4,757	4,740

Note 12. Tangible assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Real estate	833	873
Office renovation expenses	377	604
Other tangible assets	1,255	1,048
Total	2,465	2,525

Note 13. Changes in intangible and tangible assets during the financial year

31 Dec 2014 (EUR 1,000)	Intangible assets Total	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	7,800	1,207	3,987	5,193
+ Additions	825	-	669	669
- Disposals	-78	-	-385	-385
Acquisition cost 31 Dec	8,547	1,207	4,271	5,477
Accumulated depreciation 1 Jan	3,060	333	2,335	2,668
- Accumulated depreciation on disposals	-78	-	-291	-291
+ Depreciation for the financial year	808	40	595	635
Accumulated depreciation 31 Dec	3,790	373	2,639	3,012
Carrying amount 31 Dec	4,757	833	1,632	2,465

31 Dec 2013 (EUR 1,000)	Intangible assets Total	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	4,839	1,207	3,238	4,445
+ Additions	2,961	-	799	799
- Disposals	-	-	-50	-50
Acquisition cost 31 Dec	7,800	1,207	3,987	5,193
Accumulated depreciation 1 Jan	2,440	293	1,810	2,103
- Accumulated depreciation on disposals	-	-	-12	-12
+ Depreciation for the financial year	620	40	536	576
Accumulated depreciation 31 Dec	3,060	333	2,335	2,668
Carrying amount 31 Dec	4,740	873	1,652	2,525

Note 14. Other assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Leasing receivables	3,879	3,200
Other	-1,682	-1,222
Total	2,196	1,977

Note 15. Accrued income and prepayments

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Interest	245,217	229,647
Other	3,815	2,009
Total	249,032	231,656

Note 16. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2013	Recognised in the income statement	Recognised in the statement of comprehen- sive income	31 Dec 2014
On other temporary differences				
On fair value reserve	-	-	-	-
Total	-	-	-	-

Deferred tax liabilities (EUR 1,000)	31 Dec 2013	Recognised in the income statement	Recognised in the statement of comprehen- sive income	31 Dec 2014
On other temporary differences				
On fair value reserve	5,571	-	2,157	7,728
On change in voluntary provisions	80,396	26,000	-	106,396
Total	85,967	26,000	2,157	114,124

Deferred tax assets (EUR 1,000)	31 Dec 2012	Recognised in the income statement	Recognised in the statement of comprehen- sive income	31 Dec 2013
On other temporary differences				
On fair value reserve	-	-	-	-
Total	-	-	-	-

Deferred tax liabilities (EUR 1,000)	31 Dec 2012	Recognised in the income statement	Recognised in the statement of comprehen- sive income	31 Dec 2013
On other temporary differences				
On fair value reserve	7,115	-	-1,544	5,571
On change in voluntary provisions	70,555	9,841	-	80,396
Total	77,670	9,841	-1,544	85,967

Deferred tax liabilities in 2013 have been calculated applying the corporate tax rate of 20% that entered into force on 1 January 2014. The change in tax rate from 24,5% to 20% was approved in Finnish Government proposal HE 185/2013 on 17 December 2013. A decrease of EUR 12,959 thousand in the deferred tax liability was recorded in the statement as a result of the change in tax rate.

Note 17. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Loans to credit institutions	2,325,227	1,909,496
Repo agreements	97,084	-
Received derivative collateral	1,460,140	354,890
Collateral received in repo agreements	320	-
Total	3,882,771	2,264,386

Note 18. Debt securities issued

(EUR 1,000)	31 Dec 2014		31 Dec 2013	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	21,971,768	24,793,923	18,677,686	22,391,949
Other	1,258,530	1,259,271	1,591,612	1,592,027
Total	23,230,298	26,053,194	20,269,298	23,983,977

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 19. Other liabilities

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Payment transfer	-	6
Other	2,056	1,389
Total	2,056	1,395

Note 20. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Interest	241,189	260,743
Other	8,713	7,847
Total	249,902	268,590

Note 21. Subordinated liabilities

31 Dec 2014 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	36,934	Fixed	09 May 2016
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		36,009	37,943		

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	09 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 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) On 10 June 2014 the company repaid the EUR 10 million subordinated liability (Capital loan 1/03) with consent of the Finnish Financial Supervisory Authority. 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.

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.

- 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 2014.

Note 22. Equity

There were no changes to the number of shares during the financial year:

(EUR 1,000)	Number of shares	Share capital	Reserve fund	Reserve for invested non-restricted equity	Total
01 Jan 2013	39,063,798	42,583	277	40,366	83,226
31 Dec 2013	39,063,798	42,583	277	40,366	83,226
31 Dec 2014	39,063,798	42,583	277	40,366	83,226

The shares in the parent company are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

Equity reserves:

The reserve fund is restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act. The fair value reserve comprises changes in the values of available-for-sale financial assets. The proportion of payment made for shares that is not recorded in equity is recognised in the reserve for invested non-restricted equity. Under the terms of the parent company's 2009 share issue the funds collected through the share issue are recorded in the reserve for invested non-restricted equity.

Note 23. Contingent assets

Group has no receivables related to the insolvency proceedings of credit institutions.

In year 2013 the Group had claims amounting to EUR 2,924 thousand related to the insolvency proceedings of various credit institutions. The outcome of debt collection is contingent on the post-bankruptcy solvency of the credit institutions in question and the result of their bankruptcy proceedings. Impairment has been recorded for the full amount of the original claims.

Note 24. Contingent liabilities

Liabilities and collateral (EUR 1,000)	31 Dec 2014	31 Dec 2013
Loans pledged to the central bank	2,507,064	2,207,573
Loans pledged to the Municipal Guarantee Board	16,379,076	15,451,996
Debt securities pledged to the Municipal Guarantee Board	5,097,299	5,191,218
Total	23,983,439	22,850,788

Pledged assets:

- 1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.
- 2) Municipality Finance has pledged amount of loans at the amount shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.
- 3) Municipality Finance acquires funding in advance in order to serve its customers under all market conditions. Acquired funding is invested in liquid debt securities before their realisation or maturity, at which point the funds in question are used for lending as defined in the Act on the Municipal Guarantee Board. Similarly, as Municipality Finance's lending receivables, Municipality Finance's liquidity portfolio debt securities have also been pledged to the Municipal Guarantee Board as collateral as defined in the Act on the Municipal Guarantee Board.

Off-balance-sheet commitments (EUR 1,000)	31 Dec 2014	31 Dec 2013
Binding loan commitments	959,776	981,420
Total	959,776	981,420

Note 25. Lease and other rental commitments

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Maturing within one year	1,370	1,405
Maturing in one to five years	760	1,941
Maturing in more than five years	-	-
Total	2,130	3,346

Note 26. 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 of 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

(EUR 1,000)	2014	2013
Sales	38	41
Purchases	-144	-38
Receivables	-	0
Liabilities	28	10

Note 27. Salaries and remuneration

Employee benefits for management

Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Board of Management subject to withholding tax:

Salaries and remuneration (EUR 1,000)	2014	2013
President and CEO	455	586
Deputy to the CEO	361	465
Other members of the Board of Management (total)	921	974
Total	1,737	2,025

The salaries and remuneration shown in the table include both the fixed remuneration and paid variable remuneration. According to regulation on credit institutions, the payment of remuneration earned for each year is delayed and paid over the four following years if the person's remuneration exceeds EUR 50,000. More information on the salary and remuneration principles is available on the company's website. In the event of termination at the company's initiative, the CEO and Deputy to the CEO are entitled to six months' severance pay.

The term of notice for termination of the CEO or the Deputy to the CEO is six months. The retirement age of the CEO and Deputy to the CEO is determined by the Employees' Pensions Act.

The CEO's employee benefits (car and housing benefit) are terminated at the end of the term of notice.

The company has paid the following statutory pension contributions related to the CEO, the Deputy to the CEO and other Board of

Management members.

Statutory pension contributions (EUR 1,000)	2014	2013
President and CEO	32	38
Deputy to the CEO	20	24
Other members of the Board of Management (total)	51	50
Total	103	112

Remuneration of the Board of Directors

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members.

Salaries and remuneration (EUR 1,000)	2014	2013
Members of the Board of Directors		
Eva Liljebloom, Chairman	40	41
Tapani Hellstén, Vice Chairman, member from 26 March 2014	12	-
Fredrik Forssell	24	26
Teppo Koivisto	22	22
Sirpa Louhevirta	20	21
Tuula Saxholm, member from 26 March 2013	21	11
Asta Tolonen	20	21
Juha Yli-Rajala	22	22
Tapio Korhonen, member until 26 March 2013	-	12
Ossi Repo, member until 26 March 2013	-	10
Total	181	184

The remuneration paid to the parent company Board of Directors that served until the annual General Meeting 26 March 2013 is reported in Municipality Finance Plc's Annual Report 2012, which is available on the company website at www.munifin.fi.

Salaries and remuneration

The remuneration paid to the management and employees of Municipality Finance consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. Principles of remuneration system are confirmed by the Board of Directors on annual basis. The Remuneration Committee of the Board of Directors is responsible for preparatory work concerning the matters of remuneration system. More information about salaries and remuneration is available on the company's website www.munifin.fi.

Notes to the consolidated income statement

Note 28. Interest income and expense

Interest income (EUR 1,000)	2014	2013
Loans and advances to credit institutions and central banks	182	338
Loans and advances to the public and public sector entities	265,070	260,267
Debt securities	94,711	88,154
Derivative contracts	-153,568	-171,555
Leasing operations	1,630	1,279
Other interest income	4,326	1,531
Total	212,351	180,014

Interest expense (EUR 1,000)	2014	2013
Liabilities to credit institutions and central banks	45,632	59,212
Liabilities to the public and public sector entities	20,858	22,563
Debt securities issued	596,251	320,135
Derivative contracts	-612,980	-374,177
Subordinated liabilities	1,648	1,850
Other interest expense	934	942
Total	52,343	30,524

Note 29. Commission income

(EUR 1,000)	2014	2013
Financial advisory services	2,398	1,641
Other operations	2,650	292
Total	5,047	1,933

Note 30. Commission expense

(EUR 1,000)	2014	2013
Commission fees paid	172	137
Other	3,662	3,999
Total	3,834	4,135

"Other" includes paid guarantee fees, custody fees and funding programme update costs.

Note 31. Net income from securities and foreign exchange transactions

2014 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	103	103
Debt securities	-	-	-12,254	-12,254
Bank certificates of deposit	63	-26	49	86
Issued ECPs	-	-	175	175
Total items valued with the fair value option	63	-26	-11,927	-11,890
Derivative contracts	1	-	6,138	6,139
Total net income from securities transactions	64	-26	-5,789	-5,751
Net income from foreign exchange transactions	79	-	-39	40
Total	143	-26	-5,828	-5,711

2013 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	-610	-610
Debt securities	-	-	-15,460	-15,460
Bank certificates of deposit	132	-51	-228	-147
Issued ECPs	-	-	82	82
Total items valued with the fair value option	132	-51	-16,216	-16,134
Derivative contracts	1,150	-1,133	21,047	21,064
Total net income from securities transactions	1,282	-1,184	4,831	4,929
Net income from foreign exchange transactions	-	-24	118	94
Total	1,282	-1,208	4,949	5,023

Note 32. Financial assets designated using fair value option

2014 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Loans	238,625	103	-	103
Debt securities	475,179	-12,254	-859	-11,395
Bank certificates of deposit	409,980	49	-	49
Total	1,123,784	-12,102	-859	-11,243

2013 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Loans	277,411	-610	-	-610
Debt securities	692,297	-15,460	-3,263	-12,196
Bank certificates of deposit	119,896	-228	-	-228
Total	1,089,604	-16,298	-3,263	-13,034

The amount of debt securities and bank certificates of deposit which is subject to credit risk is equal to the carrying amounts of those items in 2014 and 2013. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee.

■ Municipality Finance Group

Note 33. Net income from available-for-sale financial assets

(EUR 1,000)	2014	2013
Income from shares in investment funds	242	254
Capital gains from financial assets	3,028	1,819
Capital losses from financial assets	-410	-4,215
Reversals of impairment	-	-
Unrealised gains transferred from the the fair value reserve	3,846	2,356
Unrealised losses transferred from the the fair value reserve	-77	-
Total	6,629	214

Note 34. Net income from hedge accounting

(EUR 1,000)	2014	2013
Unrealised gains from hedging instruments	832,895	275,367
Unrealised losses from hedging instruments	-270,297	-824,096
Net income from hedging instruments	562,598	-548,729
Unrealised gains from hedged items	275,052	829,913
Unrealised losses from hedged items	-833,957	-271,568
Net income from hedged items	-558,905	558,346
Net income from hedge accounting	3,693	9,617

Unrealised gains and losses consist of interest rate risk in hedge accounting.

Note 35. Other operating income

(EUR 1,000)	2014	2013
Other income from credit institution operations	11	5
Total	11	5

Note 36. Administrative expenses

(EUR 1,000)	2014	2013
Personnel expenses		
Wages and salaries	7,476	8,355
Pension costs	1,479	1,603
Other personnel-related costs	393	400
Total	9,348	10,358
Other administrative expenses	5,373	4,445
Total	14,721	14,802

Personnel	2014		2013	
	Average	End of year	Average	End of year
Permanent full-time	78	81	70	73
Permanent part-time	4	5	4	4
Fixed term	4	4	5	6
Total	86	90	79	83

Note 37. Other operating expenses

(EUR 1,000)	2014	2013
Rental expenses	2,011	2,030
Other expenses from credit institution operations	3,510	2,907
Total	5,521	4,937

Note 38. Impairment losses on other financial assets

31 Dec 2014 (EUR 1,000)	Impairment losses per transaction	Reversals	Recognised in the income statement
Debt securities held-to-maturity	-	-	-
Total	-	-	-

31 Dec 2013 (EUR 1,000)	Impairment losses per transaction	Reversals	Recognised in the income statement
Debt securities held-to-maturity	-	-54	-54
Total	-	-54	-54

Note 39. Income tax expense

(EUR 1,000)	2014	2013
Tax based on the profit for the financial year	2,908	6,726
Deferred tax	26,000	9,841
Total	28,908	16,567
Profit before tax	144,160	141,266
Taxes at domestic tax rate	28,832	34,610
Other deductibles	-8	-
Non-deductible expenses	84	46
Change in corporate tax rate	-	-18,089
Total	28,908	16,567

Note 40. Events after the reporting period

There were no events after the reporting period that would have a material impact on the information presented in the financial statements.

Municipality Finance Plc parent company
Financial Statements

Balance Sheet

(EUR 1,000)	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Cash and cash equivalents		592,907	354,232
Cash		3	3
Central bank receivables payable on demand		592,903	354,229
Debt securities eligible for central bank refinancing	(4)	4,764,450	4,658,293
Loans and advances to credit institutions	(2, 20)	1,071,448	588,904
Payable on demand		195,445	10,481
Other		876,003	578,423
Loans and advances to the public and public sector entities	(3)	19,204,778	17,801,239
Leasing assets	(5)	132,951	81,044
Debt securities	(4)	1,652,136	1,327,351
From public sector entities		760,583	652,008
From others		891,553	675,342
Shares and participations	(6)	9,789	10,050
Shares and participations in Group companies	(6)	100	100
Derivative contracts	(7)	2,321,699	1,094,150
Intangible assets	(8, 10)	5,131	5,338
Tangible assets	(9, 10)	2,088	1,922
Other tangible assets		2,088	1,922
Other assets	(11)	1,823	1,796
Accrued income and prepayments	(12)	249,020	231,652
TOTAL ASSETS	(18, 19, 21)	30,008,320	26,156,069
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(20)	3,882,771	2,264,386
To credit institutions		3,882,771	2,264,386
Other		3,882,771	2,264,386
Liabilities to the public and public sector entities		963,662	929,209
Other liabilities		963,662	929,209
Debt securities issued	(14)	23,230,298	20,269,298
Bonds		21,971,768	18,677,686
Other		1,258,530	1,591,612
Derivative contracts	(7)	934,399	1,818,359
Other liabilities	(15)	1,881	1,301
Accrued expenses and deferred income	(16)	249,559	268,446
Subordinated liabilities	(17)	37,943	48,974
Deferred tax liabilities	(13)	7,728	5,571
TOTAL LIABILITIES	(18, 19, 21)	29,308,240	25,605,544
APPROPRIATIONS			
Voluntary provisions		531,980	401,980
EQUITY			
Share capital	(23, 24, 25)	43,008	43,008
Other restricted reserves		31,190	22,562
Reserve fund		277	277
Fair value reserve		30,914	22,285
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		42,233	21,641
Profit for the financial period		10,926	20,591
TOTAL EQUITY		168,100	148,545
TOTAL LIABILITIES AND EQUITY	(18, 19)	30,008,320	26,156,069
OFF-BALANCE SHEET COMMITMENTS			
Irrevocable commitments given in favour of customer	(40)	959,775	981,420

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
Interest income	(26)	210,721	178,735
Net income from leasing operations	(27)	1,630	1,279
Interest expense	(26)	-52,343	-30,524
NET INTEREST INCOME		160,008	149,490
Income from equity investments		-	64
In Group companies	(28)	-	64
Commission income	(29)	2,651	293
Commission expense	(29)	-3,831	-4,133
Net income from securities and foreign exchange transactions	(30)	-5,711	5,023
Net income from securities		-5,751	4,928
Net income from foreign exchange transactions		40	94
Net income from available-for-sale financial assets	(31)	6,629	214
Net income from hedge accounting	(32)	3,693	9,617
Other operating income	(33)	49	47
Administrative expenses		-13,258	-13,569
Personnel expenses		-8,099	-9,320
Wages and salaries	(42)	-6,453	-7,511
Personnel-related costs		-1,646	-1,809
Pension costs		-1,288	-1,438
Other personnel-related costs		-359	-371
Other administrative expenses		-5,159	-4,249
Depreciation and impairment on tangible and intangible assets	(35)	-1,440	-1,194
Other operating expenses	(34)	-5,039	-4,594
Impairment losses on other financial assets	(36)	-	54
OPERATING PROFIT		143,751	141,312
Appropriations		-130,000	-114,000
Income taxes		-2,825	-6,721
PROFIT FOR THE PERIOD		10,926	20,591

Statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
CASH FLOW FROM OPERATING ACTIVITIES	1,307,423	-62,437
Net change in long-term funding	1,502,695	3,381,994
Net change in short-term funding	-402,107	234,714
Net change in long-term loans	-1,293,531	-2,271,953
Net change in short-term loans	-141,407	52,280
Net change in investments	128,411	397,440
Net change in collateral	1,359,670	-1,970,860
Interest paid	-59,423	-28,664
Interest received	210,535	171,333
Other income	30,403	14,963
Payments of operating expenses	-22,381	-29,749
Taxes paid	-5,440	-13,935
CASH FLOW FROM INVESTING ACTIVITIES	-1,348	-3,709
Acquisition of tangible assets	-523	-724
Acquisition of intangible assets	-825	-2,986
CASH FLOW FROM FINANCING ACTIVITIES	-10,000	-40,000
Change in subordinated liabilities	-10,000	-40,000
CHANGE IN CASH FUNDS	1,296,076	-106,146
CASH FUNDS AT 1 JANUARY	1,884,932	1,991,078
CASH FUNDS AT 31 DECEMBER	3,181,008	1,884,932

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)	31 Dec 2014	31 Dec 2013
Cash and cash equivalents	592,907	354,232
Loans and advances to credit institutions	1,071,448	588,904
Debt securities maturing within three months	1,516,653	941,796
TOTAL CASH FUNDS	3,181,008	1,884,932

Notes to the parent company financial statements, FAS

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Notes to the parent company financial statements, FAS

Note 1. Significant accounting policies of the parent company financial statements

Municipality Finance Plc, the parent company of the Municipality Finance Group, prepares its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervisory Authority Regulations and Guidelines 1/2013. The company reports regularly on its operations to the Finnish Financial Supervisory Authority, the Bank of Finland, the European Central Bank, the Municipal Guarantee Board and Statistics Finland.

In 2008, Municipality Finance reclassified some of the debt securities of its pre-funding investments based on the amendments to the IAS 39 and IFRS 7 standards. The Finnish Financial Supervision Authority approved the amendments to the IFRS standards as part of the national accounting principles. The transfers are shown in Note 4. The parent company's credit loss provisions are made in accordance with tax law.

Other valuation and amortisation principles are described in the notes to the consolidated financial statements.

Notes to the balance sheet

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

Note 2. Loans and advances to credit institutions

31 Dec 2014 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	135,804	108,901	26,903
Foreign credit institutions	935,644	86,544	849,100
Total	1,071,448	195,445	876,003

31 Dec 2013 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	34,116	8,893	25,223
Foreign credit institutions	554,788	1,588	553,200
Total	588,904	10,481	578,423

Note 3. Loans and advances to the public and public sector entities

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Enterprises and housing corporations	9,818,925	9,287,948
Public sector entities	9,099,166	8,329,298
Non-profit organisations	286,687	183,992
Total	19,204,778	17,801,239

Loans and advances to the public and public sector entities does not include any impairment losses.

Note 4. Debt securities

Debt securities issued by public sector entities			
31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	760,583	760,583
Municipal commercial papers	-	760,583	760,583
Available-for-sale	1,411,914	-	1,411,914
Government bonds	543,752	-	543,752
Bonds issued by other public sector entities	868,162	-	868,162
Fair value through profit or loss	61,932	-	61,932
Bonds issued by other public sector entities	61,932	-	61,932
Total	1,473,846	760,583	2,234,429
Eligible for central bank refinancing	1,453,255	-	1,453,255
Total non-interest bearing	-	-	-

Debt securities issued by other than public sector entities			
31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	173,885	173,885
Bank bonds	-	5,000	5,000
Commercial papers	-	84,796	84,796
Other debt securities	-	84,090	84,090
Available-for-sale	3,170,215	14,829	3,185,044
Bank bonds	3,165,120	-	3,165,120
Other debt securities	5,096	14,829	19,924
Fair value through profit or loss	413,247	409,980	823,227
Bank certificates of deposit	-	409,980	409,980
Bank bonds	413,247	-	413,247
Total	3,583,463	598,693	4,182,156
Eligible for central bank refinancing	3,201,319	109,876	3,311,195
Total non-interest bearing	-	5,000	5,000

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 7,001 thousand on the fair value reserve. In 2014 EUR 92 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

Debt securities issued by public sector entities			
31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	652,008	652,008
Municipal commercial papers	-	652,008	652,008
Available-for-sale	900,169	-	900,169
Government bonds	517,258	-	517,258
Bonds issued by other public sector entities	382,910	-	382,910
Fair value through profit or loss	26,217	-	26,217
Bonds issued by other public sector entities	26,217	-	26,217
Total	926,386	652,008	1,578,395
Eligible for central bank refinancing	926,386	-	926,386
Total non-interest bearing	-	-	-

Debt securities issued by other than public sector entities			
31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	172,816	172,816
Bank bonds	-	4,999	4,999
Commercial papers	-	51,968	51,968
Other debt securities	-	115,849	115,849
Available-for-sale	3,437,314	11,145	3,448,459
Bank bonds	3,426,636	-	3,426,636
Other debt securities	10,678	11,145	21,823
Fair value through profit or loss	666,079	119,896	785,975
Bank certificates of deposit	-	119,896	119,896
Bank bonds	666,079	-	666,079
Total	4,103,393	303,856	4,407,250
Eligible for central bank refinancing	3,728,004	3,903	3,731,907
Total non-interest bearing	-	4,999	4,999

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 1,139 thousand on the fair value reserve. In 2013 EUR 167 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

Note 5. Assets leased under financial leasing

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Prepayments	25,095	-
Machinery and equipment	105,518	79,812
Fixed assets and buildings	-	-
Other assets	2,338	1,232
Total	132,951	81,044

Note 6. Shares and participations

31 Dec 2014 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,762	27	9,789	-
Shares and participations in group companies	-	100	100	-
Total	9,762	127	9,889	-
of which at acquisition cost	-	127	127	-

31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	10,023	27	10,050	-
Shares and participations in group companies	-	100	100	-
Total	10,023	127	10,150	-
of which at acquisition cost	-	127	127	-

Note 7. Derivative contracts

31 Dec 2014 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity			Total	Positive	Negative
Less than 1 year	1 – 5 years	Over 5 years				
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,351,910	1,343,475	2,638,204	5,333,589	143,914	-151,784
Interest rate options	133	62,527	-	62,660	2,752	-2,948
Forward rate agreements	-	-	-	-	-	-
Currency derivatives						
Cross currency interest rate swaps	3,380	24,457	-	27,837	33	-33
Forward exchange contracts	898,665	-	-	898,665	42,978	-1
Equity derivatives	194,381	1,348,482	25,000	1,567,863	64,723	-64,723
Other derivatives	140,596	20,000	5,500	166,096	22,263	-22,143
Total	2,589,065	2,798,941	2,668,704	8,056,710	276,663	-241,632
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,489,587	13,719,451	13,587,885	28,796,923	599,447	-441,699
Interest rate options	51,654	16,390	-	68,044	-	-588
Currency derivatives						
Cross currency interest rate swaps	4,013,847	13,481,441	2,272,183	19,767,471	1,445,589	-250,480
Total	5,555,088	27,217,282	15,860,068	48,632,438	2,045,036	-692,767
Grand total	8,144,153	30,016,223	18,528,772	56,689,148	2,321,699	-934,399



31 Dec 2013 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity				Positive	Negative
	Less than 1 year	1 – 5 years	Over 5 years	Total		
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,688,698	2,650,033	2,093,043	6,431,774	44,682	-59,360
Interest rate options	-	42,206	-	42,206	802	-629
Forward rate agreements	5,000	-	-	5,000	-	-2
Currency derivatives						
Cross currency interest rate swaps	-	23,807	15,354	39,160	145	-142
Forward exchange contracts	1,442,027	-	-	1,442,027	-	-26,134
Equity derivatives	216,133	1,989,851	26,382	2,232,366	88,486	-88,486
Other derivatives	29,896	166,888	56,500	253,285	34,422	-34,182
Total	3,381,755	4,872,785	2,191,279	10,445,819	168,537	-208,935
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,685,500	10,568,883	13,158,175	25,339,097	273,041	-257,090
Interest rate options	5,417	68,044	-	73,461	-	-1,285
Currency derivatives						
Cross currency interest rate swaps	3,476,168	11,039,449	2,370,984	16,886,601	652,572	-1,351,049
Total	5,167,085	21,676,376	15,529,159	42,299,159	925,613	-1,609,424
Grand total	8,548,840	26,549,162	17,720,438	52,744,978	1,094,150	-1,818,359

Note 8. Intangible assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
IT systems	4,757	4,740
Other intangible assets	374	598
Total	5,131	5,338

Note 9. Tangible assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Real estate		
Buildings	400	440
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	1,255	1,048
Total	2,088	1,922

Note 10. Changes in intangible and tangible assets during the financial year

31 Dec 2014 (EUR 1,000)	Intangible assets Total	Tangible assets		
		Real estate	Other tangible assets	Total
Aquisition cost 1 Jan	9,127	1,207	2,652	3,858
+ Additions	825	-	669	669
- Disposals	-78	-	-385	-
Aquisition cost 31 Dec	9,874	1,207	2,936	4,527
Accumulated depreciation 1 Jan	3,789	333	1,603	1,936
- Accumulated depreciation on disposals	-78	-	-291	-
+ Depreciation for the financial year	1,032	40	368	408
Accumulated depreciation 31 Dec	4,743	373	1,680	2,344
Book value 31 Dec	5,131	833	1,255	2,183

31 Dec 2013 (EUR 1,000)	Intangible assets Total	Tangible assets		
		Real estate	Other tangible assets	Total
Aquisition cost 1 Jan	6,099	1,207	1,928	3,135
+ Additions	3,028	-	724	724
- Disposals	-	-	-	-
Aquisition cost 31 Dec	9,127	1,207	2,652	3,858
Accumulated depreciation 1 Jan	2,924	293	1,314	1,607
- Accumulated depreciation on disposals	-	-	-	-
+ Depreciation for the financial year	865	40	289	329
Accumulated depreciation 31 Dec	3,789	333	1,603	1,936
Book value 31 Dec	5,338	873	1,048	1,922

Note 11. Other assets

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Other	1,823	1,796
Total	1,823	1,796

Note 12. Accrued income and prepayments

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Interest	245,217	229,647
Other	3,803	2,005
Total	249,020	231,652

Note 13. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2013	Recognised in the income statement	Recognised in equity	31 Dec 2014
On other temporary differences				
On fair value reserve	-	-	-	-
Total	-	-	-	-

Deferred tax liabilities (EUR 1,000)	31 Dec 2013	Recognised in the income statement	Recognised in equity	31 Dec 2014
On other temporary differences				
On fair value reserve	5,571	-	2,157	7,728
Total	5,571	-	2,157	7,728

Voluntary provisions include EUR 106,396 thousand in non-recognised deferred tax liabilities.

Deferred tax assets (EUR 1,000)	31 Dec 2012	Recognised in the income statement	Recognised in equity	31 Dec 2013
On other temporary differences				
On fair value reserve	-	-	-	-
Total	-	-	-	-

Deferred tax liabilities (EUR 1,000)	31 Dec 2012	Recognised in the income statement	Recognised in equity	31 Dec 2013
On other temporary differences				
On fair value reserve	7,115	-	-1,544	5,571
Total	7,115	-	-1,544	5,571

Voluntary provisions include EUR 80,396 thousand in non-recognised deferred tax liabilities.

Note 14. Debt securities issued

(EUR 1,000)	31 Dec 2014		31 Dec 2013	
	Book value	Nominal value	Book value	Nominal value
Bonds	21,971,768	24,793,923	18,677,686	22,391,949
Other	1,258,530	1,259,271	1,591,612	1,592,027
Total	23,230,298	26,053,194	20,269,298	23,983,977

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 15. Other liabilities

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Payment transfer	-	6
Other	1,881	1,295
Total	1,881	1,301

Note 16. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Interest	241,189	260,743
Other	8,370	7,703
Total	249,559	268,446

Note 17. Subordinated liabilities

31 Dec 2014 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	36,934	Fixed	09 May 2016
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		36,009	37,943		

31 Dec 2013 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,965	Fixed	09 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10 Dec 2010
3) Capital investments	EUR	1009	1009	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 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) On 10 June 2014 the company repaid the EUR 10 million subordinated liability (Capital loan 1/03) with consent of the Finnish Financial Supervisory Authority. 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.

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.

- 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 2014.

Note 18. Breakdown of financial assets and liabilities by maturity

31 Dec 2014 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	450,186	646,841	2,670,608	906,153	90,663	4,764,450
Loans and advances to credit institutions	1,056,448	15,000	-	-	-	1,071,448
Loans and advances to the public and public sector entities	420,104	1,171,316	5,899,961	4,109,453	7,603,944	19,204,778
Debt securities	1,066,468	158,993	321,537	70,506	34,632	1,652,136
Total	2,993,205	1,992,149	8,892,107	5,086,112	7,729,239	26,692,812

31 Dec 2014 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	1,559,419	43,657	134,533	595,759	1,549,403	3,882,771
Liabilities to the public and public sector entities	17,968	10,286	421,997	299,176	214,235	963,662
Debt securities issued	3,858,019	4,348,551	12,993,300	1,272,668	757,760	23,230,298
Subordinated liabilities	-	-	36,934	-	1,009	37,943
Total	5,435,406	4,402,494	13,586,764	2,167,603	2,522,407	28,114,674

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2015. In 2014, the company called 62% of its callable liabilities.

31 Dec 2013 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	208,300	333,794	3,087,193	947,997	81,010	4,658,293
Loans and advances to credit institutions	583,904	5,000	-	-	-	588,904
Loans and advances to the public and public sector entities	297,264	1,193,434	5,634,377	4,126,904	6,549,260	17,801,239
Debt securities	733,496	111,986	362,766	44,510	74,593	1,327,351
Total	1,822,964	1,644,214	9,084,335	5,119,411	6,704,863	24,375,786

31 Dec 2013 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	362,527	216,123	45,290	428,906	1,211,540	2,264,386
Liabilities to the public and public sector entities	17,450	2,637	353,027	261,835	294,260	929,209
Debt securities issued	3,484,291	4,234,304	10,884,367	1,107,874	558,463	20,269,298
Subordinated liabilities	-	10,000	37,965	-	1,009	48,974
Total	3,864,267	4,463,064	11,320,648	1,798,614	2,065,273	23,511,867

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2014. In 2013, the company called 73% of its callable liabilities.

Note 19. Breakdown of the balance sheet items into domestic and foreign currency

31 Dec 2014 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	4,706,053	58,397	4,764,450
Loans and advances to credit institutions	1,071,371	77	1,071,448
Loans and advances to the public and public sector entities	19,204,778	-	19,204,778
Debt securities	1,615,072	37,064	1,652,136
Derivative contracts	2,321,699	-	2,321,699
Other assets incl. cash and cash equivalents	993,304	505	993,809
Total	29,912,277	96,043	30,008,320

31 Dec 2014 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	3,820,849	61,922	3,882,771
Liabilities to the public and public sector entities	718,270	245,392	963,662
Debt securities issued	1,711,144	21,519,154	23,230,298
Derivative contracts	934,399	-	934,399
Subordinated liabilities	37,943	-	37,943
Other liabilities	828,295	130,952	959,247
Total	8,050,900	21,957,420	30,008,320

31 Dec 2013 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	4,622,347	35,947	4,658,293
Loans and advances to credit institutions	588,364	540	588,904
Loans and advances to the public and public sector entities	17,801,239	-	17,801,239
Debt securities	1,327,351	-	1,327,351
Derivative contracts	1,094,150	-	1,094,150
Other assets incl. cash and cash equivalents	685,954	179	686,133
Total	26,119,404	36,666	26,156,069

31 Dec 2013 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	2,092,354	172,032	2,264,386
Liabilities to the public and public sector entities	683,417	245,791	929,209
Debt securities issued	950,751	19,318,547	20,269,298
Derivative contracts	1,818,359	-	1,818,359
Subordinated liabilities	48,974	-	48,974
Other liabilities	702,193	123,651	825,844
Total	6,296,049	19,860,021	26,156,069

Note 20. Repurchase agreements

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Reverse repo agreements		
Loans and advances to credit institutions	550,000	-
Loans and advances to others	-	-
Total	550,000	-

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Repo agreements		
Liabilities to credit institutions	97,084	-
Liabilities to others	-	-
Total	97,084	-

Note 21. Fair values and book values of financial assets and liabilities

Financial assets (EUR 1,000)	31 Dec 2014		31 Dec 2013	
	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	592,907	592,907	354,232	354,232
Debt securities eligible for central bank refinancing	4,764,450	4,764,450	4,658,293	4,657,989
Loans and advances to credit institutions	1,071,448	1,071,477	588,904	588,913
Loans and advances to the public and public sector entities	19,204,778	20,578,984	17,801,239	18,494,945
Debt securities	1,652,136	1,645,402	1,327,351	1,313,471
Shares and participations	9,789	9,789	10,050	10,050
Shares and participations in group companies	100	100	100	100
Derivative contracts	2,321,699	2,321,699	1,094,150	1,094,150
Total	29,617,307	30,984,808	25,834,318	26,513,851

Financial liabilities (EUR 1,000)	31 Dec 2014		31 Dec 2013	
	Book value	Fair value	Book value	Fair value
Liabilities to credit institutions	3,882,771	3,962,901	2,264,386	2,264,267
Liabilities to the public and public sector entities	963,662	974,891	929,209	925,254
Debt securities issued	23,230,298	23,252,961	20,269,298	20,268,860
Derivative contracts	934,399	934,399	1,818,359	1,818,359
Subordinated liabilities	37,943	38,060	48,974	49,849
Total	29,049,073	29,163,212	25,330,225	25,326,589

Note 22. Hierarchy of fair values of financial assets and liabilities

31 Dec 2014 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	475,179	409,980	-	885,159
Loans and advances to the public and public sector entities	-	7,403,773	-	7,403,773
Derivative contracts	-	276,663	-	276,663
Hedging derivatives	-	2,045,036	-	2,045,036
Available-for-sale assets				
Debt securities	4,582,130	14,828	-	4,596,958
Shares in investment funds	9,789	-	-	9,789
Total	5,067,098	10,150,280	-	15,217,378

31 Dec 2014 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions	-	2,369,790	-	2,369,790
Liabilities to the public and public sector entities	-	764,726	-	764,726
Debt securities issued	-	21,067,414	-	21,067,414
Subordinated liabilities	-	37,051	-	37,051
Derivative contracts	-	241,632	-	241,632
Hedging derivatives	-	692,767	-	692,767
Total	-	25,173,380	-	25,173,380

■ Municipality Finance Plc parent company

31 Dec 2013 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	692,297	119,896	-	812,193
Loans and advances to the public and public sector entities	-	6,868,445	-	6,868,445
Derivative contracts	-	168,537	-	168,537
Hedging derivatives	-	925,613	-	925,613
Available-for-sale assets				
Debt securities	4,337,483	11,145	-	4,348,627
Shares in investment funds	10,050	-	-	10,050
Total	5,039,830	8,093,635	-	13,133,465

31 Dec 2013 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions	-	1,856,371	-	1,856,371
Liabilities to the public and public sector entities	-	723,136	-	723,136
Debt securities issued	-	17,607,827	-	17,607,827
Subordinated liabilities	-	37,965	-	37,965
Derivative contracts	-	208,936	-	208,936
Hedging derivatives	-	1,609,423	-	1,609,423
Total	-	22,043,658	-	22,043,658

Level 1 Valuation is based on values quoted for identical assets or liabilities on active and functioning markets.

Level 2 Valuation is based on input data other than Level 1 quoted prices. Prices can be verified either directly or indirectly.

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

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

Note 23. Equity

31 Dec 2014 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2014	43,008	277	22,285	40,743	42,233	148,545
+ increase	-	-	8,628	-	10,926	19,554
- decrease	-	-	-	-	-	-
Book value 31 Dec 2014	43,008	277	30,914	40,743	53,159	168,100

31 Dec 2013 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2013	43,008	277	21,927	40,743	21,641	127,595
+ increase	-	-	359	-	20,591	20,950
- decrease	-	-	-	-	-	-
Book value 31 Dec 2013	43,008	277	22,285	40,743	42,233	148,545

Note 24. Share capital

The shares in Municipality Finance Plc are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2014, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798.

Note 25. Largest shareholders

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

31 Dec 2014	No. Of shares	Per cent
1. Keva	11,975,550	30.66%
2. Republic of Finland	6,250,000	16.00%
3. City of Helsinki	4,066,525	10.41%
4. City of Espoo	1,547,884	3.96%
5. VAV Asunnot Oy (City of Vantaa)	963,048	2.47%
6. City of Tampere	919,027	2.35%
7. City of Oulu	903,125	2.31%
8. City of Turku	615,681	1.58%
9. City of Kuopio	569,450	1.46%
10. City of Lahti	502,220	1.29%

The total number of shareholders is 284.

Notes to the income statement

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

Note 26. Interest income and expense

Interest income (EUR 1,000)	2014	2013
Loans and advances to credit institutions	182	338
Loans and advances to the public and public sector entities	265,070	260,267
Debt securities	94,711	88,154
Derivative contracts	-153,568	-171,555
Other interest income	4,326	1,531
Total	210,721	178,735

Interest expense (EUR 1,000)	2014	2013
Liabilities to credit institutions	45,632	59,212
Liabilities to the public and public sector entities	20,858	22,563
Debt securities issued	596,251	320,135
Derivative contracts	-612,980	-374,177
Subordinated liabilities	1,648	1,850
Other interest expense	934	942
Total	52,343	30,524

Note 27. Net income from leasing operations

(EUR 1,000)	2014	2013
Leasing income	18,972	13,653
Depreciation on leased assets according to plan	-17,342	-12,377
Capital gains and losses on leased assets	-	3
Total	1,630	1,279

Note 28. Income from equity investments

(EUR 1,000)	2014	2013
Dividend income from group companies	-	64
Total	-	64

Note 29. Commission income and expense

Commission income (EUR 1,000)	2014	2013
From other operations	2,651	293
Total	2,651	293

Commission expense (EUR 1,000)	2014	2013
Commission fees paid	169	135
Other	3,662	3,999
Total	3,831	4,133

"Other" includes paid guarantee fees, custody fees and funding programme update costs.

Note 30. Net income from securities and foreign exchange transactions

2014 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	1	6,138	6,139
Items valued with the fair value option	37	-11,927	-11,890
Total net income from securities transactions	38	-5,789	-5,751
Net income from foreign exchange transactions	79	-39	40
Total	117	-5,828	-5,711

2013 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	17	21,047	21,064
Items valued with the fair value option	81	-16,216	-16,135
Total net income from securities transactions	98	4,831	4,928
Net income from foreign exchange transactions	-24	118	94
Total	74	4,949	5,023

Note 31. Net income from available-for-sale financial assets

(EUR 1,000)	2014	2013
Income from shares in investment funds	242	254
Disposal of financial assets	2,618	-2,396
Reversals of impairment	-	-
Transfers from the fair value reserve	3,769	2,356
Total	6,629	214

Note 32. Net income from hedge accounting

(EUR 1,000)	2014	2013
Net income from hedging instruments	562,598	-548,729
Net income from hedged items	-558,905	558,346
Total	3,693	9,617

Note 33. Other operating income

(EUR 1,000)	2014	2013
Other income from credit institution operations	49	47
Total	49	47

Note 34. Other operating expenses

(EUR 1,000)	2014	2013
Rental expenses	1,859	1,874
Other expenses from credit institution operations	3,180	2,720
Total	5,039	4,594

Note 35. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

Note 36. Impairment losses on other financial assets

2014 (EUR 1,000)	Impairment losses per transaction	Reversals	Recognised in the income statement
Debt securities held-to-maturity	-	-	-
Total	-	-	-

2013 (EUR 1,000)	Impairment losses per transaction	Reversals	Recognised in the income statement
Debt securities held-to-maturity	-	-54	-54
Total	-	-54	-54

Note 37. Information on business areas and geographical market

Municipality Finance Plc's operating segment is credit institution operations and the market for lending is Finland.

Notes on collateral and contingent liabilities

Note 38. Collateral given

Pledges for own debt (EUR 1,000)	31 Dec 2014	31 Dec 2013
Liabilities to credit institutions	3,882,771	2,264,386
Liabilities to the public and public sector entities	963,662	929,209
Debt securities issued	23,230,298	20,269,298
Total	28,076,731	23,462,893

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

Liabilities and collateral (EUR 1,000)	31 Dec 2014	31 Dec 2013
Loans pledged to the central bank	2,507,064	2,207,573
Loans pledged to the Municipal Guarantee Board	16,379,076	15,451,996
Debt securities pledged to the Municipal Guarantee Board	5,097,299	5,191,218
Total	23,983,439	22,850,788

Pledged assets:

- 1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.
- 2) Municipality Finance has pledged amount of loans at the amount shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.
- 3) Municipality Finance acquires funding in advance in order to serve its customers under all market conditions. Acquired funding is invested in liquid debt securities before their realisation or maturity, at which point the funds in question are used for lending as defined in the Act on the Municipal Guarantee Board. Similarly, as Municipality Finance's lending receivables, Municipality Finance's liquidity portfolio debt securities have also been pledged to the Municipal Guarantee Board as collateral as defined in the Act on the Municipal Guarantee Board.

Note 39. Pension liabilities

Pension coverage has been arranged via an external pension insurance company.

Note 40. Leasing and other rental liabilities

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Maturing within one year	1,189	1,239
Maturing in one to five years	680	1,722
Maturing in more than five years	-	-
Total	1,869	2,961

Note 41. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2014	31 Dec 2013
Binding loan commitments	959,776	981,420
Total	959,776	981,420

Notes on personnel and management

Note 42. Personnel

	2014		2013	
	Average	End of year	Average	End of year
Permanent full-time	66	69	60	62
Permanent part-time	4	5	4	4
Fixed term	4	4	4	4
Total	74	78	68	70

Employee benefits for management

Salaries and remuneration paid to the CEO and Deputy to the CEO subject to withholding tax:

Salaries and remuneration (EUR 1,000)	2014	2013
President and CEO	455	586
Deputy to the CEO	361	465
Other members of the Board of Management (Total)	921	974
Total	1,737	2,025

Remuneration of the Board of Directors

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members.

Salaries and remuneration (EUR 1,000)	2014	2013
Members of the Board of Directors		
Eva Liljebloom, Chairman	40	41
Tapani Hellstén, Vice Chairman, member from 26 March 2014	12	-
Fredrik Forssell	24	26
Teppo Koivisto	22	22
Sirpa Louhevirta	20	21
Tuula Saxholm, member from 26 March 2013	21	11
Asta Tolonen	20	21
Juha Yli-Rajala	22	22
Tapio Korhonen, member until 26 March 2013	-	12
Ossi Repo, member until 26 March 2013	-	10
Total	181	184

Related party transactions

Note 43. Loans and other financial receivables from the related parties

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

- Municipality Finance Plc parent company

Holdings in other companies

Note 44. Holdings in other companies

(EUR 1,000)	2014		2013	
	Proportion of all shares (%)	Book value	Proportion of all shares (%)	Book value
Subsidiaries				
Financial Advisory Services Inspira Ltd	66.7	100	66.7	100
Total	66.7	100	66.7	100

Other notes

Note 45. Audit and other fees paid to the audit firm

(EUR 1,000)	2014	2013
Audit	95	87
Tax advisory services	-	21
Other services	193	242
Total	288	350

The Board of Directors' proposal on the use of the profit for the financial year

Municipality Finance Plc's distributable funds total EUR 53,158,350.27, of which the profit for the financial year is EUR 10,925,810.54.

The Board of Directors will propose to the Annual General Meeting that:

1. no dividend be distributed, and
2. the distributable funds totalling EUR 53,158,350.27 be retained in equity.

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 13 February 2015

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Tapani Hellstén
Vice Chairman of the Board

Fredrik Forssell
Member of the Board

Teppo Koivisto
Member of the Board

Sirpa Louhevirta
Member of the Board

Tuula Saxholm
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
President and CEO

Auditor's note

A report on the audit performed has been issued today.
Helsinki, 13 February 2015
KPMG Oy Ab

Marcus Tötterman
Authorised Public Accountant

■ Municipality Finance Plc parent company

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

Auditor's report

to the Annual General Meeting of Municipality Finance Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Municipality Finance Plc for the year ended 31 December, 2014. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company, the Managing Director or the deputy Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Finnish Credit Institutions Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

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

Opinion on the company's financial statements and the report of the Board of Directors

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

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company, the Managing Director and the deputy Managing Director be discharged from liability for the financial period audited by us.

Helsinki, 13 February 2015
KPMG OY AB

Marcus Tötterman
Authorized Public Accountant



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