Kuntarahoitus
MUNICIPALITY FINANCE

ANNUAL REPORT 2009




Municipality Finance Plc is the most reliable, active and innovative credit institution that offers a diverse range of financial solutions for municipal sector investments and state-subsidised housing production.

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Municipality Finance's capital adequacy and competitive pricing are based on the best possible credit ratings.

"The most reliable, innovative and active partner in financial services"

Gorilla/ Daniel Hertzell

THE LOCAL GOVERNMENT SECTOR'S OWN CREDIT INSTITUTION

Municipality Finance is a credit institution owned by the local government sector with a mission of being the most reliable, innovative and active partner in financial services for its customers.

The company wants to ensure the most suitable financial solutions for its customers, to operate efficiently and to grow profitably. The company aims to build the capital needed for growth through profits and thereby ensure capital adequacy.

The company invests actively in serving its customers by continuously developing functional and competitive products and financial solutions for their needs.

Municipality Finance's capital adequacy and competitive pricing are based on the best possible credit ratings. The company has the highest possible ratings for long-term funding, i.e. AAA from both Moody's and Standard & Poor's.

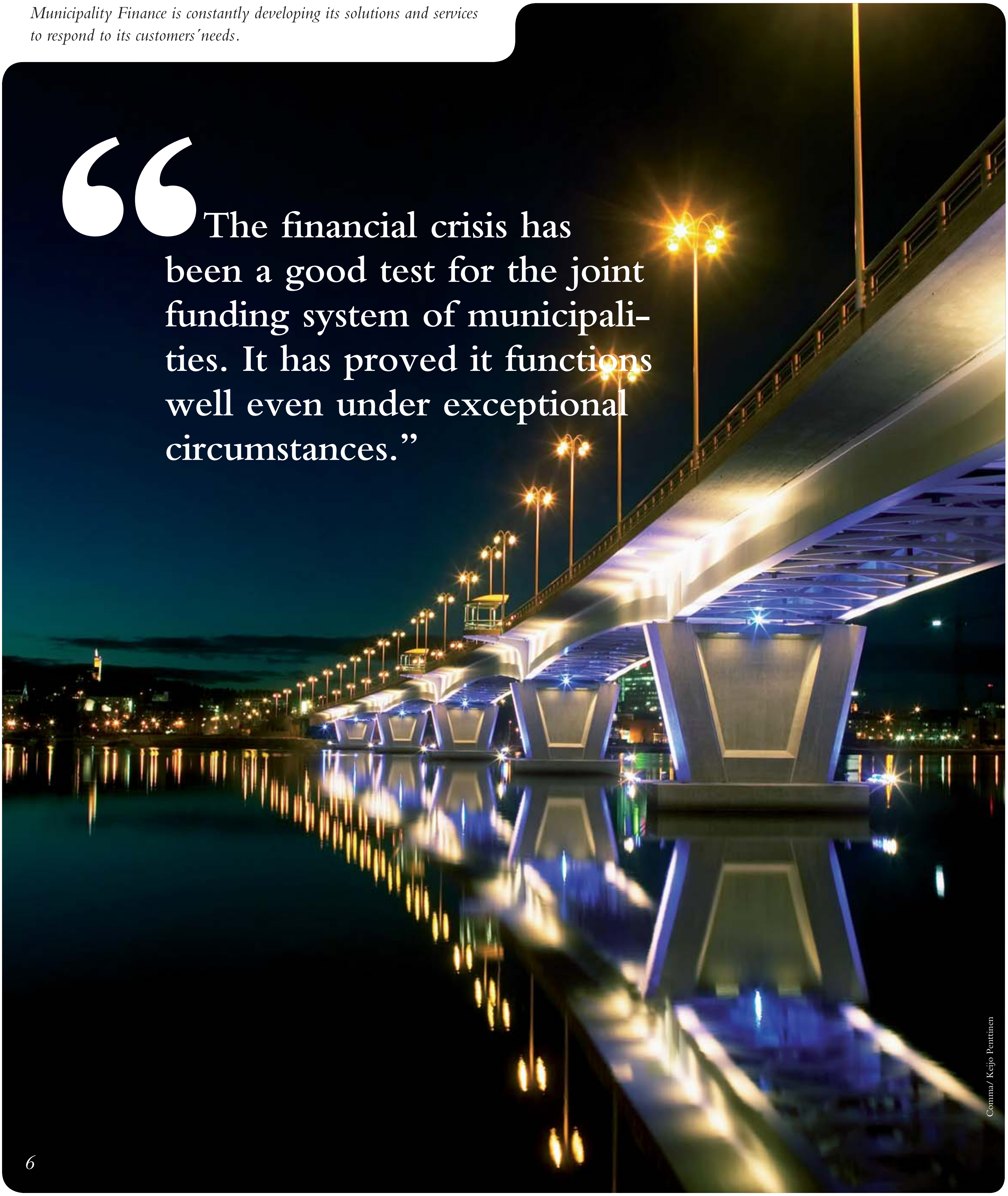
The company's funding, which is guaranteed by the Municipal Guarantee Board, is obtained from international capital markets and domestic investors.

2009 IN BRIEF

- During the financial year, the balance sheet of the Municipality Finance Group rose to EUR 14,557 million, an increase of 16% (31.12.2008: EUR 12,512 million).
- Capital adequacy stood at 20.17% at the end of the year (31.12.2008: 13.6%).
- The lending portfolio of the parent company, Municipality Finance Plc, increased by 29%, reaching a total of EUR 9,741 million at the end of the year (31.12.2008: EUR 7,567 million).
- EUR 2,940 million were withdrawn in new loans (2008: EUR 1,682 million).
- The total value of the loan requests received by the company reached a level of EUR 4,630 million, of which it won EUR 3,578 million, or 89% of all its competitive bidding.
- The parent company raised a total of EUR 5,789 million in long-term funding (2008: EUR 4,527 million).
- The company concluded a total of 216 funding arrangements on the international funding markets.
- 12 Municipal Bonds were issued in Finland.
- As a result of a share issue and an increase in share capital in spring 2009, the company added 40 new shareholders, with shares subscribed for a total of EUR 40.7 million.
- Municipality Finance Group's operating profit for the financial year totalled EUR 33.7 million (2008: EUR 2.7 million).
- The parent company's operating profit for the financial year totalled EUR 33.0 million (2008: EUR 2.8 million).
- The turnover of Municipality Finance's subsidiary, Financial Advisory Services Inspira Ltd, came to EUR 1.5 million for the period, with a profit of EUR 0.3 million.
- Municipality Finance Plc's distributable funds total EUR 9,799,043.00, of which the profit for the financial year is EUR 9,770,510.79. The Board of Directors will propose to the annual general meeting that the distributable funds be used by distributing a dividend of EUR 0.25 per share for the year 2009, totalling EUR 9,765,949.50, with EUR 33,093.50 retained in equity.




Municipality Finance is constantly developing its solutions and services to respond to its customers' needs.



"The financial crisis has been a good test for the joint funding system of municipalities. It has proved it functions well even under exceptional circumstances."

Comma/ Keijo Penttinen

CEO'S REVIEW

Financial year 2009 will go down in the history of Municipality Finance Group as an eventful year. The year will be remembered for a share issue, a revision of organisational structure and strategy and successful business operations despite the general economic instability. Our loan portfolio increased significantly, there was a marked improvement in profitability, funding acquisition was successful and our balance sheet grew to exceed EUR 14 billion.

Records broken

Municipality Finance's operating profit of EUR 34 million for the year is the best in its history. This record profit is primarily the result of strong growth in lending volume. There was also a significant amount of repurchased funding arrangements due to investors' willingness to liquidate their portfolios under the uncertain market conditions. In addition, the company's new strategy calls for building the capital needed for growth through profits and thereby ensuring capital adequacy.

Despite the prevailing uncertainty in the markets in early 2009, Municipality Finance was successful in its funding. The company acquired a record amount of EUR 5.8 billion in funding during the financial year, compared to EUR 4.6 billion in 2008. The company was active in various funding markets in Asia and Europe. The significance of the Japanese retail market, in particular, continued to increase. Municipality Finance's position was also strengthened in the Swiss market compared to previous years.

New loans were withdrawn during the period in an amount of EUR 2,940 million. The largest growth in lending was in the area of state-subsidised housing production, the share of which tripled from the previous year. The total value of the requests for tenders that were received during the year was EUR 4,630 million.

Share issue exceeded expectations

The company's share issue, concluded in June 2009, brought in over EUR 40 million in new equity. The entire municipal sector participated in the effort on a broad front. The Finnish State's involvement through becoming a shareholder with EUR 20 million worth of shares expanded Municipality Finance's ownership base significantly. In addition to the Finnish State, the new shareholders include both municipalities and municipal corporations. At present, the company has 268 municipalities among its 299 shareholders.

The share issue improved the company's operational prospects under challenging economic conditions and enabled the strong growth seen in lending for housing production. This has helped maintain the volume of state-subsidised housing production at a high level. The number of housing construction projects has multiplied, thus helping the employment situation in the recession-hit building industry.

Funding for municipalities has been secured

The financial crisis that characterised the year 2009 has been a good test for the joint funding system of municipalities. It has proved it functions well even under exceptional circumstances. This can be credited to both the solid financial management of municipalities and the public sector as well as Municipality Finance's long-term efforts in the international capital markets.

Nevertheless, the municipal economy is still under considerable pressure to maintain a healthy financial balance. In particular, municipalities have incurred debt at a rapid rate. While the European economy is showing signs of gradual improvement, there are still dark clouds in the sky. The availability of funding, however, is unlikely to pose problems.

Inspira continues to grow

Inspira Ltd, the subsidiary of Municipality Finance, generated a turnover of just under EUR 1.5 million in its second full financial year. This represents a 20% increase over 2008. Its operations were profitable and its assignments were related to funding public sector investments and reorganising operations. It is expected that continuing restructuring in the municipal sector will result in increased demand for advisory services for the reorganisation of municipal corporations and assets.

A new look for a new decade

The recently concluded financial year was Municipality Finance's 20th anniversary year, which was celebrated in various ways together with the company's customers and owners. The company kicked off the new decade with a revision of strategy and organisational structure to strengthen its profitability as required by continued growth. The revised processes help the company offer its customers stronger partnerships and a greater variety of services. A new addition to Municipality Finance's range of services is financial leasing for funding municipalities' capital assets. The company will start to offer the service during 2010.

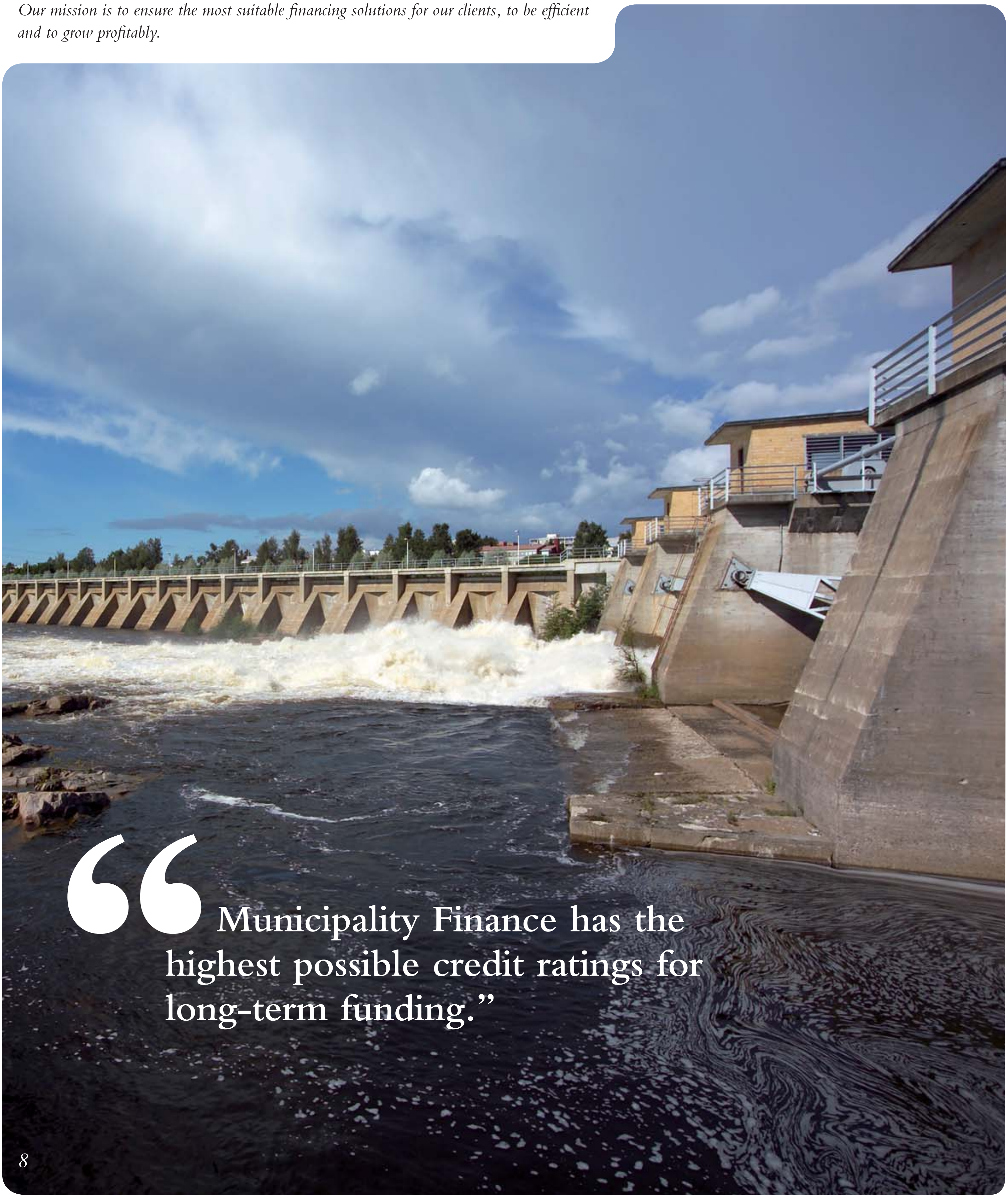
With strong growth and good profitability, the future prospects of Municipality Finance are positive. The promising start to the new year of operations indicates that the company will be able to ensure the availability of loans for municipalities well into the future. In addition to the owners, this is aided by the company's good credit ratings, strong market position and highly qualified personnel.

On behalf of Municipality Finance I would like to extend my warm thanks for the 2009 financial year to our customers, owners, partners and personnel.

Helsinki March 2, 2010
Pekka Averio
CEO




Our mission is to ensure the most suitable financing solutions for our clients, to be efficient and to grow profitably.



“Municipality Finance has the highest possible credit ratings for long-term funding.”

MUNICIPAL GUARANTEE BOARD

The Municipal Guarantee Board is an institution under public law whose purpose, according to the Act on the Municipal Guarantee Board, is to safeguard and develop joint funding for municipalities.

In order to fulfil the purpose, the Guarantee Board can grant guarantees for such funding of credit institutions directly or indirectly owned or controlled by municipalities, such as Municipality Finance, which will be used for lending to municipalities and municipal federations, and to institutions which are wholly owned by municipalities or under their control and for credit institution funding, which will be used for lending to corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds or corporations controlled by them.

The Municipal Guarantee Board's long term funding has the same ratings as Municipality Finance, i.e. Aaa from Moody's and AAA from Standard & Poor's.

Managing Director Heikki Niemeläinen, Municipal Guarantee Board

RECORD FUNDING

Municipality Finance acquires its funding for local government from both international and domestic financial markets. In 2009, foreign countries accounted for 98.5% of funding. The company's long history on the international capital markets and its highest possible credit rating facilitate funding acquisition and lower its cost. Municipality Finance has the same highest possible credit ratings for long-term funding as the Finnish government: Aaa from Moody's and AAA from Standard & Poor's.

Successful funding calls for an effective and responsive international network of contacts. A significant proportion of funds originate in the Asian markets, Japan in particular, where lenders include both institutions and smaller investors. In Europe funding has been acquired from, among others, Switzerland and Germany.

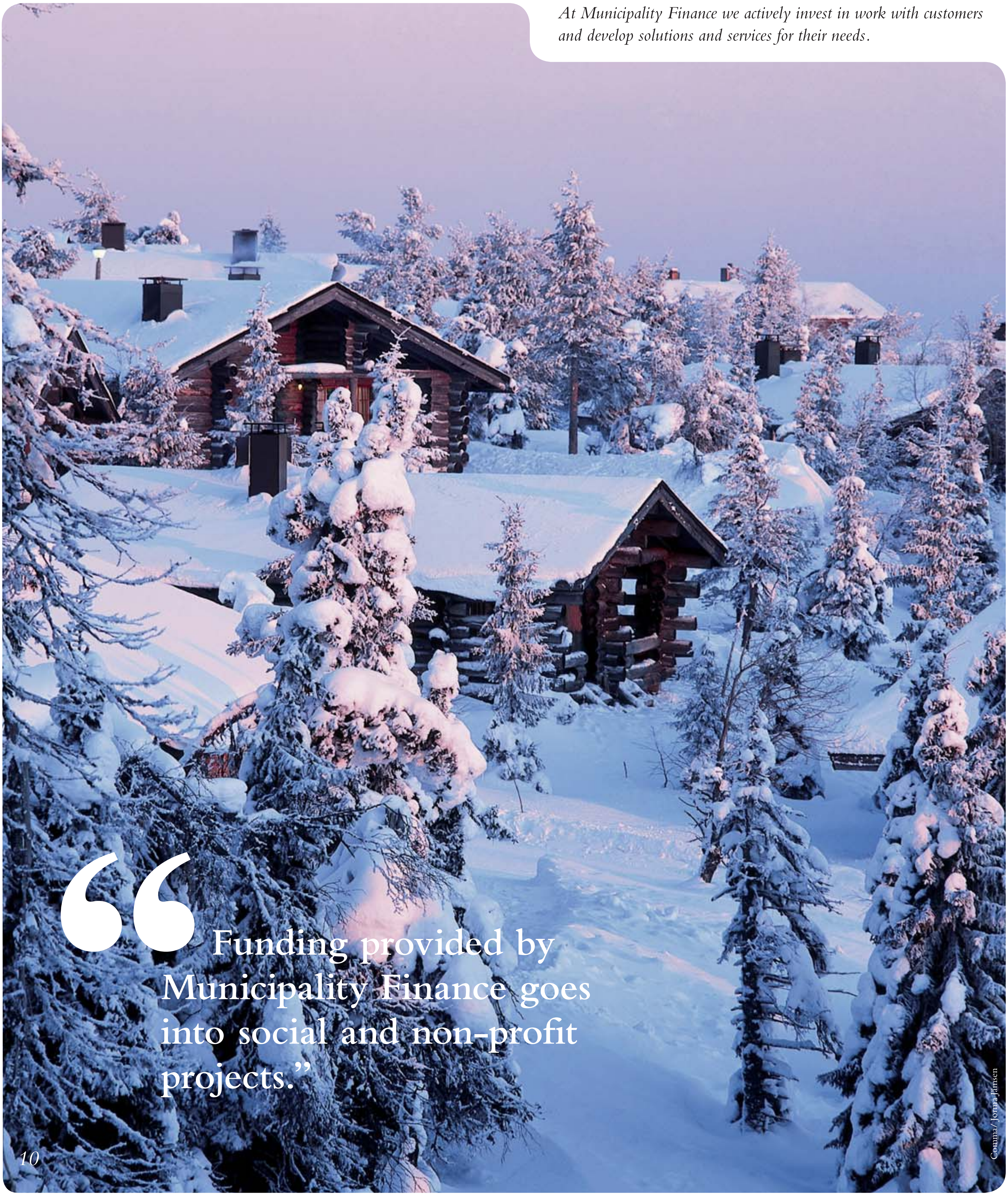
Domestic funding is based on issuing bonds and Municipal Bonds. Municipal Bonds are aimed at both the public and institutional investors.

In 2009, Municipality Finance's funding reached a record level of EUR 5.8 billion. Pre-funding helped Municipality Finance take precautions against problems in the financial markets and ensure its ability to continue to operate on the unstable financial markets.

In January 2010, Municipality Finance received significant and highly valued recognition for its work on the international capital markets. Large international banks selected the company the Market Choice SSA Issuer of the Year in a vote organised by MTN-i. The voters highlighted the reliable, fast and flexible manner in which Municipality Finance operates on the markets as the justification for the award.




At Municipality Finance we actively invest in work with customers and develop solutions and services for their needs.



"Funding provided by Municipality Finance goes into social and non-profit projects."

Comma/ Jorma Jämsen

FINANCIAL PRODUCTS FOR CUSTOMER NEEDS

One of the key operating principles of Municipality Finance is to focus on the needs of the company's own clients. The company aims to maintain healthy competition in providing funding for its customers and securing sufficient funding for its customers' needs.

Municipality Finance wants to be at the forefront of product development in the financing sector to provide municipalities the innovative products needed in a rapidly developing market.

With little competition, in 2009 Municipality Finance's focus was on ensuring funding for its customers. The company's lending increased by 29%. Particularly strong growth was seen in funding state-subsidised housing production. The most significant reason for this increase was the Finnish State's investment in the sector to support the general employment situation.

As interest rates were expected to lower, customers clearly favoured floating rate notes in 2009. Municipality Finance aims at transparency in lending and keeps its customers informed of its methods for calculating the rates and the potential structural risks. All lending is market-based.

Ethical lender

A significant portion of lending by Municipality Finance is used for various socially important investments. These include e.g. municipal building and development projects aimed at increasing welfare services and improving the quality of life. Funding is used for schools, day care centres, elder care homes and institutions, hospitals, health care centres and housing.

Inspira

Inspira helps the public sector to rearrange its services in a more efficient manner and to implement its investment needs more economically.

INSPIRA

Municipality Finance's subsidiary Financial Advisory Srvices Inspira Ltd offers highly qualified and independent advisory services in various areas of finance.

Inspira's clients consist of the public sector and companies offering their services to the public sector. The public sector clients include central government units, municipalities and companies owned by municipalities. Inspira offers partnership-based advisory services for finding the right financial solutions for its customers. Inspira's carries out financial restructuring as well as mergers and acquisitions for its clients and acts as a financial advisor in various investment projects.

Inspira's mission is to help its clients optimise their use of capital and arrange quality public sector services. Inspira's primary objective is to facilitate the provision of services and the carrying out of investments in a more cost-effective manner, with higher quality and on a faster schedule.

The Inspira Team 2009:

Top row: Analyst Ville Riihinen, Director Riku Tolvanen, CEO Kimmo Lehto and Analyst Lauri Pekkilä

Front row: Analyst Tuomas Määttä and Associate Director Jon Forssell



The Municipality Finance Group reached a record result in challenging market conditions.

> “Municipality Finance saw strong growth compared to the previous year in terms of both lending and funding.

Financial statements

REPORT OF THE BOARD OF DIRECTORS

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

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

Inspira offers financial advisory services to the public sector. The services cover various types of public sector investment funding, their analysis and arrangement. In addition, Inspira offers its services for different public sector ownership arrangements by planning them, making value assessments and assisting in contract negotiations. Inspira helps the public sector to rearrange its services in a more efficient manner and to implement its investment needs more economically.

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

Summary of the financial year

Municipality Finance business saw strong growth compared to the previous year in terms of both lending and funding.

The Group's net operating profit before taxes was EUR 33.7 million (2008: EUR 2.7 million). Net interest income grew to EUR 50.6 million (2008: EUR 29.5 million), representing a 71% increase on the previous year.

The lending portfolio increased to EUR 9,741 million (2008: EUR 7,567 million). New loans granted amounted to a record amount of EUR 2,940 million (2008: EUR 1,683 million).

Funding acquired by the company totalled EUR 5,789 million during the year (2008: EUR 4,527 million). The total amount of funding grew to EUR 13,218 million (2008: EUR 11,336 million).

The total amount of investments at the end of the year stood at EUR 3,270 million (2008: EUR 2,905 million). The market values of investments improved significantly during the year and the fair value reserve totalled EUR -12.7 million at the end of the year (2008: EUR -32.9 million).

Net operating profit

The Group reached a good result. The net operating profit for the financial year before appropriations and taxes stood at EUR 33.7 million (2008: EUR 2.7 million).

Municipality Finance Plc's net operating profit before taxes for the financial period was EUR 33.0 million (2008: EUR 2.8 million). Net operating profit was boosted by successful funding, repurchasing the company's own bonds, which resulted in EUR 5.8 million in income (2008: EUR 2.0 million), hedging the interest rate position and growth of the balance sheet.

Inspira's (subsidiary) net operating profit was EUR 0.3 million (2008: EUR 0.3 million).

Expenses

The Group's expenses increased from the previous year, primarily due to growth in the volume of business operations and the number of personnel.

Administrative expenses came to EUR 9.0 million (2008: EUR 6.0 million). Other operating expenses totalled EUR 3.3 million (2008: EUR 2.7 million).

In addition to the aforementioned reasons, the increase in other operating expenses of the company is explained by the share issue carried out in early 2009, with EUR 0.5 million in related expenses.

Balance sheet

The significant growth in operations was also reflected on the balance sheet, with the consolidated balance sheet total on December 31, 2009 reaching EUR 14,557 million, compared to EUR 12,512 million the previous year. This represents an increase of 16%.

TREND IN BUSINESS OPERATIONS

Operating environment in 2009

After the financial crisis that began in 2008, the big question on the financial markets in 2009 was whether confidence in the financial system would be restored. The situation resulted in central banks continuing to lower their key rates during the first half of the year. The European Central Bank (ECB) lowered its benchmark rate four times.

Significant changes were made to the central banking system. The ECB decided to boost liquidity in the system by lending money to banks without maximum limits. It also added new asset classes to the list of assets eligible as collateral. As a result, banks were able to receive credit against collateral at levels significantly below the central bank's key rate. In the second half of the year, the ECB began to support the market for covered bonds by purchasing them at a high volume. In addition to central banks, governments have also supported their financial systems in the form of various stimulus packages. In the United States, this has mainly taken the form of the Troubled Asset relief Program, or TARP. In Europe, the refinancing of banks has been supported through the system of state guarantees. State ownership has often increased in banks in crisis. There have been numerous mergers between successful and less successful banks.

In terms of interest rates, the operating environment in the euro area showed signs of stabilising in 2009. Rates fluctuated less than in the previous year. The downward trend in interest rates that began in late 2008 continued in short-term rates until autumn 2009, when it finally came to a halt. For the three-month Euribor, this meant a fall from 2.90% to the level of 0.71% seen at the end of November. The fall in long-term rates in 2009 was more moderate.

The competitive landscape in lending changed significantly as a consequence of the financial crisis. For Municipality Finance, this change resulted in strong growth. Due to the financial crises the government decided to stimulate the Finnish economy through housing production which resulted in a sharp rise in the demand for funding. This, in turn, created a need to increase Municipality Finance's capital. This was accomplished by a share issue that the Finnish State also participated in. In total, the share issue raised in excess of EUR 40 million in funds and its success was proof of the entire municipal sector's commitment to maintaining a joint funding system.

The rise in the volume of lending resulted in a need for increased funding by Municipality Finance in 2009. Funding was highly successful despite the uncertain market conditions. Municipality Finance's funding costs grew in line with the increase in the general market prices. The company's relative price advantage compared to competitors with lower credit ratings, however, was extended. As net asset values generally decreased, the market value of Municipality Finance's investment portfolio was significantly diminished in 2008. This was reflected in a negative fair value reserve that weakened Municipality Finance's capital adequacy. The company incurred write-offs and credit losses on investment assets on the 2008 income statement, which posed challenges to investment operations in the recently concluded financial year. The primary objective in investment operations in 2009 was to maintain liquidity. Municipality Finance estimates that restoring the fair value reserve will take a considerable amount of time. The market value of the investment portfolio, however, improved significantly in 2009.

Lending

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

Long-term lending

Municipality Finance's lending increased considerably in 2009 as a result of the changes to the competitive environment brought about by the financial crisis as well as the government's decision to stimulate the Finnish economy through housing production.

The total number of requests for tenders received by Municipality Finance in 2009 was clearly up from the previous year. The total value of the requests received by the company reached a record level of EUR 4,630 million (2008: EUR 2,736 million), of which it won EUR 3,578 million, or 89% of all its competitive bidding. Tenders worth EUR 1,353 million were won in the largest customer group; municipalities and municipal federations. The winning offers to municipal enterprises totalled EUR 626 million and those to housing corporations EUR 1,599 million.

Municipality Finance's lending portfolio increased by 29% to reach EUR 9,741 million (2008: EUR 7,567 million). New loans were withdrawn during the period at a record amount of EUR 2,940 million (2008: EUR 1,683 million).

As low interest rates prevailed, customers clearly favoured floating rate notes in 2009.

Short-term lending

Municipalities and municipal federations cover their short-term funding needs by issuing municipal papers. On the other hand companies controlled by municipalities and municipal federations used municipal commercial papers.

At the end of 2009, municipal commercial paper programmes concluded with Municipality Finance came to a total of EUR 2,426 million (2008: EUR 1,804 million).

The company's year-end balance sheet included EUR 516 million in commercial papers issued by municipalities and enterprises controlled by municipalities, and during the year customers raised a total of EUR 5,013 million through these programmes, significantly more than in the previous year (2008: EUR 3,860 million).

Funding

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

Euro Medium Term Note (EMTN-programme)	EUR 15,000 million
Domestic debt programme	EUR 800 million
Treasury Bill programme	EUR 2,000 million
AUD debt programme (Kangaroo)	AUD 1,000 million

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

Municipality Finance uses credit limits agreed with the European Investment Bank and the Council of Europe Development Bank as part of its refinancing.

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

Municipality Finance's acquired funding totalled EUR 13,218 million on the balance sheet date (2008: EUR 11,336 million). Of this, 26% (2008: 26%) was denominated in euros and 74% in foreign currencies (2008: 74%).

Long-term funding

Municipality Finance acquired a total of EUR 5,789 million in long-term funding during the financial year (2008: EUR 4,527 million). Of this, EUR 5,714 million were acquired from international markets (2008: EUR 4,460 million) and EUR 83 million from Finland (2008: EUR 67 million).

International funding

Municipality Finance raised more funds, measured in euros, in 2009 than in any other year before. The company concluded a total of 216 funding arrangements on the international funding markets. The average loan period for new funding was approximately four years.

The Asian market continued to be the most significant source of funding for Municipality Finance, with Japan still the single most important market.

Significant European markets included Germany and Switzerland, where Municipality Finance was a very prominent issuer.

Domestic funding

The company issued 12 Municipal Bonds under the domestic debt programme in 2009, five of which were directed to the public and seven to institutional investors.

Investment

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

At the end of 2009, the average credit rating of the securities in the prefunding portfolio was AA+ and the duration of credit risk was 2.22 years (2008: 2.85 years).

The company maintains a liquidity portfolio that enables it to continue its operations uninterrupted for a minimum of six months under all market conditions. 2009 saw the all-time largest investment volumes. Given the record amount of funding, new investments were made for a total amount of EUR 4,813 million (2008: EUR 3,400 million). Total investment portfolio rose to EUR 3,270 million by the end of the year (2008: EUR 2,905 million). A calculated decision to increase the size of the money market portfolio was made to ensure good liquidity. Securities were sold out of the investment portfolio during the year for a nominal value of EUR 1,277 million (2008: EUR 101 million).

Inspira

Inspira's turnover for its second year of operations came to EUR 1.5 million. This compares to EUR 1.4 million in Inspira's previous financial year, which was 14 months long. Net operating profit for the year was equal to the previous financial year at EUR 0.3 million.

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

Inspira participated in several competitive bids for financial advisory services and the company expects an upward trend in the demand for advisory services, in particular for financing investments, in 2010.

Share issue

As a consequence of financial crisis the Finnish government decided to stimulate the Finnish economy through housing production which resulted in a sharp rise in the demand for funding it. For Municipality Finance this resulted in strong growth and a need to increase Municipality Finance´s capital. This was accomplished by a share issue in spring 2009. The new shares were actively subscribed to and the share issue succeeded beyond expectations. The municipal sector participated in the share issue on a broad front, which indicates that the local government sector has strong confidence in Municipality Finance as the sector's source of funding. While the majority of subscribers were municipalities, several limited liability companies fully owned by municipalities also participated in the share issue. The Finnish State subscribed shares with EUR 20 million to secure financing for state-subsidised housing production and renovation.

In total, 12,732,152 shares were subscribed, corresponding to EUR 40.7 million. The first subscription period concluded on March 25, 2009 and brought in subscriptions totalling EUR 33.5 million. The second subscription period, which immediately followed the first one, concluded on June 30, 2009 and brought in subscriptions totalling EUR 7.2 million.

In total, there were 193 subscriptions, of which 49 were received during the first subscription period and 144 during the second period. The share issue brought in 40 new shareholders for Municipality Finance. The total number of shareholders after the share issue stands at 304 (January 1, 2010: 299). The total population of the municipalities that participated in the share issue represent 80.1% of the Finnish population and the average subscription amount relative to municipal population figures was EUR 3.80.

Post balance sheet events

In late 2009, the Board of Directors of Municipality Finance decided that the company would begin offering financial leasing services. Municipality Finance commenced running up these operations in early 2010 with the intention of offering financial leasing to its current customers. In the initial phase, the plan is to offer financial leasing for investments in machinery and equipment. The company will hire a manager in early 2010 to be in charge of financial leasing operations and aims to begin offering financial leasing in the first half of the year.

Prospects for 2010

The demand for funding is expected to continue at a good level in 2010. Borrowing by municipalities is expected to continue growing and, according to estimates, municipalities will seek new long-term funding in 2010 amounting to a total of approximately EUR 2.0-2.5 billion. Forecasting the total borrowing by municipally owned corporations is difficult. Estimates state that municipally owned corporations will seek EUR 0.5-1.0 billion in funding.

Lending for housing production is expected to be lower than in 2009. This is due to reduced conversion of both state-subsidised ARAVA loans and conversions resulting from increased bank margins.

Interest-subsidised lending is expected to remain at 2009 levels. According to the government's budget proposal, state-subsidised housing production will remain close to 2009 levels. Estimates suggest that some 12,000 units with state interest subsidies will be built in. That estimate breaks down to approximately 8,000 units in interest subsidised long-term rental housing production and 4,000 units under so called interim model of state-subsidised financing. Municipality Finance may participate in the financing of this housing production only where the borrower has non-profit status. The total size of the market for financing housing production available to Municipality Finance is estimated at EUR 1.2-1.7 billion.

The use of municipal commercial papers is expected to remain widespread in 2010, particularly if short-term interest rates remain low.

CREDIT RATINGS

Municipality Finance's credit ratings

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

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

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

Moody's Investors Service	P1 (stable)
Standard & Poor's	A-1+ (stable)

The Municipal Guarantee Board's credit ratings

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

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

Risk management

Municipality Finance's operations depend on sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors to secure the continuity and development of the company's operations. Municipality Finance applies very conservative principles to its risk management. The aim is to minimise open risk positions and keep the overall risk status at a low level so as not to compromise Municipality Finance's good credit rating (Aaa/AAA).

The general principles, limits and benchmarks for risk management at Municipality Finance are decided by the Board of Directors. Risk management is intended to ensure that the risks associated with lending, funding acquisition, investment activities and other business operations are in line with Municipality Finance's accepted risk profiles.

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

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

Capital management

Municipality Finance's capital adequacy objectives relating to the company's risk taking and operating environment are defined in connection with annual planning. The planning horizon is three years. The Board of Directors approves the capital adquacy plan and monitors it. Municipality Finance revised and updated its capital management plan in December 2009.

Strategic risks

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

The Group's strategic risk management is based on continuous monitoring and analyses of customer needs, forecasts on market trends, and changes in the competitive situation and operating environment. Risks and their importance are assessed annually when the operating plan is drawn up. The Group's existing strategy extends until 2015.

Credit risk

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

Municipality Finance may only grant loans without a separate security directly to a municipality or municipal federation. For other loans, only an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee serve as security. Because such security is required to reduce the credit risk, all granted loans are classified as zero-risk in calculating capital adequacy. Mu-

Distribution of derivative financial instruments according to counterparty credit rating

(EUR 1,000)	Dec 31, 2009 Nominal value	Dec 31, 2008 Nominal value
AAA	1,088,831	984,579
AA	12,584,700	11,214,478
A	8,589,523	4,562,914
BBB	479,489	46,606
Finnish municipalities	170,829	116,227
Total	**22,913,372**	**16,924,804**

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

Company (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans to credit institutions	Debt securities	Binding credit commitments
December 31, 2009					
Total	15,174,924	9,740,502	86,904	3,785,444	1,562,074
Public sector entities	5,362,925	4,779,553	-	479,636	103,736
Enterprises and housing companies	6,383,014	4,853,302	-	71,374	1,458,338
Non-profit organisations	107,647	107,647	-	-	-
Credit institutions	2,806,623	-	86,904	2,719,719	-
Other	514,715	-	-	514,715	-
December 31, 2008					
Total	11,765,903	7,567,406	117,420	3,248,916	832,161
Public sector entities	4,515,990	4,034,412	-	359,433	122,145
Enterprises and housing companies	4,059,656	3,344,958	-	4,681	710,017
Non-profit organisations	188,035	188,035	-	-	-
Credit institutions	2,533,670	-	117,420	2,416,250	-
Other	468,552	-	-	468,552	-

nicipality Finance has not had any non-performing assets or credit losses during its operations.

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

The exceptional circumstances in international financing markets in 2007-2009 have increased counterparty credit risk. The financial crisis has resulted in a larger yield difference between debt securities and the risk-free interest rate, which has led to a decrease in market prices. Market prices were at their lowest in March 2009, after which the gradual normalisation of the market conditions has led to a marked improvement in the market values of debt securities. At the same time, liquidity on the markets has improved.

The company does not believe that its investment portfolio contained any significant risk of losses related to the credit risk on the balance sheet date.

The fair value method is used to measure credit risk for each derivatives counterparty, taking netting into account. Municipality Finance limits credit risk by concluding credit support agreements (ISDA/Credit Support Annexes) with the most significant derivative counterparties. The company has 38 Credit Support annexes in force. Additionally, the Municipal Guarantee Board's (MGB) guarantees are used, in accordance with the amendment of January 1, 2007 to the Act on the Municipal Guarantee Board, for reducing the counterparty risks related to the derivative contracts of certain counterparties.

Market risk

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

For hedging against interest rate risk, Municipality Finance uses derivative contracts to change the fixed-rate cash flows from lending and funding into floating-rate cash flows. 48% of lending and 82% of funding fall within the scope of fair value hedge accounting.

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

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

Currency position

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

Currency position

(EUR 1,000)	Currency	Currency position
December 31, 2009	USD	-6
December 31, 2008	USD	-20

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

Breakdown of funding by denomination (EUR 1,000)

December 31, 2009	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	709,919	241,231	951,150
Liabilities to the public and public sector entities	556,551	282,360	838,911
Debt securities issued	2,099,772	9,245,754	11,345,526
Total	**3,366,242**	**9,769,345**	**13,135,587**

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

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

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

Duration

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

Duration

	Claims	Liabilities	Difference
Dec 31, 2009	1.529 years	1.473 years	20 days
Dec 31, 2008	1.165 years	1.152 years	5 days

Value-at-risk

The VAR ratio expresses the maximum negative change in euros in the balance sheet market value within 10 days at 1% probability

Value-at-risk

(EUR 1,000)	Dec 31	Year's average	Year's low	Year's high
2009	5,320	4,193	1,970	6,240
2008	2,020	1,090	900	1,300

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

Financial risk

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

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 15-25% of its loans in 2010. In 2009, the company called in 27.6% of its loans.

The Board of Directors of Municipality Finance has set the following limits on financing risks:

- refinancing risk/sustainability of financing
- refinancing gap
- minimum and maximum amounts of liquid assets
- sufficiency of liquid assets measured as a minimum time

As back-up liquidity, Municipality Finance has access to a total of EUR 140 million in the form of credit limit arrangements.

Market liquidity risk

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

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

In October 2008, the International Accounting Standards Board (IASB) issued instructions on the measurement of debt certificates on non-functioning markets.

Breakdown of financial liabilities by maturity (EUR 1,000)

December 31, 2009	Max 1 year	1-5 years	Over 5 years	Total
Liabilities to credit institutions	122,532	372,056	538,762	1,033,350
Liabilities to the public and public sector entities	26,963	39,532	772,416	838,911
Debt securities issued	5,309,606	4,650,975	1,384,945	11,345,526
Subordinated liabilities	10,000	40,000	38,577	88,577
Total	**5,469,101**	**5,102,563**	**2,734,700**	**13,306,364**
December 31, 2008				
Liabilities to credit institutions	246,187	356,042	98,513	700,742
Liabilities to the public and public sector entities	122,161	42,393	518,834	683,388
Debt securities issued	4,794,757	3,500,736	1,655,913	9,951,406
Subordinated liabilities	-	50,000	35,672	85,672
Total	**5,163,106**	**3,949,170**	**2,308,932**	**11,421,208**

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

Operational risks

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

Municipality Finance has managed operational risk by separating the trading, risk management, risk monitoring, back office, documentation and bookkeeping duties and by creating a substitute organisation. Municipality Finance has numerous internal policies and operational guidelines that are revised and updated on a regular basis and compliance with them is monitored. Key duties and processes have been charted and described. The descriptions are revised and updated on a regular basis. Employees' professional skills are maintained and improved by drafting a training plan in conjunction with annual appraisals.

Municipality Finance maintains adequate insurance cover and the level of insurance cover is reviewed on a regular basis.

Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help the company continue functioning and limit its losses in different disruptive scenarios.

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 realisation of operational risks is monitored with systematic damage reporting, which is used to update processes where necessary. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No material losses were incurred as a result of operational risks in the 2009 financial year.

In early 2009, Municipality Finance noticed a technical error in the currency valuations of financial instruments arising from the updated version of an IT application. The error had the effect of increased values for certain financial assets and liabilities on the balance sheet denominated in foreign currencies. The company believes that a similar technical error had an effect on the balance sheet at the end of the 2008 financial year. The error has not affected the company's operating result, equity or capital adequacy calculations. The error in the IT application in question was remedied immediately upon detection.

Internal audit

Internal auditing has been outsourced to Deloitte & Touche. The tasks of internal auditing include monitoring the reliability and authenticity of Municipality Finance's financial and other management information. Its task is also to ensure that the company has sufficient and adequately arranged manual and IT systems for operations and that the risks related to operations are sufficiently managed. The internal audit reports to the Audit Committee and the Board of Directors.

Corporate Governance

The Board of Directors of Municipality Finance has, on October 21, 2009, confirmed the company's revised Corporate Governance Policy. The Policy has been prepared in compliance, where applicable, with the Corporate Governance Code of the Finnish Securities Market Association. The Finnish Corporate Governance Code applies to listed share issuers and does not therefore concern Municipality Finance directly, as it issues bonds. Municipality Finance's shares are not subject to public trading and can only be owned by the parties mentioned in the Articles of Association. Nevertheless, as an issuer of bonds and an active party on the international capital markets, the company wanted to draft its Corporate Governance Policy on the basis of the recommendation issued to listed companies. The Board of Directors is responsible for making sure that the company complies with the Corporate Governance Policy and is committed to developing them further in line with effective legislation and market practices. As part of the annual report, separate from the Board of Directors' report on operations, Municipality Finance is publishing a Corporate Governance Statement for the 2009 financial year. The Statement includes a description of key characteristics of the internal control and risk management systems related to the financial reporting process as stipulated by the Securities Market Act.

The Corporate Governance Policy is available online on the company's website (www.munifin.fi).

Own funds and capital adequacy

Consolidated own funds and capital adequacy (EUR 1,000)	Dec 31, 2009	Dec 31, 2008
Own funds		
Share capital	42,583	42,583
Minority interest	179	122
Reserve fund	277	277
Reserve for invested unrestricted equity	40,366	-
Retained profit	36,551	35,136
Profit for FY	14,931	1,945
Capital loans	11,177	11,177
Intangible assets	-708	-557
Total primary own funds	**145,356**	**90,683**
Fair value reserve	-12,698	-32,883
Subordinated liabilities, included in upper secondary own funds	40,000	40,000
Subordinated liabilities, included in lower secondary own funds	35,000	35,000
Total secondary own funds	**62,302**	**42,117**
Total own funds	**207,658**	**132,800**
Risk-weighted receivables		
Credit risk, standard method	**969,386**	**937,473**
Minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	40,465	42,725
Covered bonds	1,741	620
Securitised items	33,361	30,408
Other items	1,984	1,245
Total credit risk, standard method	**77,551**	**74,998**
Market risk	-	-
Operational risk, basic method	4,821	3,103
Total minimum requirement for own funds	**82,372**	**78,101**
Capital adequacy ratio, primary own funds %	14.12%	9.29%
Capital adequacy ratio, %	**20.17%**	**13.60%**

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

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

Primary own funds on December 31, 2009 include the profit for the financial year, taking the distribution of dividend into account. Detailed information on capital and debenture loans is provided in Section 15 of the notes to the financial statements. The share capital is EUR 42.6 million. The funds raised by the share issue carried out in early 2009 are recognised in their entirety in the reserve for invested unrestricted equity that is newly established in accordance with the Limited Liability Companies Act. The equity in the reserve for invested unrestricted equity totals EUR 40.4 million at year's end. At the end of 2009, own funds came to EUR 207.7 million (2008: EUR 132.8 million). The Group's capital adequacy ratio on December 31, 2009 stood at 20.17% (2008: 13.6%).

In addition to the increase in own funds of EUR 74.9 million, the capital adequacy ratio was boosted by a restructuring of the debt securities portfolio. The financial crisis resulted in a large amount of state-guaranteed debt securities issued by banks and covered bonds being available on the market. The proportion of these instruments in Municipality Finance's funding increased during the year.

Key indicators for Municipality Finance Group

	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Turnover, EUR m	285.3	443.2	308.0
Net operating profit, EUR m	33.7	2.7	8.8
% of turnover	11.82%	0.60%	2.90%
Balance sheet total, EUR m	14,557.5	12,512.0	8,913.2
Return on equity (ROE), %	27.84%	6.20%	15.20%
Return on assets (ROA), %	0.31%	0.03%	0.13%
Cost-to-income ratio	0.31	0.80	0.56

Turnover is the total of 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 and income from other operating income. Profit before appropriations and taxes is derived directly from the income statement.

Return on assets (ROA) is calculated as follows:

$$\frac{\text{net operating profit} - \text{taxes}}{\text{balance sheet total (average of year beginning and year end)}} * 100$$

Return on equity (ROE) is calculated as follows:

$$\frac{\text{net operating profit} - \text{taxes}}{\text{equity and minority interest (average of year beginning and year end)}} * 100$$

Cost-to-income ratio

$$\frac{\text{commission expenses} + \text{administrative expenses} + \text{depreciation} + \text{other operating expenses}}{\begin{array}{l}\text{interest income} + \text{commission income} + \text{net income from securities and foreign exchange transactions} \\ + \text{net income from available-for-sale financial assets} + \text{net income from hedge accounting} \\ + \text{other operating income}\end{array}}$$

Remuneration system

The company's Board of Directors has prepared and approved Municipality Finance's short-term and long-term remuneration systems in 2009. The Remuneration Committee under the Board of Directors determines the targets and remuneration criteria for annual approval by the Board of Directors. The emphasis in the remuneration system is on the long-term remuneration programme.

The short-term remuneration programme applies to the company's entire personnel and the bonuses under the programme are paid annually after the annual general meeting. For the CEO and the Board of Management, the maximum bonus under the short-term programme is equal to four months' salary. The target level is two months' salary. The maximum bonus can only be considered in the case of exceptional performance.

The long-term programme applies to the CEO, the Board of Management and key personnel. It comprises three-year programmes that begin each year. In the future, three long-term programmes will be in effect simultaneously in such a way that bonuses in any given year are only paid on the basis of one programme. The targets are set based on Municipality Finance's strategy. Once the three-year period has concluded, the bonuses are paid in arrears over the following two years. For the CEO and the Board of Management, the maximum annual bonus payable under the long-term programme is equal to eight months' salary and the target level is four months' salary. As such, the total bonus payable under the short-term and long-term incentive programmes for the CEO and the Board of Management may not exceed 12 months' salary.

Municipality Finance Group's personnel and management

The Group's personnel numbers 53, of which 47 work for the parent company.

In accordance with the Articles of Association, the company's Board of Directors has at least nine and most eleven members. The composition of the Board of Directors is as follows:

- Markku Pohjola (Chairman)
- Sisko Seppä (Vice Chairman)
- Pekka Alanen
- Tapio Korhonen
- Eva Liljeblom
- Liisa Linna-Angelvuo
- Hannes Manninen
- Mikko Pukkinen
- Antti Rantakangas
- Hanna Tainio
- Pekka Timonen

At its meeting on April 30, 2009, the Board of Directors selected Eva Liljeblom as Chairman and Pekka Alanen and Tapio Korhonen as members of the Audit Committee.

At its meeting on April 30, 2009, the Board of Directors selected Markku Pohjola as Chairman and Sisko Seppä and Pekka Timonen as members of the Remuneration Committee.

The composition and work of the Board of Directors and its committees is described in more detail in the separate Corporate Governance Statement.

The company's Board of Management is comprised of:

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

The company's auditor is KPMG Oy Ab with Authorized Public Accountant Raija-Leena Hankonen as the accountable auditor.

Inspira's CEO is Kimmo Lehto. The subsidiary's personnel numbers 6.

The Board of Directors (primary position outside Inspira in brackets)

- Pekka Averio, Chairman (CEO, Municipality Finance Plc)
- Marjo Tomminen (Senior Vice President, Municipality Finance Plc)
- Kimmo Lehto

Inspira's auditor is KPMG Oy Ab with Authorized Public Accountant Riitta Pyykkö as the accountable auditor.

CONSOLIDATED BALANCE SHEET

	Note	Dec 31, 2009	Dec 31, 2008
ASSETS			
Liquid assets		40,484,136.91	18,054,938.76
Loans and advances to credit institutions	(2)	87,321,308.95	117,617,923.95
Loans and advances to the public and public sector entities		9,740 501,908.40	7,567,405,657.33
Debt securities	(3)	3,785,444,184.48	3,248,915,882.01
Shares and participations	(4)	27,219.06	27,219.06
Derivative contracts	(5)	730,326,574.15	1,406,820,165.96
Intangible assets	(6, 8)	708,268.31	557,232.61
Tangible assets	(7, 8)	1,318,607.71	1,322,600.91
Other assets	(9)	273,049.02	512,143.78
Accrued income and prepayments	(10)	166,624,356.00	139,201,972.33
Deferred tax assets	(11)	4,461,452.00	11,553,596.00
TOTAL ASSETS	**(1)**	**14,557,491,064.99**	**12,511,989,332.70**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		1,033,350,139.54	700,742,457.06
Liabilities to the public and public sector entities		838,910,546.43	683,387,887.36
Debt securities issued	(12)	11,345,526,182.36	9,951,406,053.63
Derivative contracts	(5)	750,276,986.49	654,777,972.71
Other liabilities	(13)	976,737.77	672,956.15
Accrued expenses and deferred income	(14)	350,074,640.59	376,035,947.54
Subordinated liabilities	(15)	88,576,876.32	85,671,793.09
Deferred tax liabilities	(11)	17,786,600.00	12,643,800.00
TOTAL LIABILITIES	**(1)**	**14,425,478,709.50**	**12,465,338,867.54**
EQUITY			
Share capital	(16)	42,583,195.49	42,583,195.49
Reserve fund	(16)	276,711.01	276,711.01
Fair value reserve		-12,697,980.60	-32,883,312.18
Reserve for invested unrestricted equity		40,366,099.60	0.00
Retained earnings		61,305,710.65	36,551,725.87
Total equity attributable to equity holders		**131,833,736.15**	**46,528,320.19**
Minority interest		**178,619.34**	**122,144.97**
Total equity		**132,012,355.49**	**46,650,465.16**
TOTAL LIABILITIES AND EQUITY		**14,557,491,064.99**	**12,511,989,332.70**

Municipality Finance Group

CONSOLIDATED INCOME STATEMENT

	Note	Jan 1 - Dec 31, 2009	Jan 1 - Dec 31, 2008
Interest income		286,985,694.38	450,680,982.49
Interest expense		-236,418,823.92	-421,194,661.69
Net interest income	**(21)**	**50,566,870.46**	**29,486,320.80**
Commission income	(22)	1,176,658.22	1,291,814.25
Commission expense	(23)	-2,352,800.83	-2,043,244.69
Net income from securities and foreign exchange transactions	(24)	2,920,064.93	2,064,750.19
Net income from available-for-sale financial assets	(25)	-2,311,678.45	-11,406,451.35
Net income from hedge accounting	(26)	-3,573,334.42	504,960.33
Other operating income	(27)	91,429.29	76,984.65
Administrative expenses	(28)	-9,042,405.60	-6,010,764.74
Depreciation and impairment on tangible and intangible assets	(8)	-423,919.32	-365,618.64
Other operating expenses	(29)	-3,336,867.55	-2,749,659.20
Impairment losses on other financial assets	(30)	0.00	-8,100,000.00
Operating profit		**33,714,016.73**	**2,749,091.60**
Income taxes	(31)	-8,836,057.58	-718,154.78
Profit for the financial period		**24,877,959.15**	**2,030,936.82**
Profit attributable to:			
Equity holders of the parent company		24,753,984.78	1,945,196.54
Minority interest		123,974.37	85,740.28

STATEMENT OF COMPREHENSIVE INCOME

	Note	Jan 1 - Dec 31, 2009	Jan 1 - Dec 31, 2008
Profit for the financial period		24,877,959.15	2,030,936.82
Available-for-sale financial assets (fair value reserve):			
Gains/losses from valuations		26,467,728.20	-23,228,720.77
Transferred to the income statement		-143,072.62	2,421,982.57
IAS39 reclassification adjustment		952,820.00	-3,009,758.18
Taxes relating to other components of comprehensive income		-7,092,145.00	6,192,288.93
Total comprehensive income		**45,063,289.73**	**-15,593,270.63**
Total comprehensive income attributable to:			
Equity holders of the parent company		44,939,315.36	-15,679,010.91
Minority interest		123,974.37	85,740.28

CONSOLIDATED STATEMENT OF CASH FLOWS

	Jan 1 - Dec 31, 2009	Jan 1 - Dec 31, 2008
Cash flow from operating activities	**361,753,430.99**	**1,293,355,517.91**
Profit for the financial period	24,877,959.15	2,030,936.82
Change in loans and advances	-2,279,911,888.74	-1,785,224,461.91
Change in long term funding	1,885,748,991.51	3,881,173,568.85
Change in short term funding	-3,498,521.23	55,419,770.06
Change in exchange rates, funding	771,992,605.59	-1,083,401,059.56
Adjustments	-37,455,715.29	223,356,763.65
Cash flow from investing activities	**116,781,730.56**	**-1,036,789,178.90**
Acquisition of tangible items	-180,570.00	-120,416.00
Acquisition of intangible items	-390,391.00	-121,849.00
Change in debt securities	117,352,691.56	-1,041,645,753.10
Change in shares and participations	0.00	5,098,839.20
Cash flow from financing activities	**40,675,386.40**	**36,861,312.98**
Change in capital loans	0.00	39,494,477.58
Dividends paid	-92,500.00	-2,633,164.60
Change in invested unrestricted equity	40,742,886.40	0.00
Change in share capital	25,000.00	0.00
Net increase in cash funds	**519,210,547.95**	**293,427,651.99**
Cash funds at January 1	**803,675,400.91**	**510,247,748.92**
Cash funds at December 31	**1,322,885,948.86**	**803,675,400.91**

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

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

Cash funds	Dec 31, 2009	Dec 31, 2008
Liquid assets	40,484,136.91	18,054,938.76
Debt securities eligible for refinancing with central banks maturing within three months	258,011,479.00	193,768,609.00
Loans and advances to credit institutions	87,321,308.95	117,617,923.95
Debt securities maturing within three months	937,069,024.00	474,233,929.20
Total	**1,322 885,948.86**	**803,675,400.91**

Municipality Finance Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Attributable to equity holders of the parent company						Minority interest	Total equity
	Share capital	Reserve fund	Fair value reserve	Reserve for invested unrestricted equity	Retained earnings	Total		
Equity at December 31, 2007	**42,583**	**277**	**-15,259**	**0**	**37,769**	**65,370**	**36**	**65,406**
Dividends paid for 2007					-2,633	-2,633		-2,633
Adjustment to previous years					-529	-529		-529
Comprehensive income for the period			-17,625		1,945	-15,680	86	-15,594
Equity at December 31, 2008	**42,583**	**277**	**-32,884**	**0**	**36,552**	**46,528**	**122**	**46,650**
Share issue				40,366		40,366	25	40,391
Dividends paid for 2008							-93	-93
Comprehensive income for the period			20,186		24,754	44,940	124	45,064
Equity at December 31, 2009	**42,583**	**277**	**-12,698**	**40,366**	**61,306**	**131,834**	**178**	**132,012**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information on the Group

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

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

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

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on February 19, 2010. Under the Finnish Limited Liability Companies act, the 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.

Accounting policies applied to the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on December 31, 2009. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) no. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS rules.

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

The following standards and IFRIC interpretations that have been published after the previous financial statements have influenced Municipality Finance's financial statements:

- IFRS 8 Operating Segments (effective January 1, 2009)
- IAS 1 (revised) Presentation of Financial Statements (effective January 1, 2009)
- Annual Improvements to IFRS standards (principally effective January 1, 2009)
- Amendments to IFRS 7 - Improving Disclosures about Financial Instruments (effective January 1, 2009)
- Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives (effective for financial periods ending on June 30, 2009 or later)

Municipality Finance Group's line of business is credit institution operations and offering financial services. The company operates in a single segment.

The amendments to the IAS 39 and IFRS 7 standards have influenced the presentation of financial statements from July 1, 2008 onwards.

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

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

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

Consolidation principles

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

Inter-company share ownerships have been eliminated by means of the acquisition cost method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and minority interest is presented in the income statement. Minority interests are presented in the balance sheet as a separate item under "equity".

Municipality Finance Group

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

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

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

Loans and other receivables
The item includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. The items are measured at effectively amortised cost. However, loans covered by hedge accounting are measured at fair value for the risk hedged.

Available-for-sale financial assets
The item includes investment of advance funding in debt securities.

Debt securities are measured at fair value, and the change in fair value is recognised in items under "other comprehensive income" and presented in the fair value fund taking the tax effect into account. The realised capital gains and losses as well as impairment recognised through profit or loss are recognised in the income statement under "Net income from available-for-sale financial assets".

Impairment on debt securities available for sale is recognised when the issuer's credit rating has been markedly downgraded. If the market value of a security decreases further after the impairment has been recognised, the impairment is recognised in the income statement.

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

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

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

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

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

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

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

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

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying the Group's own measurement methods. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates as well as measurement practices established on the market.

Financial assets and liabilities measured at fair value				
December 31, 2009	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	1,005,381	-	-	1,005,381
Loans and advances to the public	-	4,695,898	-	4,695,898
Derivative contracts	-	168,995	-	168,995
Hedging derivatives	-	561,332	-	561,332
Available-for-sale assets				
Debt securities	1,954,622	122,805	3,724	2,081,151
Total assets measured at fair value	**2,960,003**	**5,549,030**	**3,724**	**8,512,757**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	769,025	-	769,025
Liabilities to the public and public sector entities	-	684,531	-	684,531
Debt instruments issued	-	9,285,713	-	9,285,713
Subordinated liabilities	-	37,400	-	37,400
Derivative contracts	-	169,923	690	170,613
Hedging derivatives	-	579,664	-	579,664
Total liabilities measured at fair value	**-**	**11,526,256**	**690**	**11,526,946**

Level 1 Measurement is based on values quoted for identical assets or liabilities on active and functioning markets.
Level 2 Measurement is based on input data other than Level 1 quoted prices.
Prices can be verified either directly or indirectly.
Level 3 Measurement is based on input data that is not based on verifiable market prices.

During the 2009 financial year no debt certificates have been reclassified from Level 3 to classes or from other classes to Level 3.

Municipality Finance Group • Notes

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

Hedge accounting

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

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

Recognition and derecognition of financial assets and liabilities

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

Leases

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

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

Intangible and tangible assets

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

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

Impairment of intangible and tangible fixed assets

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

Recognition of income and expenses

<u>Net interest income</u>

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

<u>Commission income and expenses</u>

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

<u>Net income from hedge accounting</u>

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

Employee benefits

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

Voluntary credit loss provisions

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

Income taxes

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

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

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

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

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, liabilities and contingent liabilities presented in the financial statements.

The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates of the date of closing the accounts. 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 discussed 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 discussed in the report on operations.

Application of new standards

The following standards and interpretations, which are not believed to have a significant effect on the consolidated financial statements of Municipality Finance, will be implemented in 2010:

- IFRS 3 (revised in 2008) Business Combinations and IAS 27 (amended in 2008) Consolidated and Separate Financial Statements (both valid in financial periods beginning on July 1, 2009 or later)
- Improvements to IFRS Standards (Annual Improvements, issued in April 2009) (dates of implementation vary)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (valid in financial periods beginning on July 1, 2009 or later)

The IASB has issued a new standard, IFRS 9, which is still pending EU approval. The company will assess the implementation of the standard during 2010.

Municipality Finance Group • Notes

NOTES TO THE BALANCE SHEET

1. Classification of financial assets and liabilities

December 31, 2009

Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	40,484	–	–	–	–	40,484	40,484
Loans and advances to credit institutions	87,321	–	–	–	–	87,321	87,321
Loans and advances to the public and public sector entities	5,044,604	–	–	4,695,898	–	9,740,502	9,875,602
Debt securities	515,749	2,081,151	183,163	1,005,381	–	3,785,444	3,761,130
Shares and participations	–	27	–	–	–	27	27
Derivative contracts	–	–	–	168,995	561,332	730,327	730,327
Intangible assets	708	–	–	–	–	708	708
Tangible assets	1,319	–	–	–	–	1,319	1,319
Other assets	273	–	–	–	–	273	273
Accrued income and and prepayments	166,624	–	–	–	–	166,624	166,624
Deferred tax assets	4,461	–	–	–	–	4,461	4,461
Total	**5,861,543**	**2,081,178**	**183,163**	**5,870,274**	**561,332**	**14,557,491**	**14,668,276**

Financial liabilities	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	264,325	769,025	–	1,033,350	1,032,879
Liabilities to the public and public sector entities	154,379	684,531	–	838,910	780 557
Debt instruments issued	2,059,813	9,285,713	–	11,345,526	11,324,239
Derivative contracts	–	170,613	579,664	750,277	750,277
Other liabilities	977	–	–	977	977
Accrued expenses and deferred income	350,075	–	–	350,075	350,075
Subordinated liabilities	51,177	37,400	–	88,577	87,384
Deferred tax liabilities	17,787	–	–	17,787	17,787
Total	**2,898,533**	**10,947,282**	**579,664**	**14,425,479**	**14,344,175**

December 31, 2008 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	18,055	–	–	–	–	18,055	18,055
Loans and advances to credit institutions	117,618	–	–	–	–	117,618	117,618
Loans and advances to the public and public sector entities	3,385,701	–	–	4,181,705	–	7,567,406	7,567,406
Debt securities	343,524	2,632,760	198,966	73,666	–	3,248,916	3,248,916
Shares and participations	–	27	–	–	–	27	27
Derivative contracts	–	–	–	158,149	1,248,671	1,406,820	1,406,820
Intangible assets	557	–	–	–	–	557	557
Tangible assets	1,323	–	–	–	–	1,323	1,323
Other assets	512	–	–	–	–	512	512
Accrued income and prepayments	139,202	–	–	–	–	139,202	139,202
Deferred tax assets	11,554	–	–	–	–	11,554	11,554
Total	**4,018,046**	**2,632,787**	**198,966**	**4,413,520**	**1,248,671**	**12,511,990**	**12,511,990**

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

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

Municipality Finance Group • Notes

2. Loans and advances to credit institutions

December 31, 2009	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	86,048	1,819	84,229
Foreign credit institutions	1,274	1,274	-
Total loans to credit institutions	87,321	3,093	84,229

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

3. Debt securities

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

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

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

2009	-3,487
2008	-22,319
Cumulatively	-25,806

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

2009	953
2008	852

4. Shares and participations

December 31, 2009	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Total	**-**	**27**	**-**

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

5. Derivative contracts

December 31, 2009	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	**Less than 1 year**	**1 – 5 years**	**Over 5 years**	**Total**	**Positive**	**Negative**
Interest rate derivatives						
Interest rate swaps	92,000	790,467	350,224	1,232,691	6,166	8,771
Currency derivatives						
Interest rate and currency swaps	–	–	91,469	91,469	378	416
Equity derivatives	144,074	856,619	193,755	1,194,448	148,052	148,052
Other derivatives	3,150	57,475	231,271	291,895	14,399	13,374
Total	**239,224**	**1,704,560**	**866,719**	**2,810,503**	**168,995**	**170,613**
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	900,879	1,811,639	8,097,098	10,809,616	72,300	166,102
Currency derivatives						
Interest rate and currency swaps	1,859,580	4,078,995	3,354,678	9,293,253	489,032	413,562
Total	**2,760,459**	**5,890,634**	**11,451,777**	**20,102,869**	**561,332**	**579,664**
All total	**2,999,683**	**7,595,194**	**12,318,495**	**22,913,372**	**730,327**	**750,277**
December 31, 2008						
Contracts made for other than hedging purposes						
Interest rate derivatives						
Interest rate swaps	587,200	426,547	650,558	1,664,305	12,449	17,392
Currency derivatives						
Interest rate and currency swaps	–	–	106,471	106,471	–	165
Equity derivatives	107,633	651,958	183,964	943,555	135,978	139,714
Other derivatives	–	73,088	228,498	301,586	9,722	8,172
Total	**694,833**	**1,151,593**	**1,169,491**	**3,015,917**	**158,149**	**165,443**
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	1,001,336	1,848,038	3,718,412	6,567,786	47,472	85,392
Currency derivatives						
Interest rate and currency swaps	1,340,217	2,817,022	3,183,862	7,341,100	1,201,199	403,943
Total	**2,341,553**	**4,665,060**	**6,902,274**	**13,908,887**	**1,248,671**	**489,335**
All total	**3,036,386**	**5,816,653**	**8,071,765**	**16,924,804**	**1,406,820**	**654,778**

Municipality Finance Group • Notes

6. Intangible assets

	Dec 31, 2009	Dec 31, 2008
IT expenditures	580	404
Other intangible assets	128	153
Total	**708**	**557**

7. Tangible assets

	Dec 31, 2009	Dec 31, 2008
Real estate	972	1,008
Other tangible assets	346	315
Total	**1,319**	**1,323**

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

December 31, 2009	Intangible assets	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost Jan 1	1,711	1,155	1,160	2,315
+ Increase for financial year	390	-	181	181
– Decrease for financial year	42	-	149	149
Acquisition cost Dec 31	2,059	1,155	1,191	2,346
Accumulated depreciation Jan 1	1,154	147	845	992
– Accumulated depreciation on decrease	42	-	149	149
+ Depreciation for the financial year	239	36	149	185
Accumulated depreciation Dec 31	1,351	182	845	1,027
Book value Dec 31	708	972	346	1,319
December 31, 2008				
Acquisition cost Jan 1	1,589	1,145	1,185	2,330
+ Increase for financial year	122	10	111	121
– Decrease for financial year	-	-	136	136
Acquisition cost Dec 31	1,711	1,155	1,160	2,315
Accumulated depreciation Jan 1	946	111	853	964
– Accumulated depreciation on decrease	-	-	130	130
+ Depreciation for the financial year	208	36	122	158
Accumulated depreciation on Dec 31	1,154	147	845	992
Book value Dec 31	557	1,008	315	1,323

9. Other assets

	Dec 31, 2009	Dec 31, 2008
Other	273	512

10. Accrued income and prepayments

	Dec 31, 2009	Dec 31, 2008
Interest	166,094	126,210
Other	531	12,992
Total	**166,624**	**139,202**

11. Deferred tax assets and liabilities

Deferred tax assets	Dec 31, 2008	Recognised in income statement	Recognised in equity	Dec 31, 2009
On fair value reserve	11,554	–	– 7,092	4,461
On impairment	–	–	–	–
On net income from securities transactions	–	–	–	–
On net income from hedge accounting	–	–	–	–
Total	**11,554**	**–**	**– 7,092**	**4,461**
Deferred tax liabilities				
On net income from securities transactions	–	–	–	–
On change in voluntary provisions	12,644	5,143	–	17,787
On other items	–	–	–	–
Total	**12,644**	**5,143**	**–**	**17,787**

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

12. Debt securities

	Dec 31, 2009		Dec 31, 2008	
	Book value	Nominal value	Book value	Nominal value
Bonds	10,836,599	15,066,325	9,438,980	10,602,767
Other	508,927	509,100	512,426	514,600
Total	**11,345,526**	**15,575,425**	**9,951,406**	**11,117,367**

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

13. Other liabilities

	Dec 31, 2009	Dec 31, 2008
Payment transfer	74	129
Other	902	544
Total	**977**	**673**

14. Accrued expenses and deferred income

	Dec 31, 2009	Dec 31, 2008
Interest	345,233	375,199
Other	4,841	837
Total	**350,075**	**376,036**

Municipality Finance Group • Notes

15. Subordinated liabilities

Dec 31, 2009

	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,400	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31.3.2013
Total		**86,177**	**88,577**		

Dec 31, 2008

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

Loan terms and conditions

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

2) The loan does not have a maturity date. The company has agreed to pay interest only if the sum to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervision Authority grants permission to repay the loan. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

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

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervision Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors of the credit institution approves. Entitlement to pay interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2009. The company has decided to request permission from the Finnish Financial Supervision Authority to repay a capital investment of EUR 168,187.93.

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

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

16. Notes on equity

Effects of changes to the number of shares

	Number of shares	Share capital	Reserve fund	Reserve for invested unrestricted equity	Yhteensä
Dec 31, 2007	26,331,646	42,583	277	-	42,860
Dec 31, 2008	26,331,646	42,583	277	-	42,860
Dec 31, 2009	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 comes under the restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act.
The fair value fund comprises changes in the values of available-for-sale financial assets.
The proportion of payment made for shares that is not recorded in equity is recognised in the reserve for invested unrestricted 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 unrestricted equity.

17. Contingent assets

The Group has a claim amounting to EUR 4,399,000 on Lehman Brothers International (Europe) guaranteed by Lehman Brothers Holdings Inc. The outcome of debt collection depends on the ability of said Lehman companies to pay and the end result of the insolvency proceedings.

18. Liabilities and collateral

Liabilities and collateral	Dec 31, 2009	Dec 31, 2008
Bonds pledged to the Municipal Guarantee Board	9,591,205	7,521,685
Debt securities pledged to the Municipal Guarantee Board	3,299,986	2,969,026
Total	**12,891,190**	**10,490,711**

Off-balance-sheet commitments	Dec 31, 2009	Dec 31, 2008
Binding credit commitments	1,562,074	832,161

19. Lease commitments

	Dec 31, 2009	Dec 31, 2008
Maturing within one year	625	567
Maturing in one to five years	1,299	1,630
Maturing in more than five years	-	-
Total	**1,925**	**2,197**

20. Related parties

Salaries and remuneration paid to management	2009	2008
CEO	460	297
Executive Vice President	332	214

In the event of termination at the company's initiative, the CEO and Executive Vice President are entitled to six months' severance pay.

In the event of termination at the company's initiative, the CEO is entitled to continue living in company-owned housing for a period of 24 months from the date of termination. If the CEO resigns on his own initiative, the right to continue living in company-owned housing is limited to 12 months from the date of resignation.

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

The members of the Board of Directors of the parent company are paid an annual remuneration and remuneration for each meeting. The annual remunerations are EUR 15,000 for the Chairman of the Board, EUR 12,000 for the Vice Chairman and EUR 10,000 for the other members of the Board. The chairmen of the audit and remuneration committees are paid an annual fee of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

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

Municipality Finance Group • Notes

NOTES TO THE INCOME STATEMENT

21. Breakdown of net interest income

Interest income	2009	2008
Loans and advances to credit institutions and central banks	854	4,316
Loans and advances to the public and public sector entities	270,534	293,780
Debt securities	79,532	122,408
Derivative contracts	-66,348	26,719
Other interest income	2,413	3,458
Total	**286,986**	**450,681**

Interest expense	2009	2008
Liabilities to the public	21,819	19,555
Liabilities to credit institutions and central banks	19,448	19,626
Debt securities issued	295,446	348,383
Derivative contracts	-103,897	29,708
Subordinated liabilities	3,209	3,923
Other interest expense	395	-
Total	**236,419**	**421,195**

22. Commission income

	2009	2008
Financial advisory services	1,177	1,292
Total	**1,177**	**1,292**

23. Commission expense

	2009	2008
Commission fees paid	92	78
Other	2,261	1,965
Total	**2,353**	**2,043**

‘Other’ includes paid guarantee fees, custody fees and bond programme update costs.

24. Net income from securities and foreign exchange transactions

2009	Capital gains and losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	1,364	180	1,544
Derivative contracts	-	4,219	4,219
Other financial assets	-	-2,749	-2,749
Total net income from securities transactions	1,364	1,650	3,014
Net gains from foreign exchange transactions	-	-94	-94
Total	**1,364**	**1,556**	**2,920**

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

25. Net income from available-for-sale financial assets

	2009	2008
Disposal of financial assets	-974	-5,122
Impairment		
Lehman Brothers Holdings Inc.	-157	-3,862
Claris Ltd	-1,324	-
Transfers from fair value reserve	143	-2,422
Total	**-2,312**	**-11,406**

26. Net income from hedge accounting

	2009	2008
Net income from hedging instruments	-885,714	113,727
Net income from hedged items	882,141	-113,222
Total	**-3,573**	**505**

Municipality Finance Group • Notes

27. Other operating income

	2009	2008
Other income from actual credit institution operations	91	77
Total	**91**	**77**

28. Administrative expenses

	2009	2008
Personnel expenses		
Wages and salaries	4,951	2,939
Pension costs	789	584
Other personnel related costs	265	238
Total	6,005	3,761
Other administrative expenses	3,038	2,250
Total	**9,042**	**6,011**

Personnel	2009		2008	
	Average	**End of FY**	**Average**	**End of FY**
Permanent full-time	49	52	41	41
Permanent part-time	1	1	1	1
Total	**50**	**53**	**42**	**42**

29. Other operating expenses

	2009	2008
Rental expenses	1,003	969
Other expenses from actual credit institution operations	2,333	1,781
Total	**3,337**	**2,750**

30. Impairment losses on other financial assets

December 31, 2009	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity		
Glitnir Bank hf.	-	-
Landsbanki Islands hf.	-	-
Total	**-**	**-**

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

31. Income taxes

	2009	2008
Tax based on the profit for the financial year	3,545	66
Tax on previous financial years	16	13
Deferred tax items	5,275	639
Total	**8,836**	**718**
Profit before tax	33,714	2,749
Taxes at domestic tax rate	8,766	715
Tax exempt income	-122	-
Non-deductible expenses	176	55
Taxes on previous years	16	-52
Taxes in income statement	8,836	718

32. Post balance sheet events

In late 2009, the Board of Directors of Municipality Finance decided that the company would begin offering financial leasing services. Municipality Finance commenced running up these operations in early 2010 with the intention of offering financial leasing to its current customers. In the initial phase, the plan is to offer financial leasing for investments in machinery and equipment. The company will hire a manager in early 2010 to be in charge of financial leasing operations and aims to begin offering financial leasing in the first half of the year.

Municipality Finance Plc parent company

BALANCE SHEET

	Note		Dec 31, 2009		Dec 31, 2008
ASSETS					
Liquid assets					
Cash			1,017.10		2,317.85
Cash reserve deposit			40,483,119.81		18,052,620.91
Debt securities eligible for central bank refinancing	(3)		1,946,525,951.21		1,465,324,203.62
Loans and advances to credit institutions	(1)				
Payable on demand		2,675,067.82		1,588,419.75	
Other		84,228,583.46	86,903,651.28	115,831,564.18	117,419,983.93
Loans and advances to the public and public sector entities	(2)		9,740,501,908.40		7,567,405,657.33
Debt securities	(3)				
From public sector entities		449,375,384.47		342,559,746.80	
From others		1,389,542,848.80	1,838,918,233.27	1,441,031,931.59	1,783,591,678.39
Shares and participations	(4)		27,219.06		27,219.06
Shares and participations in Group companies	(4)		100,000.00		100,000.00
Derivative contracts	(5)		730,326,574.15		1,406,820,165.96
Intangible assets	(6, 8)		708,268.31		557,232.61
Tangible assets	(7, 8)				
Other tangible assets			1,318,607.71		1,322,600.91
Accrued income and prepayments	(9)		166,576,034.00		139,173,602.33
Deferred tax assets	(10)		4,461,452.00		11,553,596.00
TOTAL ASSETS	**(15–17)**		**14,556,852,036.30**		**12,511,350,878.90**

	Note		Dec 31, 2009		Dec 31, 2008
LIABILITIES AND EQUITY					
Liabilities					
Liabilities to credit institutions and central banks					
To credit institutions					
Other			1,033,350,139.54		700,742,457.06
Liabilities to the public and public sector entities					
Other liabilities			838,910,546.43		683,387,887.36
Debt securities issued	(11)				
Bonds		10,836,599,147.90		9,438,980,497.94	
Other		508,927,034.46	11,345,526,182.36	512,425,555.69	9,951,406,053.63
Derivative contracts	(5)		750,276,986.49		654,777,972.71
Other liabilities	(12)		849,459.92		497,456.79
Accrued expenses and deferred income	(13)		349,823,141.23		375,807,283.02
Subordinated liabilities	(14)		88,576,876.32		85,671,793.09
Appropriations					
Voluntary provisions			68,410,000.00		48,630,000.00
Equity	(18 – 20)				
Share capital			43,008,044.20		43,008,044.20
Other restricted reserves					
Reserve fund		276,711.01		276,711.01	
Fair value reserve		-12,697,980.60	-12,421,269.59	-32,883,312.18	-32,606,601.17
Non-restricted reserves					
Reserve for invested unrestricted equity			40,742,886.40		0.00
Retained earnings		28,532.21		26,582.20	
Profit for the period		9,770,510.79	9,799,043.00	1,950.01	28,532.21
TOTAL LIABILITIES	**(15 – 17)**		**14,556,852,036.30**		**12,511,350,878.90**
Off-balance-sheet commitments	(34)				
Irrevocable commitments given in favour of customers			1,562,073,957.10		832,161,340.00

Municipality Finance Plc parent company

INCOME STATEMENT

	Note		Jan 1 - Dec 31, 2009		Jan 1 - Dec 31, 2008
Interest income			286,985,055.49		450,680,982.49
Interest expense			-236,418,823.92		-421,194,661.69
NET INTEREST INCOME	(21)		50,566,231.57		29,486,320.80
Income from equity investments					
in Group companies			107,500.00		0.00
Commission expense	(22)		-2,351,217.52		-2,042,309.08
Net income from securities and foreign exchange transactions	(23)				
Net income from securities		3,013,905.64		1,992,466.01	
Net income from foreign exchange transactions		-93,840.71	2,920,064.93	72,284.18	2,064,750.19
Net income from available-for-sale financial assets	(24)		-2,311,678.45		-11,406,451.35
Net income from hedge accounting	(25)		-3,573,334.42		823,699.28
Other operating income	(26)		173,327.25		126,190.17
Administrative expenses					
Personnel costs					
Salaries and fees		-4,452,858.14		-2,536,228.21	
Personnel-related costs					
Pension costs		-705,703.85		-497,362.37	
Other personnel-related costs		-245,283.43		-220,212.62	
Other administrative expenses		-2,947,118.03	-8,350,963.45	-2,160,954.98	-5,414,758.18
Depreciation and impairment on tangible and intangible assets	(28)		-423,919.32		-365,910.81
Other operating expenses	(27)		-3,716,045.96		-2,336,822.76
Impairment losses on other financial assets	(29)		0.00		-8,100,000.00
OPERATING PROFIT			33,039,964.63		2,834,708.26
Appropriations			-19,780,000.00		-2,790,000.00
Income taxes			-3,489,453.84		-42,758.25
PROFIT FOR THE FINANCIAL PERIOD			9,770,510.79		1,950.01

STATEMENT OF CASH FLOWS

	Jan 1 - Dec 31, 2009	Jan 1 - Dec 31, 2008
Cash flow from operating activities	**361,268,273.32**	**1,293,269,388.55**
Profit for the financial period	9,770,510.79	1,950.01
Change in loans and advances	-2,279,911,888.74	-1,785,224,461.91
Change in long term funding	1,885,748,991.51	3,881,173,568.85
Change in short term funding	-3,498,521.23	55,419,770.06
Change in exchange rates, funding	771,992,605.59	-1,083,401,059.56
Adjustments	-22,833,424.60	225,299,621.10
Cash flow from investing activities	**116,979,670.58**	**-1,036,789,178.90**
Acquisition of tangible items	-180,570.00	-120,416.00
Acquisition of intangible items	-390,391.00	-121,849.00
Change in debt securities	117,550,631.58	-1,041,645,753.10
Change in shares and participations	0.00	5,098,839.20
Cash flow from financing activities	**40,742,886.40**	**36,861,312.98**
Change in capital loans	0.00	39,494,477.58
Dividends paid	0.00	-2,633,164.60
Change in invested unrestricted equity	40,742,886.40	0.00
Net increase in cash funds	**518,990,830.30**	**293,341,522.63**
Cash funds at January 1	**803,477,460.89**	**510,135,938.26**
Cash funds at December 31	**1,322,468,291.19**	**803,477,460.89**

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

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

Cash funds	Dec 31, 2009	Dec 31, 2008
Liquid assets	40,484,136.91	18,054,938.76
Debt securities eligible for refinancing with central banks maturing within three months	258,011,479.00	193,768,609.00
Loans and advances to credit institutions	86,903,651.28	117,419,983.93
Debt securities maturing within three months	937,069,024.00	474,233,929.20
Total	**1,322,468,291.19**	**803,477,460.89**

Municipality Finance Plc parent company

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

Accounting principles

Municipality Finance Plc, the parent company of the Municipality Finance Group, presents its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervision Authority Standard 3.1 Financial statements and management report. The company reports regularly on its operations to the Finnish Financial Supervision Authority, the Bank of Finland, the European Central Bank, the Municipal Guarantee Board and Statistics Finland.

In 2008, Municipality Finance reclassified some of the debt securities used for acquiring funding in advance 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 itemised in Note 3.

The parent company's credit loss provisions are made in accordance to 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 in the balance sheet under Chapter 2, Section 14(4) of the Ministry of Finance Decree.

1. Loans and advances to credit institutions

December 31, 2009	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	85,630	1,401	84,229
Foreign credit institutions	1,274	1,274	-
Total loans to credit institutions	86,904	2,675	84,229

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

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

	Dec 31, 2009	Dec 31, 2008
Enterprises and housing corporations	4,853,302	3,344,958
Public sector entities	4,779,552	4,034,413
Non-profit organisations	107,647	188,035
Total	**9,740,502**	**7,567,406**

3. Debt securities

December 31, 2009	Publicly quoted	Other	Total
Debt securities issued by public sector entities	35,261	444,375	479,636
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available for sale	35,261	444,375	479,636
Municipal commercial papers	-	444,375	444,375
Bonds issued by other public sector entities	35,261	-	35,261
Debt securities issued by other than public sector entities	2,311,946	993,862	3,305,808
Held to maturity	183,163	-	183,163
Bank bonds	23,691	-	23,691
Other debt securities	159,472	-	159,472
Available for sale	2,128,783	993,862	3,122,645
Banks' certificates of deposit	-	796,036	796,036
Commercial papers	-	71,374	71,374
Bank bonds	1,830,048	69,944	1,899,993
Other debt securities	298,735	56,508	355,243
Total debt securities	2,347,206	1,438,238	3,785,444
Eligible for central bank refinancing	1,840,901	105,625	1,946,526
Total non-interest bearing	6,137	11,976	18,113

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

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

Without this reclassification, changes in fair value of investments would have had a negative impact of EUR 3,487,000 on the fair value reserve.

EUR 953,000 of the valuation difference resulting from transferring of the debt securities to investments held to maturity has been released from the fair value reserve in 2009.

Municipality Finance Plc parent company • Notes

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

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

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

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

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

4. Shares and participations

December 31, 2009	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Group companies	-	100	-
Total	**-**	**127**	**-**

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

5. Derivative contracts

December 31, 2009	Nominal value of underlying instrument Remaining maturity				Fair value	
Contracts made for other than hedging purposes	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Interest rate derivatives						
Interest rate swaps	92,000	790,467	350,224	1,232,691	6,166	8,771
Currency derivatives						
Interest rate and currency swaps	-	-	91,469	91,469	378	416
Equity derivatives	144,074	856,619	193,755	1,194,448	148,052	148,052
Other derivatives	3,150	57,475	231,271	291,895	14,399	13,374
Total	**239,224**	**1,704,560**	**866,719**	**2,810,503**	**168,995**	**170,613**
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	900,879	1,811,639	8,097,098	10,809,616	72,300	166,102
Currency derivatives						
Interest rate and currency swaps	1,859,580	4,078,995	3,354,678	9,293,253	489,032	413,562
Total	**2,760,459**	**5,890,634**	**11,451,777**	**20,102,869**	**561,332**	**579,664**
All total	**2,999,683**	**7,595,194**	**12,318,495**	**22,913,372**	**730,327**	**750,277**
December 31, 2008						
Contracts made for other than hedging purposes						
Interest rate derivatives						
Interest rate swaps	587,200	426,547	650,558	1,664,305	12,449	17,392
Currency derivatives						
Interest rate and currency swaps	-	-	106,471	106,471	-	165
Equity derivatives	107,633	651,958	183,964	943,555	135,978	139,714
Other derivatives	-	73,088	228,498	301,586	9,722	8,172
Total	**694,833**	**1,151,593**	**1,169,491**	**3,015,917**	**158,149**	**165,443**
Contracts made for hedging purposes						
Interest rate derivatives						
Interest rate swaps	1,001,336	1,848,038	3,718,412	6,567,786	47,472	85,392
Currency derivatives						
Interest rate and currency swaps	1,340,217	2,817,022	3,183,862	7,341,100	1,201,199	403,943
Total	**2,341,553**	**4,665,060**	**6,902,274**	**13,908,887**	**1,248,671**	**489,335**
All total	**3,036,386**	**5,816,653**	**8,071,765**	**16,924,804**	**1,406,820**	**654,778**

Municipality Finance Plc parent company • Notes

6. Intangible assets

	Dec 31, 2009	Dec 31, 2008
IT expenditures	580	404
Other intangible assets	128	153
Total	**708**	**557**

7. Tangible assets

	Dec 31, 2009	Dec 31, 2008
Real estate		
Buildings	538	574
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	346	315
Total	**1,319**	**1,323**

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

December 31, 2009	Intangible assets	Tangible assets		
		Other real estate and real estate corporation shares	Other tangible assets	Total
Acquisition cost Jan 1	1,711	1,155	1,160	2,315
+ Increase for financial year	390	-	181	181
– Decrease for financial year	42	-	149	149
Acquisition cost Dec 31	2,059	1,155	1,191	2,346
Accumulated depreciation Jan 1	1,154	147	845	992
– Accumulated depreciation on decrease	42	-	149	149
+ Depreciation for the financial year	239	36	149	185
Accumulated depreciation Dec 31	1,351	182	845	1,027
Book value Dec 31	708	972	346	1,319
December 31, 2008				
Acquisition cost Jan 1	1,589	1,145	1,178	2,323
+ Increase for financial year	122	10	111	121
– Decrease for financial year	-	-	129	129
Acquisition cost Dec 31	1,711	1,155	1,160	2,315
Accumulated depreciation Jan 1	946	111	852	963
– Accumulated depreciation on decrease	-	-	129	129
+ Depreciation for the financial year	208	36	122	158
Accumulated depreciation Dec 31	1,154	147	845	992
Book value Dec 31	557	1,008	315	1,323

9. Accrued income and prepayments

	Dec 31, 2009	Dec 31, 2008
Interest	166,094	126,210
Other	482	11,967
Total	**166,576**	**138,177**

10. Deferred tax assets and liabilities

Deferred tax assets	Dec 31, 2008	Recognised in income statement	Recognised in balance sheet	Dec 31, 2009
On fair value reserve	11,554	-	-7,092	4,461
On impairment	-	-	-	-
Total	**11,554**	**-**	**-7,092**	**4,461**
Deferred tax liabilities				
On valuation of available-for-sale financial assets	-	-	-	-
On valuation of derivative contracts at fair value	-	-	-	-
Total	**-**	**-**	**-**	**-**

Voluntary provisions include EUR 17,787,000 in non-recognised deferred tax liabilities.

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

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

11. Debt instruments

	Dec 31, 2009		Dec 31, 2008	
	Book value	Nominal value	Book value	Nominal value
Bonds	10,836,599	15,066,325	9,438,980	10,602,767
Other	508,927	509,100	512,426	514,600
Total	**11,345,526**	**15,575,425**	**9,951,406**	**11,117,367**

12. Other debts

	Dec 31, 2009	Dec 31, 2008
Payment transfer	74	129
Other	776	368
Total	**849**	**497**

13. Accrued expenses and deferred income

	Dec 31, 2009	Dec 31, 2008
Interest	345,233	375,199
Other	4,590	608
Total	**349,823**	**375,807**

Municipality Finance Plc parent company • Notes

14. Subordinated liabilities

Dec 31, 2009

	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,400	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10.12.2010
3) Capital investments	EUR	1,177	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31.3.2013
Total		**86,177**	**88,577**		

Dec 31, 2008

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

Loan terms and conditions

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

2) The loan does not have a maturity date. The company has agreed to pay interest only if the sum to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervision Authority grants permission to repay the loan. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

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

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervision Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent that the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors of the credit institution approves. Entitlement to pay interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2009. The company has decided to request permission from the Finnish Financial Supervision Authority to repay a capital investment of EUR 168,187.93.

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

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

15. Breakdown of financial assets and liabilities by maturity

December 31, 2009	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	258,011	689,493	948,153	18,183	32,686	1,946,526
Loans and advances to credit institutions	86,304	600	-	-	-	86,904
Loans and advances to the public and public sector entities	139,175	627,843	3,165 928	3,058,331	2,749,225	9,740,502
Debt securities	937,069	606,852	229,895	55,650	9,452	1,838,918
Total	**1,420,559**	**1,924,788**	**4,343,976**	**3,132,163**	**2,791,364**	**13,612,850**
Liabilities to credit institutions	89,690	32,842	372,056	35,647	503,115	1,033,350
Liabilities to the public	15,207	11,755	39,532	396,572	375,843	838,911
Debt securities issued	1,969,612	3,339,994	4,650,975	876,766	508,179	11,345,526
Subordinated liabilities	-	10,000	40,000	37,400	1,177	88,577
Total	**2,074,510**	**3,394,591**	**5,102,563**	**1,346,384**	**1,388,315**	**13,306,364**

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 15-25% of its loans in 2010. In 2009, the company called in 27.6% of its loans.

December 31, 2008	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	193,768	372,043	793,290	30,898	75,325	1,465,324
Loans and advances to credit institutions	115,320	2,100	-	-	-	117,420
Loans and advances to the public and public sector entities	101,952	502,237	2,442,369	2,332,120	2,188,728	7,567,406
Debt securities	816,794	722,199	154,425	26,227	63,947	1,783,592
Total	**1,227,834**	**1,598,579**	**3,390,084**	**2,389,245**	**2,328,000**	**10,933,742**
Liabilities to credit institutions	167,875	78,313	356,041	58,133	40,380	700,742
Liabilities to the public	2,907	119,254	42,393	240,021	278,813	683,388
Debt securities issued	1,567,026	3,227,731	3,500,736	1,230,699	425,214	9,951,406
Subordinated liabilities	-	-	50,000	34,495	1 177	85,672
Total	**1,737,808**	**3,425,298**	**3,949,170**	**1,563,348**	**745,584**	**11,421,208**

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

Municipality Finance Plc parent company • Notes

16. Breakdown of balance sheet items by denomination (domestic and foreign currency)

December 31, 2009	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	1,946,526	-	1,946,526
Loans and advances to credit institutions	86,829	77	86,904
Loans and advances to the public and public sector entities	9,740,502	-	9,740,502
Debt securities	1,838,918	-	1,838,918
Derivative contracts	730,327	-	730,327
Other assets incl. ”Liquid assets”	213,675	-	213,675
Total	**14,556,775**	**77**	**14,556,852**
Liabilities to credit institutions	792,119	241,231	1,033,350
Liabilities to the public and public sector entities	556,551	282,360	838,911
Debt instruments issued	2,099,772	9,245,754	11,345,526
Derivative contracts	750,277	-	750,277
Subordinated liabilities	88,577	-	88,577
Other liabilities	379,898	120,313	500,211
Total	**4,667,194**	**9,889,658**	**14,556,852**

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

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

	Dec 31, 2009		Dec 31, 2008	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Liquid assets	40,484	40,484	18,055	18,055
Debt securities eligible for central bank refinancing	1,946,526	1,935,918	1,465,324	1,465,324
Loans and advances to credit institutions	86,904	86,904	117,420	117,420
Loans and advances to the public and public sector entities	9,740,502	9,875,602	7,567,406	7,567,406
Debt securities	1,838,918	1,825,212	1,783,592	1,783,592
Shares and participations	27	27	27	27
Shares and participations in Group companies	100	100	100	100
Derivative contracts	730,327	730,327	1,406,820	1,406,820
Total	**14,383,788**	**14,494,574**	**12,242,912**	**12,242,912**
Financial liabilities				
Liabilities to credit institutions	1,033,350	1,032,879	700,742	700,742
Liabilities to the public and public sector entities	838,911	780,557	683,388	683,388
Debt instruments issued	11,345,526	11,324,239	9,951,406	9,951,406
Derivative contracts	750,277	750,277	654,778	654,778
Subordinated liabilities	88,577	87,384	85,672	85,672
Total	**14,056,641**	**13,975,336**	**12,075,986**	**12,075,986**

Fair value hedge accounting or fair value option is applied to lending and funding for interest rate and foreign exchange risk as well as for other price risks; thus the book values are equivalent to the fair values of these assets and liabilities (2008).

18. Equity items

December 31, 2009	Reserve fund	Fair value reserve	Reserve for invested unrestricted equity	Retained earnings	Share capital	Total
Book value, beginning of FY Jan 1, 2009	43,008	277	-32,884	-	29	10,430
+ increase	-	-	20,186	40,743	9,771	70,700
– decrease	-	-	-	-	-	-
Book value Dec 31, 2009	43,008	277	-12,698	40,743	9,799	81,129

December 31, 2008						
Book value, beginning of FY Jan 1.1.2008	43,008	277	-15,259	-	2,660	30,686
+ increase	-		-	-	2	2
– decrease	-		17 625	-	2,633	20,258
Book value Dec 31, 2008	43,008	277	-32,884	-	29	10,430

The company has recorded an increase in voluntary provisions of EUR 19,780,000, deductible in taxation, in the income statement of the financial statements. In total, the voluntary provisions recorded in the balance sheet amount to EUR 68,410,000. The company may release provisions net of taxes calculated in accordance with the valid tax rate to earnings.

Municipality Finance Plc parent company • Notes

19. 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 2009, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008,000. The total number of shares is 39,063,798.

20. Largest shareholders

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

December 31, 2009		Number	Percentage
1.	Local Government Pensions Institution	11,975,550	30.66
2.	Finnish State	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 (Vantaa)	963,048	2.47
6.	City of Tampere	919,027	2.35
7.	City of Oulu	841,825	2.16
8.	City of Turku	615,681	1.58
9.	City of Kuopio	538,000	1.38
10.	City of Lahti	502,220	1.29

The total number of shareholders is 304. The number of shareholders on January 1, 2010 after mergers of municipalities is 299.

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.

21. Breakdown of net interest income

Interest income	2009	2008
Loans and advances to credit institutions and central banks	853	4,316
Loans and advances to the public and public sector entities	270,534	293,780
Debt securities	79,532	122,408
Derivative contracts	-66,348	26,719
Other interest income	2,413	3,458
Total	**286,985**	**450,681**

Interest expense	2009	2008
Liabilities to the public	21,819	19,555
Liabilities to credit institutions and central banks	19,448	19,626
Debt securities issued	295,446	348,383
Derivative contracts	-103,897	29,708
Subordinated liabilities	3,209	3,923
Other interest expense	395	-
Total	**236,419**	**421,195**

22. Commission expense

	2009	2008
Commission fees paid	90	77
Other	2,261	1,965
Total	**2,351**	**2,042**

23. Net income from securities and foreign exchange transactions

2009	Capital gains and losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	1,364	180	1,544
Derivative contracts	-	4,219	4,219
Other financial assets	-	-2,749	-2,749
Total net income from securities transactions	1,364	1,650	3,014
Net gains from foreign exchange transactions	-	- 94	- 94
Total	**1,364**	**1,556**	**2,920**

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

24. Net income from available-for-sale financial assets

	2009	2008
Disposal of financial assets	-974	-5,122
Impairment		
Lehman Brothers Holdings Inc.	-157	-3,862
Claris Ltd	-1,324	-
Transfers from fair value reserve	143	-2,422
Total	**-2,312**	**-11,406**

25. Net income from hedge accounting

	2009	2008
Net income from hedging instruments	-885,714	513,783
Net income from hedged items	882,141	-512,959
Total	**-3,573**	**824**

Municipality Finance Plc parent company • Notes

26. Other operating income

	2009	2008
Other expenses from actual credit institution operations	173	126
Total	**173**	**126**

27. Other operating expenses

	2009	2008
Rental expenses	963	941
Other expenses from actual credit institution operations	2,753	1,396
Total	**3,716**	**2,337**

28.

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

29. Impairment losses on other financial assets

Dec 31, 2009	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity		
Total	**-**	**-**

December 31, 2008		
Debt securities held to maturity		
Glitnir Bank hf.	7,200	7,200
Landsbanki Islands hf.	900	900
Total	**8,100**	**8,100**

30.

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

NOTES ON COLLATERAL, CONTINGENT LIABILITIES AND DERIVATIVE CONTRACTS

31. Collateral given

For own liabilities	Dec 31, 2009	Dec 31, 2008
Pledges		
Balance sheet item		
Liabilities to credit institutions	1,033,350	700,742
Liabilities to the public and public sector entities	838,911	683,388
Debt instruments issued	10,836,599	9,438,980
Total given on own liabilities	**12,708,860**	**10,823,110**

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

	Dec 31, 2009	Dec 31, 2008
Liabilities and collateral		
Bonds pledged to the Municipal Guarantee Board	9,591,205	7,521,685
Debt securities pledged to the Municipal Guarantee Board	3,299,986	2,969,026
Total	**12,891,190**	**10,490,711**

32.

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

33. Leasing and other rental liabilities	Dec 31, 2009	Dec 31, 2008
Maturing within one year	578	553
Maturing in one to five years	1,238	1,630
Maturing in more than five years	-	-
Total	**1,816**	**2,183**

34. Off-balance sheet commitments	Dec 31, 2009	Dec 31, 2008
Binding credit commitments	1,562,074	832,161

NOTES ON AUDITING FEES

35. Auditing and other fees paid to auditing corporations	2009	2008
Auditing	119	90
Tax advice	17	14
Other services	87	82
Total	**223**	**186**

NOTES ON PERSONNEL AND MANAGEMENT

36. Municipality Finance Plc's personnel	2009		2008	
	Average	End of financial year	Average	End of financial year
Permanent full-time	43	46	36	36
Permanent part-time	1	1	1	1
Total	**44**	**47**	**37**	**37**

Salaries and remuneration paid to management	2009	2008
CEO	460	297
Executive Vice President	332	214

The members of the Board of Directors are paid an annual remuneration and remuneration for each meeting. The annual remunerations are EUR 15,000 for the Chairman of the Board, EUR 12,000 for the Vice Chairman and EUR 10,000 for the other members of the Board. The chairmen of the audit and remuneration committees are paid an annual fee of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

RELATED PARTY TRANSACTIONS

37.

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.

THE BOARD OF DIRECTORS' PROPOSAL ON THE USE OF THE PROFIT FOR THE FINANCIAL YEAR

Municipality Finance Plc's distributable funds total EUR 9,799,043.00, of which the profit for the financial year is EUR 9,770,510.79.

The Board of Directors will propose to the annual general meeting that the distributable funds be used as follows:
- a dividend of EUR 0.25 per share will be distributed, representing a total of EUR 9,765,949.50
- EUR 33,093.50 will be retained in equity

The company has a total of 39,063,798 outstanding shares entitling their holder to a dividend.
No significant changes have taken place in the company's financial position after the end of the financial year. The company's liquidity is good and the proposed distribution of profits does not, in the view of the Board of Directors, compromise the company's ability to pay.

SIGNATURES TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

In Helsinki on February 19, 2010

Markku Pohjola
Chairman of the Board

Sisko Seppä
Vice-Chairman of the Board

Pekka Alanen
Member of the Board

Tapio Korhonen
Member of the Board

Eva Liljeblom
Member of the Board

Liisa Linna-Angelvuo
Member of the Board

Hannes Manninen
Member of the Board

Mikko Pukkinen
Member of the Board

Antti Rantakangas
Member of the Board

Hanna Tainio
Member of the Board

Pekka Timonen
Member of the Board

Pekka Averio
CEO

AUDITOR'S NOTE

Our auditors' report has been issued today.

Helsinki, 24 February 2010

KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

AUDITORS' REPORT

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

TO THE ANNUAL GENERAL MEETING OF MUNICIPALITY FINANCE PLC

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Municipality Finance Plc for the year ended on 31 December 2009. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

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

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

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

Opinion on the Consolidated Financial Statements

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

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

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

Opinion on the discharge from liability and disposal of distributable funds

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

Helsinki, 24 February 2010
KPMG Oy Ab

Raija-Leena Hankonen
Authorized Public Accountant

THE BOARD OF DIRECTORS

Bottom row from left:
Liisa Linna-Angelvuo, Markku Pohjola, Eva Liljeblom, Sisko Seppä

Top row from left:
Antti Rantakangas, Tapio Korhonen, Pekka Alanen, Hanna Tainio, Hannes Manninen

Absent from the picture: Mikko Pukkinen and Pekka Timonen

MUNICIPALITY FINANCE CORPORATE GOVERNANCE STATEMENT 2009

The following statement on Municipality Finance's Corporate Governance in 2009 is in compliance with Chapter 2, Section 6 of the Securities Markets Act. This statement is provided here as a comprehensive description of Municipality Finance's Corporate Governance, separate from the preceding Report of the Board of Directors.

CORPORATE COVERNANCE

Corporate Governance Policy

The Board of Directors of the parent company confirmed Municipality Finance's Corporate Governance Policy in 2005. The current version of the policy was confirmed on 21 October 2009.

The Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with the Corporate Governance Code of the Finnish Securities Market Association. As Municipality Finance is solely an issuer of bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code directly in its entirety is not appropriate. Nevertheless, the Company has decided to use the Finnish Corporate Governance Code as the basis for preparing its own Corporate Governance Policy.

In addition to being compliant with the applicable parts of the Finnish Corporate Governance Code companies, Municipality Finance's Corporate Governance Policy has been prepared with due consideration of the Finnish Financial Supervisory Authority's standard 1.3 on the Internal Governance and Organisation of Activities of credit institutions.

The Finnish Corporate Governance Code is available at www.cgfinland.fi and the Financial Supervisory Authority standard at www.finanssivalvonta.fi. Municipality Finance's Corporate Governance Policy is available on Municipality Finance's Internet website at www.munifin.fi.

Composition of the Board of Directors

Under the Articles of Association, the Board of Directors of the company has a minimum of nine and a maximum of eleven members. The annual general meeting elects the members of the Board and each member's term of office will terminate when the second annual general meeting following their election ends.

The annual general meeting convened on March 12, 2009 elected eleven members to the Board of Directors, with the composition of the board at the conclusion of the financial year as follows:

Markku Pohjola, Chairman, on the Board of Directors since 2009
- Education: M.Sc. (Econ)
- Year of birth: 1948
- Markku Pohjola serves on the Board of Directors of several companies and is independent of the company and its significant shareholders.

Sisko Seppä, Vice Chairman, on the Board of Directors since 2007
- Education: M.A. (Pol.Sci.)
- Year of birth: 1954
- Sisko Seppä is Secretary General of the Social Democratic Parliamentary Group and is independent of the company and its significant shareholders.

Pekka Alanen, on the Board of Directors since 2009
- Education: M.A. (Adm.Sci).
- Year of birth: 1946
- Pekka Alanen is a Director at the Local Government Pensions Institution and is independent of the company.

Tapio Korhonen, on the Board of Directors since 2005
- Education: Master of Laws, M.Sc. (Econ)
- Year of birth: 1949
- Tapio Korhonen is Finance Director of the City of Helsinki and is independent of the company.

Eva Liljeblom, on the Board of Directors since 2003
- Education: D.Sc. (Econ)
- Year of birth: 1958
- Eva Liljeblom is a Professor of Finance at Hanken School of Economics in Helsinki and is independent of the company and its significant shareholders.

Liisa Linna-Angelvuo, on the Board of Directors since 2009
- Education: Master of Laws with court training
- Year of birth: 1954
- Liisa Linna-Angelvuo is a Ministerial Counsellor in the Ministry of the Environment and is independent of the company.

Hannes Manninen, on the Board of Directors since 2009
- Education: Lic.Sc. (Adm.Sci.)
- Year of birth: 1946
- Hannes Manninen is a Member of Parliament representing the Centre Party and is independent of the company and its significant shareholders.

Mikko Pukkinen, on the Board of Directors since 2007
- Education: Master of Laws with court training
- Year of birth: 1954
- Mikko Pukkinen is Mayor of the City of Turku and is independent of the company and its significant shareholders.

Antti Rantakangas, on the Board of Directors since 2009
- Education: Agrologist
- Year of birth: 1964
- Antti Rantakangas is a Member of Parliament representing the Centre Party and is independent of the company and its significant shareholders.

Hanna Tainio, on the Board of Directors since 2009
- Education: Doctor of Medicine
- Year of birth: 1960
- Hanna Tainio is a Medical Advisor for the Pirkanmaa Hospital District and is independent of the company and its significant shareholders.

Pekka Timonen, on the Board of Directors since 2009
- Education: Doctor of Laws
- Year of birth: 1960
- Pekka Timonen is Head of Department in the Prime Minister's Office and independent of the company.

The composition of the Board of Directors until the end of the annual general meeting of 2009 was the following: Asko Koskinen (Chairman), Jari Sokka (Vice Chairman), Juhani Alanen, Tapio Korhonen, Eva Liljeblom, Simo Lämsä, Kari Nars, Mikko Pukkinen, Sisko Seppä.

Under agreements in effect in the company, two shareholders – the Local Government Pensions Institution and the Finnish State – have the right to appoint representatives to the Board of Directors. The Local Government Pensions Institution has the right to appoint four Board members and the Finnish State two board members.

The company's assessment of the independence of the members of the Board of Directors is based on the criteria specified in the Finnish Corporate Governance Code.

The duties and convocation of the Board of Directors

The company's Board of Directors has confirmed its rules of procedure, which form a part of the company's Corporate Governance Policy and are available on Municipality Finance's website at www.munifin.fi. Under the rules of procedure, the Board is responsible for the company's management and the proper arrangement of its operations. The Board is responsible for the duties specified for it in the Companies Act, the Articles of Association and other legislative provisions and regulations issued by the authorities.

The main duties of the Board include confirming the company's strategy, operating plan and budget, monitoring the company's financial situation and ensuring through supervision that the company's management, and risk management in particular, are properly arranged by management. The Board also maintains adequate contact with and creates reporting channels for the internal audit and the company's auditor. The Board of Directors confirms the company's values and ethical operating principles as well as other operational policies. The Board of Directors is responsible for the appointment and termination of the CEO and Deputy to the CEO and deciding on the principles of the remuneration and incentive systems of management and staff.

The Board will convene at the summons of the chairman as frequently as company business requires. During the 2009 financial year the Board of Directors convened 14 times. The average attendance rate of board members in these meetings was 88%.

The Board conducts an annual independent assessment of the effectiveness of its work and the quality of the fulfillment of its duties during the 2009 financial year.

Board committees

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. Where necessary, the board may also establish other committees. The Board will appoint from among its number the members and chairmen of committees. Committees will regularly report to the Board on their activities, including the submission of minutes of Committee meetings to the Board.

The objective of the Audit Committee is to act as a preparatory body assisting the Board in duties related to financial reporting and internal control. Within this framework, the Audit Committee also supervises the work of auditors and the internal audit. The rules of procedure of the Audit Committee form a part of the company's Corporate Governance Policy and are available on Municipality Finance's website at www.munifin.fi.

The Remuneration Committee of the Board of Directors is responsible for preparatory work to assist in the Board's decision-making concerning the setting of objectives related to the company's performance-related incentive schemes, assessment of whether the objectives are attained, development of the incentive system, hiring the CEO and Deputy to the CEO and other matters related to remuneration.

The members of the Audit Committee at the end of the 2009 financial year were:
Eva Liljeblom, Chairman
Pekka Alanen
Tapio Korhonen

The Audit Committee convened a total of six times during the financial year and the average attendance rate was 100%.

The members of the Remuneration Committee at the end of the 2009 financial year were:
Markku Pohjola, Chairman
Sisko Seppä
Pekka Timonen

The Remuneration Committee convened a total of five times during the financial year and the average attendance rate was 100%.

CEO and 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. 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. More detailed descriptions of the duties of the CEO and the Board of management form a part of the company's Corporate Governance Policy and are available on Municipality Finance's website at www.munifin.fi.

CEO and Board of Management in the 2009 financial year:
Pekka Averio, CEO, Master of Laws, MBA, born 1956, at Municipality Finance since 1993
Esa Kallio, Deputy to the CEO, Executive Vice President, M.Sc. (Econ), born 1963, at Municipality Finance since 2005
Toni Heikkilä, Senior Vice President, Risk Management, Lic.Sc. (Econ), M.Sc., born 1965, at Municipality Finance since 1997
Marjo Tomminen, Senior Vice President, Business Development and Marketing, vocational qualification in Business Administration, eMBA, born 1962, at Municipality Finance since 1992
Jarkko Vuorenmaa, Senior Vice President, Administrative Services, M.Sc. (Econ), born 1966, at Municipality Finance since 1996

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE FINANCIAL REPORTING PROCESS

1. Internal control and risk management
Municipality Finance acknowledges that, due to the nature of its operations, it is inevitably exposed to a number of risks and, as such, internal control and risk management are a key aspect of strategic planning and management. Appropriately implemented internal control and risk management are part of day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives.

Risk management concerning financing activities is intended to ensure that the risks associated with lending, funding, investment activities and other business operations are in line with the company's accepted risk profiles. The objective is to minimise open risk positions and to keep the overall risk status at such a low level that the parent company's good credit rating (Aaa/AAA) is not compromised. The tasks specified above are the responsibility of the company's treasury department.

Supervision at the Board level
The Board of Directors is responsible for ensuring that internal control and risk management are sufficiently comprehensive and effective and that the company does not, in its operations, take risks which would fundamentally endanger the capital adequacy of the company. The Board is assisted in this supervision by the Audit Committee. The Board of Directors and the Audit Committee have confirmed, as part of Municipality Finance Plc's Corporate Governance Policy, rules of procedure that also specify the Board's and Audit Committee's duties concerning internal control and risk management in more detail.

The company's Board of Directors has confirmed the company's operating policy (including liquidity policy), which includes the principles and limits pertaining to internal control and risk management with the aim of ensuring that the company's risk position is maintained at a level that corresponds with the confirmed risk profile. Operating policies are revised annually, with the latest revision made in the autumn of 2009.

As part of the effective implementation of internal control and risk management, the Board of Directors confirms the company's operating principles for internal control, the annual audit plan for internal control as well as the principles concerning regulatory compliance, the information management strategy, the information security policy, business continuity plan and other guidelines and principles necessary for the management of operational risks, if any. The validity and appropriateness of these principles is assessed on a regular basis and they are revised as necessary.

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The latest revision was made in December 2009. The plan for capital adequacy management also includes a process description for capital adequacy management. Information pertaining to capital adequacy is presented as part of the company's annual reports as required by legislation. The calculation of capital adequacy is done in compliance with the Basel II calculation principles. The capital requirement relating to the credit risk is calculated using the standard method, and that relating to the operational risk using the basic method.

Supervision at the operational level

Internal control plays a part in the duties of each individual belonging to the management or staff of the Company and everyone in the organisation is responsible for reporting any observed deficiencies concerning internal control. Internal control is based on an organisation specific to each operational area or department, each with their own duties and areas of responsibility. Decision-making and the implementation of decisions have been divided among different operational areas or individuals.

The company has a risk management assessment function that is independent of the company's business operations and of risk management related to operational activities; it maintains, develops and prepares risk management principles for confirmation by the Board of Directors and develops methods for use in the assessment and measurement of risks. The risk management function monitors that risks are maintained within acceptable limits and that the methods used for measuring risks are appropriate. Investment operations are responsible for the use of counterparty limits in the parent company's investment activities. The risk control unit is responsible for the supervisory and reporting duties related to investment activities, counterparty risks and market risks.

The management of operational risks, including information systems critical to the company's operations, and the supervision of operational risks is part of the normal processes of functional areas and departments. In addition to that, the compliance unit has general responsibility for monitoring operational risks.

In addition to the operating policies confirmed by the Board of Directors, the company has operating guidelines specific to functional areas and departments confirmed by the Board of Management. The operating guidelines are supported by process descriptions that are prepared for all essential processes and revised twice per year. In addition, each employee has a job description that specifies their key duties and substitute arrangements.

As part of the company's risk management, risk surveys are undertaken on a regular basis to identify risks related to the company's operations and assess the measures used to manage those risks. The most recent risk survey was undertaken in autumn 2009.

2. Reporting and control

The company's internal control is supported by appropriate reporting used to monitor operations, the results of operations and the risks associated with operations. Reporting shall be reliable, relevant and current.

Reporting on financials and risk management is produced separately from business operations by the financial management department and the risk management department. Financial reporting is based on appropriately prepared bookkeeping and other materials pertaining to business activities.

In order to ensure the accuracy of financial reporting, the financial management function has detailed internal instructions on the recording of business activities and other financial management processes, including amongst other things the control principles concerning the approval and implementation of various transactions. These control measures include regular routines pertaining to the balancing of accounts and transactions and payment traffic processes that always follow the four-eye principle. Part of the control measures are automated by the company's information systems while part are based on manual inspection. The Audit Committee is charged with supervising the financial reporting processes.

The risk management function produces reports on a regular basis on the company's risk position in terms of different risk classes based on the reporting model determined in the company.

Regular external reporting on the company's operations to the Financial Supervisory Authority, the tax authorities and, where necessary, other authorities is undertaken based on the reporting obligations set forth by the authorities at the times required.

3. External and internal audit

The company has outsourced its internal audit to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's risk management department. Its tasks include monitoring the reliability and correctness 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 Board of Directors approves the internal audit plan for each financial year and all inspections undertaken by the internal audit during the 2009 financial year have been reported to the company's Board of management, the Audit Committee and the Board of Directors. The measures taken in response to recommendations issued by the internal audit are systematically monitored and their implementation is reported to the company's Board of Management and the Audit Committee annually. The most recent such report was given in December 2009.

Municipality Finance's auditors during the 2009 financial year were KPMG Oy Ab with Authorized Public Accountant Raija-Leena Hankonen as the responsible auditor.

Inspira's auditors during the 2009 financial year were KPMG Oy Ab with Authorized Public Accountant Riitta Pyykkö as the responsible auditor.

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