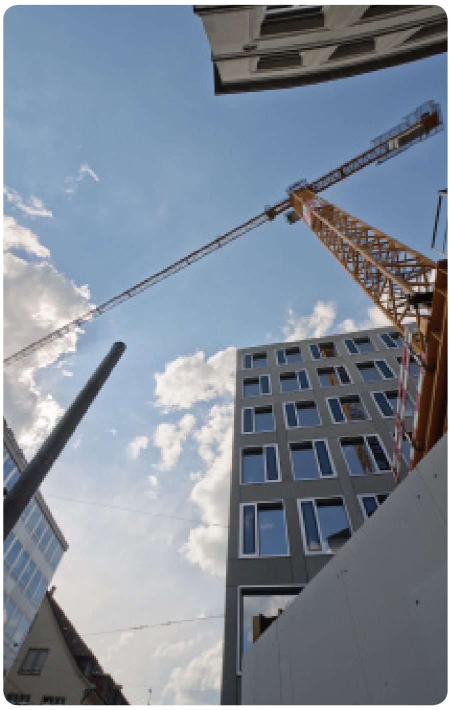


Developing a better Finland together

Annual Report 2013

MuniFin
MUNICIPALITY FINANCE

Municipality Finance in 2013

"Finland's **Best** Bank"

Kauppalehti 2 May 2013

The best possible credit ratings
Moody's Aaa (stable)
Standard & Poor's AAA (stable)

The most **satisfied customers** in the financial sector

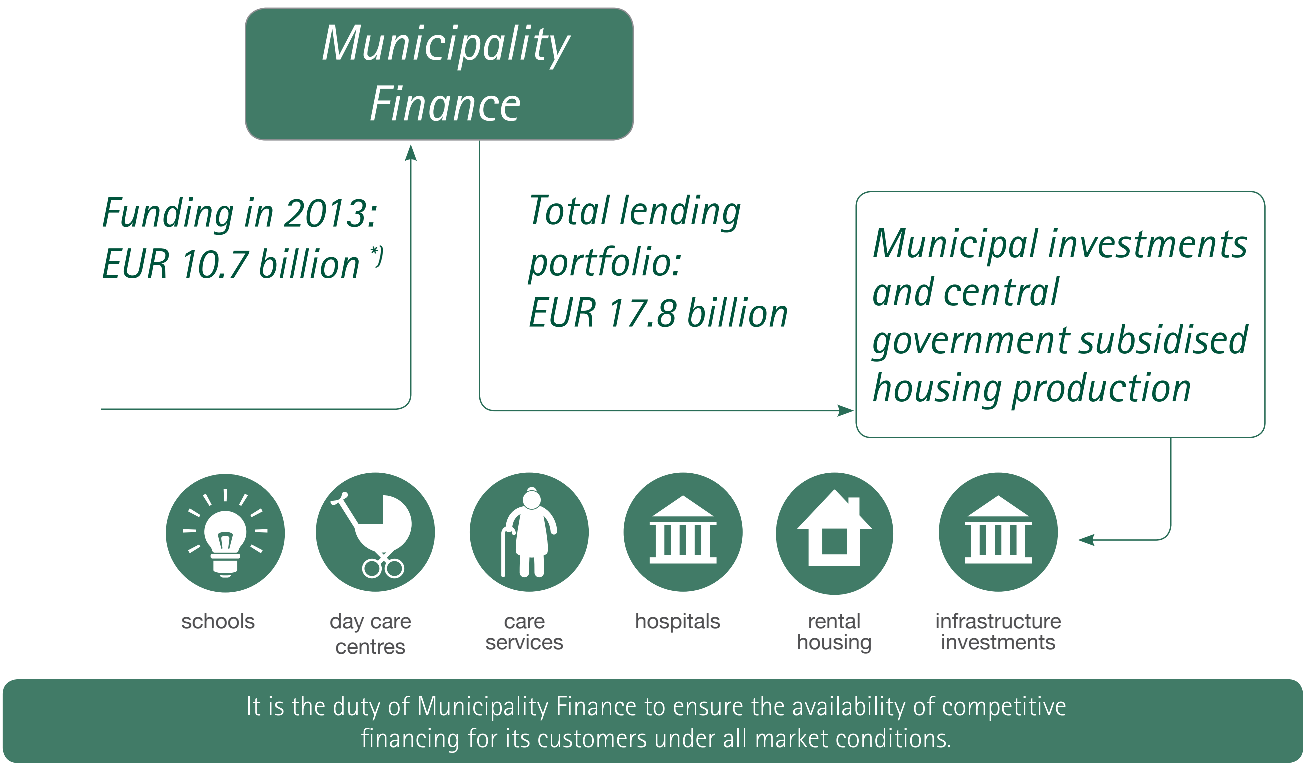
Taloustutkimus 2013

Contents

Municipality Finance is an important part of the basic financial structure of Finland

The financing granted by Municipality Finance is used for socially important investments. These include schools, day care centres, retirement homes, care homes, hospitals, health centres and rental housing for special groups.

An enabler of well-being



*) *The total amount of funding acquired in 2013 was exceptionally large due to the company's own refinancing needs.*

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

All taxpayers share the benefit of Municipal Finance's operations. The financial benefit of the company is accumulated as savings in the financing costs of investments that are important from a social point of view. Financing from Municipality Finance enables infrastructure investements for health, education and care services as well as services for special groups.

The company has the highest possible credit ratings for its long-term funding: Aaa from Moody's and AAA from Standard & Poor's. These form the foundation of the company's strong competitiveness as a provider of financing.

Funding is acquired in a diversified manner from both international and domestic capital markets. The company's funding is guaranteed by the Municipal Guarantee Board.

The company operates efficiently and grows profitably. The company aims to build the capital needed for growth through profits and thereby ensure its capital adequacy.

2013 in brief

Municipality Finance's business operations continued to grow in 2013. The Group's operating profit grew by two per cent to EUR 141.3 million. The Group's net interest income grew by five per cent to EUR 149.5 million. The balance sheet total increased by two per cent to EUR 26,156 million. The Group's capital adequacy was 39.88 per cent at the end of the year (minimum requirement eight per cent).

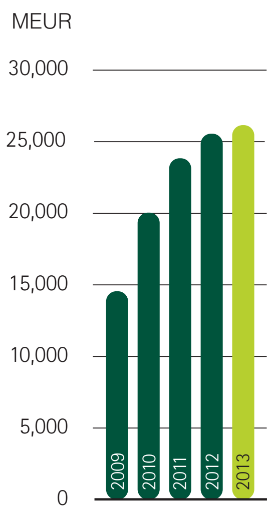
The total amount of lending granted by the company grew by 13 per cent to EUR 17,801 million. EUR 3,537 million in new loans were withdrawn during the year.

The growth of the company's leasing services continued, with the leasing portfolio reaching EUR 81 million at year end. Funding acquisition was highly successful during the year. Municipality Finance concluded a total of 240 funding arrangements and the total funding amount reached a record high of EUR 10.7 billion due to the company's exceptionally large own refinancing requirements. The largest system projects in Municipality Finance's history moved ahead with the first-phase deployment of the company's new back office system.

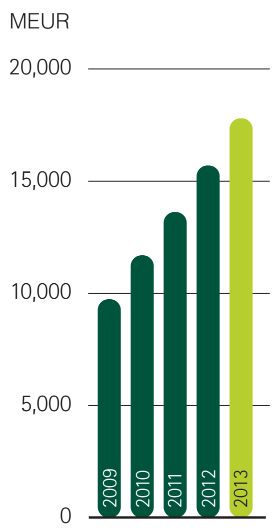
Key figures (Group)

	31.12.2013	31.12.2012	Change %
Net interest income (MEUR)	149.5	142.4	5%
Net operating profit (MEUR)	141.3	138.6	2%
Lending portfolio (MEUR)	17,801	15,700	13%
Total funding acquired (MEUR)	23,108	22,036	5%
Balance sheet total (MEUR)	26,156	25,560	2%
Capital adequacy ratio, %	39.88%	33.87%	18%
Own funds (MEUR)	511.5	428.9	19%

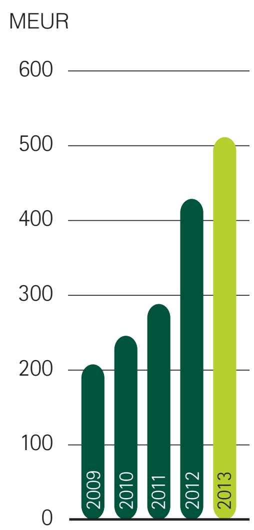
Balance sheet total 2009–2013



Lending portfolio 2009–2013



Own funds 2009–2013



CEO's Review

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

The financial sector does not function effectively in these kind of market conditions, which led to investors seeking returns from higher-risk investments than offered in the fixed income market. When regulation requiring increases in capital and liquidity requirements is added to this, it is no wonder that the concern over corporate financing has started to increase in Europe. The threat is a new credit crunch, which is a potential consequence of banks aiming to fulfil the tightening requirements by reducing their balance sheets and focusing their lending on only the most profitable customers.

The regulatory development triggered by the financial crisis is reaching a significant turning point. In the beginning of 2014 the revised regulatory framework on capital adequacy and liquidity (CRR/CRD IV) came into force, The framework increases capital requirements and leaves little room for national regulation or deviation from the common European model. As part of the framework's implementation, the Finnish Act on Credit Institutions will be amended in its entirety.

Another significant regulatory change concerning the banking sector and all other parties that use derivatives is the European Market Infrastructure Regulation (EMIR), the implementation of which will continue in 2014. Regulation will result in new reporting requirements on all parties that use derivatives. The timing of the introduction of central counterparty clearing for derivatives, which is part of the same regulatory package, remains uncertain. The new regulation will substantially increase the operational costs associated with derivatives, while the impact on the markets and the availability of derivative products remain unclear.

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

In the financing of the Finnish municipal sector, 2013 was a year of steady development much like the previous few years. The municipal sector, as well as the Republic of Finland, remained very interesting investment targets for investors looking for safe investments. Municipality Finance acquired a record amount of funding during the year, EUR 10.7 billion in total. The majority of this was due to the company's own normal refinancing. The increase in funding therefore does not indicate an increased need for financing among its customers.

Municipality Finance is an important part of the basic financial structure of Finnish society and the only financial institution in Finland specialising in financing municipal groups and central government subsidised housing production. There were no significant changes in the municipal sector's financing needs during the year, and the increase in the demand for loans was moderate. The competition in lending intensified somewhat towards the end of the year, but Municipality Finance nevertheless maintained its position as the clearly most important and competitive lender for its customers.

The amendments to the Finnish Local Government Act and the Finnish Competition Act that entered into force at the be-

The year 2014 represents a turning point in the implementation of new regulation.

ginning of September caused confusion regarding which types of municipal corporations' loans can be guaranteed in full by municipalities. Municipalities can only provide full guarantees for loans to municipal corporations that do not operate in a competitive industry. Pursuant to the amended legislation, the interpretation of what activities are in a competitive industry must be based on local circumstances. As such, situations can vary significantly between regions and municipalities.

Municipality Finance is currently carrying out the largest system projects in its history. The projects are aimed at improving the efficiency of the company's operations and creating a strong foundation for the development of new services. A large proportion of our personnel have worked long hours and weekends not only on their primary jobs, but also on the development projects. The development under the projects will continue for a long time, but at the end of autumn 2013 we reached the first milestone with the implementation of the first stage of our new back office system.

I would like to thank our personnel for the excellent work they have done during this busy year, and for their commitment to the company's development. I also want to thank our customers, owners and partners for their cooperation on a variety of fronts over the past year. Municipality Finance is the most significant financing partner for its customers, and we aim to strengthen our competitiveness further in 2014.

Pekka Averio
President and CEO
Municipality Finance Plc

Its customers' most important financier

Municipality Finance is the largest financier for Finnish municipalities and central government subsidised housing production. The company's basic duty is to ensure the availability of competitive funding for its customers under all market conditions. Municipality Finance is an important part of the basic financial structure of Finland and the most important financing partner for its customers. The company's funding is guaranteed by the Municipal Guarantee Board, the members of which include all municipalities in continental Finland.

The funding acquired by Municipality Finance is used for financing municipalities, municipal federations, municipally-controlled entities and central government subsidised housing production. Of the financing granted by the company in 2013, 58 per cent went to municipalities and municipal federations, 32 per cent to housing production and 10 per cent to loans to municipality-controlled entities.

The company's total lending amount at the end of 2013 stood at EUR 17.8 billion (2012: EUR 15.7 billion). New loans withdrawn during the year amounted to EUR 3.5 billion (2012: EUR 3.3 billion).

Municipality Finance maintained its position as by far the largest lender for its customer base like in recent years. At the same time banks' interest in local government long-term financing remained weak. The company continued to essentially be the sole finacier for the central government subsidized housing funding.

The cornerstones of the company's competitiveness are its efficient and professional operations and the best possible credit rating. They allow the company to grant financing on competitive terms even for very long-term projects that need

The largest investment needs of Municipality Finance's customers are related to health, education and care services and to central government subsidised rental housing production.

financing for up to 40 years.

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

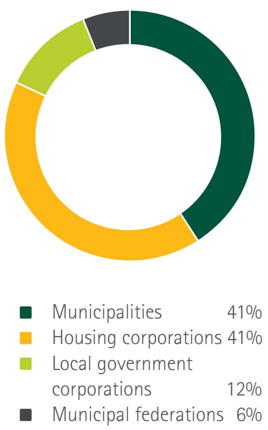
Funding for housing construction is provided for municipally-owned housing corporations as well as for non-profit organisations for the production of central government subsidised social rental housing and housing construction for special groups such as the elderly, the disabled and students.

Demand for loans among municipalities growing steadily

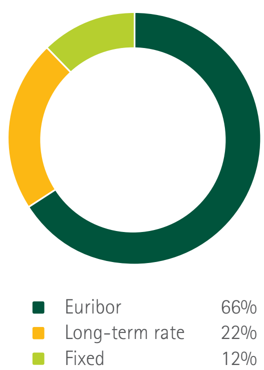
A large proportion of the statutory functions of municipalities depend on effective infrastructure. For example, providing health care, education and various social services in the scope required by law requires municipalities to make substantial investments. There has been a significant increase in municipalities' statutory functions in the 2000s. In recent years, the need for repairs of municipal infrastructure has also increased, which further adds to future investment pressures. For these reasons, the financing needs in the local government sector have increased in recent years, and this trend continued in 2013.

The local government sector is continuously looking for new financing solutions for its investments while aiming to curb the increase in financing costs. Municipality Finance is a partner to its customers, also offering them planning and advisory services related to financing. The services are aimed at improving the effectiveness of the customers' management of their overall financing and take into account matters such as future loan needs and hedging the loan portfolio. Municipality Finance's experts are tasked with finding the best possible financing solutions for their customers to suit their individual needs.

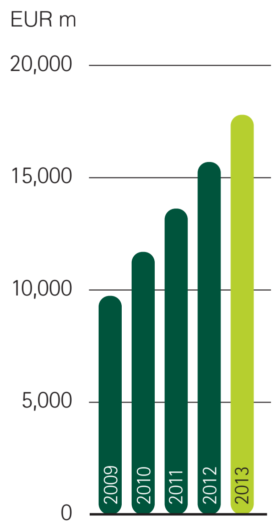
Lending portfolio by customer type



Lending portfolio by rate type



Lending portfolio 2009–2013



Funding expanded into new markets

Municipality Finance acquires funding from international and domestic investors by issuing various types of bonds.

Finland's position in the international capital markets remained strong in 2013. Finland continues to be one of the most trusted investment targets in the euro-zone, and the extremely low risk bonds issued by both the Republic of Finland and Municipality Finance are in high demand around the world. Municipality Finance, as well as the Republic of Finland, continues to be considered a safe haven among investors looking for long-term and low-risk investment targets.

Municipality Finance has risen into the category of medium-sized issuers in the international financial market. The company is an active participant in all of the major markets in Europe, Asia and America. The company is also continuously searching for new markets around the world. In recognition of its accomplished work in the international financial markets, Municipality Finance was nominated by EuroWeek publication in spring 2013 as both Issuer of the Decade and Issuer of the Year. Later in the year, Capital Markets Daily selected the company as the Issuer of the Year 2013 in the series of FX-linked Bonds.

Municipality Finance engages in diversified funding acquisition to ensure the availability of funding over the long term. The company diversifies its funding in three ways: geographically, by maturity and by issuing bonds targeted at different investor groups. Diversification allows for better control over market risks and thus ensures the availability of funding during potential market disruptions, in accordance with the company's basic duty.

The most significant new market entry to increase diversification in 2013 was the company's benchmark issue carried out in April. At USD 1.75 billion, the benchmark issue was the company's largest single issue to date. It was also the company's first bond issue targeted at investors in the United

It is the duty of Municipality Finance to ensure the availability of competitive financing for its customers under all market conditions.

Diversification ensures the availability of funding and reduces costs.

States under Rule 144A. This was followed in September by a similar benchmark issue of USD 1 billion. Both of these funding arrangements were very successful and they were quickly oversubscribed.

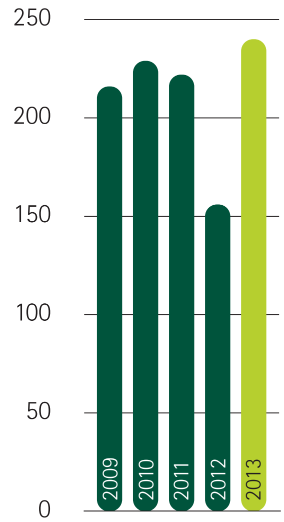
The entry into the United States market represented a substantial effort by the Municipality Finance organisation. The issue was preceded by a period of nearly one and a half years during which the company prepared for benchmark issues that meet the U.S. market requirements. The effort paid off, as the arrangements received nothing but praise and positive assessments from international parties. The pricing of the benchmark issues was also very competitive due to high demand.

While the large benchmarks form the basis of funding, the majority of the arrangements carried out are much smaller. This diversification of funding allows the company to take advantage of the changing market conditions in the international capital markets as effectively as possible in order to ensure the competitiveness of financing. The company could alternatively arrange only a small number of large benchmark issues per year, but this would increase funding costs to a substantially higher level than currently.

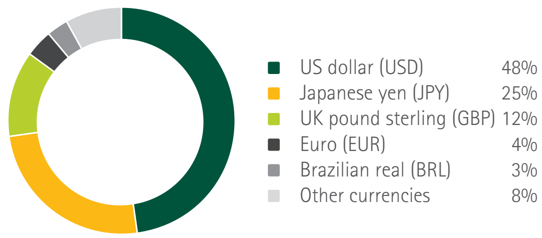
Municipality Finance's key strengths in funding acquisition include its expertise, flexibility and ability to react quickly, but also its extremely effective monitoring system for anticipating the future and managing risks, which has been developed over a period of several years. It allows the company to prepare for future needs and tactically plan the timing of issues, taking the prevailing market situation into account. This has a significant impact on the competitiveness of the company's funding costs.

Municipality Finance has more of bond issues than any other financial institution in Finland. The total amount of funding varies to some degree from year to year. In 2013, the company's funding total reached a record amount of EUR 10.7 billion, with altogether 240 individual issues. The funding requirement was increased in the early part of the year by larger-than-usual but anticipated refinancing needs, which resulted from normal changes in market conditions. The exceptionally large funding total does not, therefore, directly reflect an increase in the funding requirements of Municipality Finance's customers. The company expects the funding total to return to the normal level of EUR 7-8 billion in 2014.

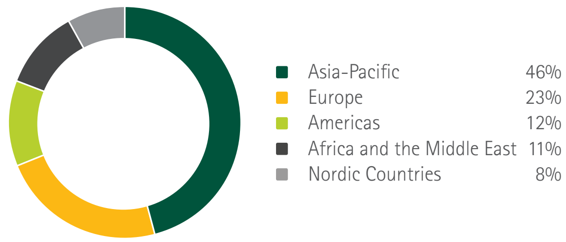
Total number of funding transactions 2009–2013



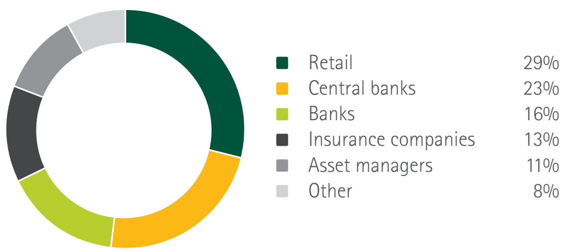
Acquired funding by currency in 2013



Acquired funding by region in 2013



Acquired funding by investor type in 2013



Investment operations seek return and security

Municipality Finance's investment operations primarily comprise the investment of acquired funding in liquid deposits and financial sector securities with a good credit rating in order to ensure that the company can remain operational under all market conditions.

According to the company's liquidity policy, liquidity must be sufficient to cover the needs of continued undisturbed operations for at least the six following months. The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. At the end of 2013, the liquidity buffer covered financing needs for approximately 10.3 months. Municipality Finance's liquid funds amounted to EUR 5.5 billion at the end of 2013.

The company follows a conservative policy in its investment operations. In addition to low interest risk and sufficient return, the most important criteria are the investment's high liquidity.

The risk premiums of banks and countries decreased substantially in 2013 in the bond markets as economic growth recovered and central banks continued to implement strong stimulus measures. Due to the lower risk premiums, the returns on new investments were at a lower level than in the previous year.

In 2013, new investments were mainly made in covered bonds and bonds issued by public sector entities and banks based in core countries in the eurozone. The average credit rating of liquidity investments remained nearly unchanged at the AA level (2012: AA) despite the general declining trend in credit ratings. The average maturity of the liquidity investments increased to 3.54 years (2012: 2.97) during 2013. New investments were made in longer maturities than before in order to maintain sufficient return. In addition, the company had EUR 379 million in other investments (2012: EUR 329 million).

At the end of 2013, Municipality Finance's liquidity buffer covered approximately 10.3 month's financing needs.

The aim of the company's liquidity investments is to ensure sufficient funds for customers for at least the six following months even if sources of funding were to be exhausted.

At the end of 2013 the company's liquid funds amounted to

5.5

billion euros

Interest in alternative financing solutions

Alternative financing solutions are steadily growing in popularity among Municipality Finance's customers. More and more municipalities are looking for financing models that provide precise and transparent solutions to investment financing and make all expenses predictable and appropriately allocated. The best alternative in many cases is financial leasing, a solution that is suitable for a large variety of purposes.

The demand for Municipality Finance's financial leasing services, which were first launched in 2010, continued to grow in 2013. The total value of the company's framework agreements for leasing services stood at EUR 191.1 million at the end of 2013, and the leasing portfolio increased to EUR 81 million (2012: EUR 64 million).

With the leasing option, all of the expenses associated with the agreement, excluding variable interest rates, are known to the customer and thus predictable throughout the term of the agreement. Leasing as a financing solution can help customers better match the economic and technical usable life of an asset. The predictability of expenses makes budgeting and financial planning easier. As the assets are owned by the financing party, the customer's capital is not tied up in their ownership. In many cases, the reason for the growth in the popularity of financial leasing is the flexibility in the implementation of the solutions.

Typical objects for financial leasing in the municipal sector are the acquisitions of vehicles and small assets, but it is also used for purposes such as the acquisition of various medical care equipment. Medical equipment is typically expensive, and acquiring it through leasing is a noteworthy option due to the quick development of the technology.

Financial leasing is well suited for financing a wide range of investments in the municipal sector, from purchases of machinery and equipment to lifecycle projects. Examples of new applications include medical equipment, water purification plants and street lighting systems.

The total value of leasing agreements amounts to

81

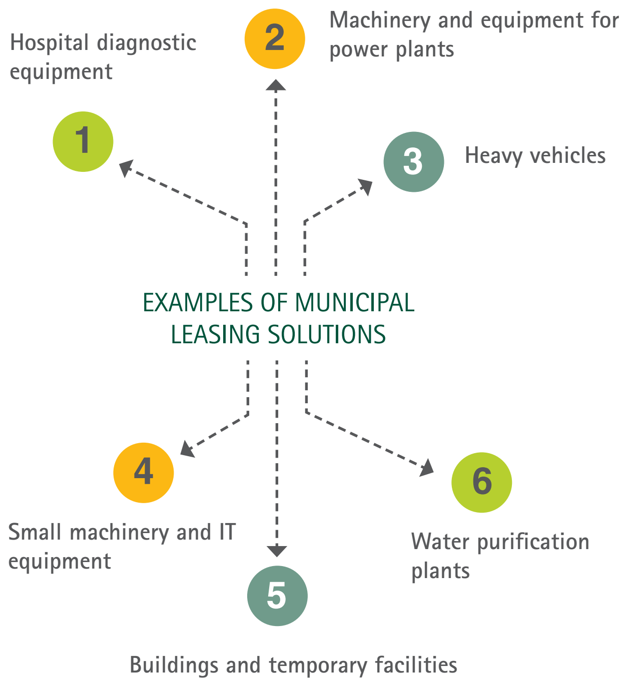
million euros

New applications for financial leasing in 2013 included replacement of street lighting. With the implementation of new EU directives, the majority of old Finnish street lighting infrastructure must be replaced with more energy efficient technology. Using leasing for these replacement projects is a very effective financing solution and one that does not tie up municipal own capital.

Among Municipality Finance's leasing services, there is notable growth in the use of various framework agreements that allow customers to acquire the assets they need flexibly as new requirements arise. Also growing in popularity is the use of leasing for facility elements. They are used for purposes such as constructing temporary facilities for day-care centres and schools during the renovation of permanent structures. They are also well suited for situations in which the expected need for the facilities is short-term to the extent that using traditional construction methods is not feasible. After their use, the facility elements can be moved elsewhere to be reused, or they can be discarded entirely without significant expense.

Leasing is also increasingly used in various lifecycle projects, especially for real property. Using real property leasing, customers can acquire property such as a school under the lifecycle model, with the contractor agreeing to not only build the property, but also to maintain it according to an agreed standard for a specified period, such as 15–20 years. When the project is funded by leasing, the customer pays a pre-agreed rent for the use and maintenance of the property, without having to commit to owning it. After the lifecycle is completed the property can be bought out, and its condition will correspond with the provisions of the agreement.

Municipality Finance is developing its leasing services to satisfy the growing demand among its customers. In 2013, the company implemented a new device register service that allows it to offer advanced capital asset management tools to customers.



Inspira advises on financing solutions

Municipality Finance's subsidiary Financial Advisory Services Inspira Ltd is an expert advisor specialised in public sector financing solutions. The company acts as an independent expert and advisor in investment projects and restructuring arrangements for the state administration, municipalities and cities as well as companies and organisations. Inspira is an advisor to various parties in both the public sector and the private sector.

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

Various lifecycle projects related to the development of real property were highlighted in the demand for Inspira's advisory services in 2013. Examples of such projects include the Lintuvaara school and day care centre renovation, expansion and maintenance project in Espoo, and the City of Pudasjärvi lifecycle project involving a log built school campus. Inspira prepared and carried out the tendering process for the contracts for both projects.

The year 2013 was a gap year in Finland with respect to major investment projects, but a number of large infrastructure projects will enter the planning phase in 2014. The most

Inspira

Inspira's core competence is the planning of financing solutions for public sector projects. Inspira serves both the public sector and private corporations in the planning and implementation of public projects.

significant among these include the E18 Hamina-Vaalimaa motorway project as well as several new construction and renovation projects of public sector real properties that are likely to be implemented using the lifecycle model. In the next few years, the demand for advisory services will also be increased by many projects in the energy sector, such as the arrangement of financing for wind farms.

Inspira developed its operations in 2013 to create a sustainable foundation for profitable growth in the coming years. The company focused particularly on developing customer relationships and revising its goal setting towards a more growth-oriented direction. The company also developed its organisation by recruiting more personnel during the year, with the aim of creating new service opportunities for its customers.

Inspira's services

Feasibility studies

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

Financial advisory services for investments

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

Restructuring arrangements

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

Increasing regulation requires more experts

Municipality Finance's organisation has grown rapidly in recent years. The company has recruited new experts not only in response to the growth in business volume, but especially in order to handle the new tasks introduced by continuously increasing regulation. The majority of the growth in the number of personnel has been directed to business support functions. At the same time, the company has carried out its largest-ever system development projects, which have placed a considerable strain on the organisation's resources.

Compared to Municipality Finance ten years ago, the organisation today faces substantially higher competence requirements. At the same time, the amount of work has increased rapidly due to increased requirements that apply to the entire industry. This development has been particularly fast since 2008, after the financial crisis. Over the same period of time, the company's lending and funding have increased at a much faster rate than before.

Municipality Finance has been able to handle its rapid growth successfully. The company's customer satisfaction is top class: it has the most satisfied customers in the Finnish financial sector according to a study completed by Taloustutkimus in spring 2013. The company's organisation has functioned effectively and the company took top spot in the "Finland's Best Bank" comparison of key figures by Kauppalehti in May 2013.

The company monitores job satisfaction with regular surveys and carries out development activities based on the results.

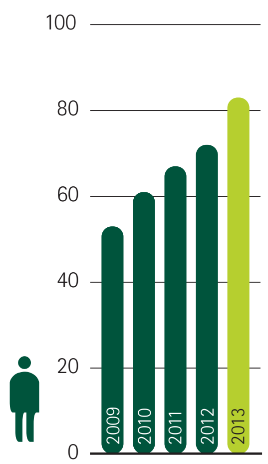
Continued organisational development

In response to its growth, Municipality Finance has taken active steps to develop its organisation. At the start of the year, the company established a new Customer Finance function and combined its funding, investment and treasury operations into a new Capital Markets function. Jukka Helminen, M.Sc. (Tech.), was appointed Senior Vice President at the Customer Finance function in February. Helminen was also appointed a member of the company's Board of Management. The Capital Markets function will continue to be headed by Executive Vice President Esa Kallio, who was previously responsible for both functions.

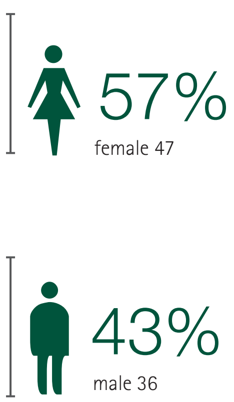
Also at the beginning of 2013, the company established a new Business Development department under the Accounting and Finance function led by Senior Vice President, CFO Marjo Tomminen. The department is responsible for the implementation of the development projects in the company's project portfolio. From the beginning of July, the Capital Markets function has also included the DCM department focused on debt capital market services, and the Customer Finance function has included the new Communications and Marketing department.

The purpose of the organisational changes is to respond to the requirements set by the company's growing operations going forward. At the end of the year, the Group had a total of 83 employees (2012: 72 employees). The company also employs external consultants and experts in various development projects.

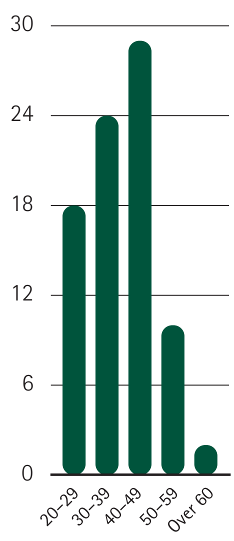
Number of employees 2009–2013



Employees by gender



Employees by age



> The company's customer satisfaction is top class: it has the most satisfied customers in the financial sector according to a study conducted by Taloustutkimus in spring 2013. The company's organisation has functioned effectively and the company took top spot in the "Finland's Best Bank" comparison of key figures by Kauppalehti in May 2013.

Municipality Finance Group had

83

employees at the end of 2013

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

Municipality Finance

Corporate Governance Statement 2013

The following statement on Municipality Finance's Corporate Governance in 2013 is in compliance with Chapter 7, Section 7 of the Securities Markets Act. This statement is provided here as a comprehensive description of Municipality Finance's Corporate Governance, separate from the Report of the Board of Directors.

Corporate governance

Corporate Governance Policy

The Board of Directors of the parent company confirmed Municipality Finance's internal Corporate Governance Policy in 2005. The Policy was last updated in the summer of 2013. In addition to the Corporate Governance Policy, the company has a number of other policies pertaining to governance, financial reporting, internal control and risk management.

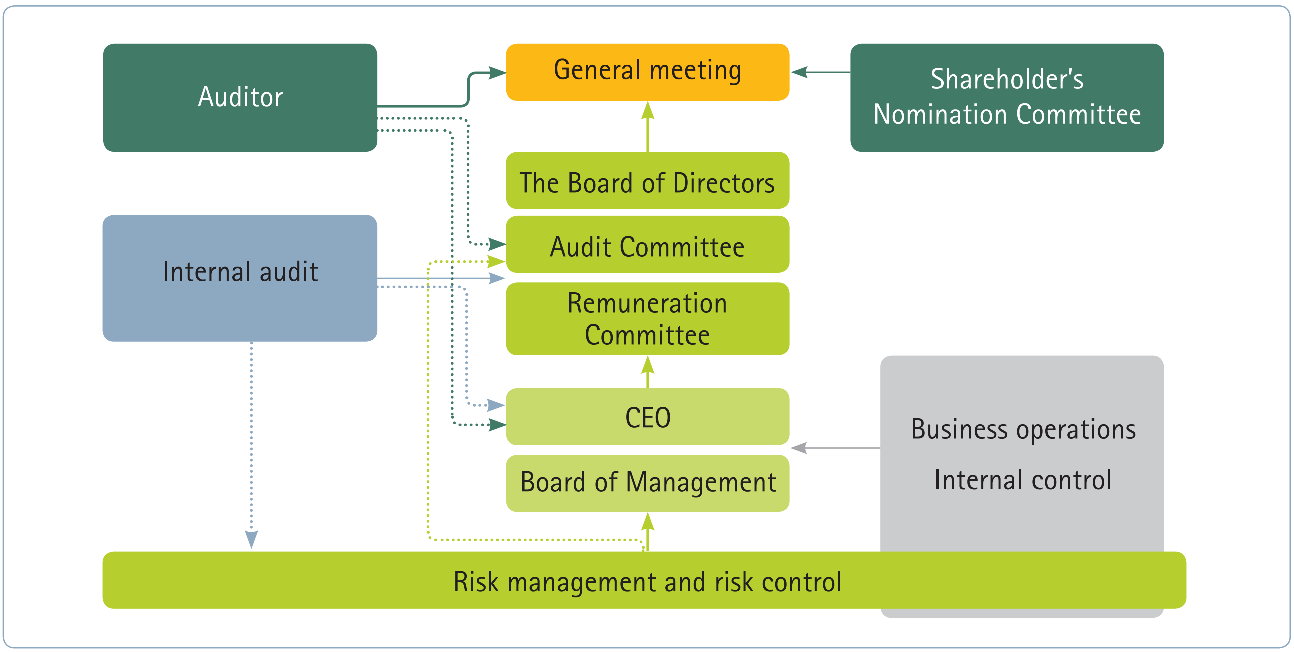
The Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. As Municipality Finance is solely an issuer of bonds and its shares are not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

In addition to the Finnish Corporate Governance Code for listed companies, the Corporate Governance Policy of Municipality Finance has been prepared in compliance with Finnish Financial Supervisory Authority standard 1.3 on "Internal Governance and Organisation of Activities". The Finnish Corporate Governance Code for listed companies is available at www.cgfinland.fi and the Financial Supervisory Authority standard at www.finanssivalvonta.fi. Municipality Finance's Corporate Governance Policy is available in Finnish, English and Swedish on the company's website at www.munifin.fi.

The following chart is a general illustration of the administrative structure of Municipality Finance. Solid arrows indicate specific reporting obligations while dotted arrows indicate other reporting relationships.

Shareholders' Nomination Committee

Municipality Finance has a Shareholders' Nomination Committee established by the Annual General Meeting, which is charged with making a proposal to the Annual General Meeting on the number of members of the Board of Directors, candidates for election to the Board of Directors and their remuneration. In addition, the Shareholders' Nomination Committee



makes a proposal on the Chairman and Vice Chairman of the Board of Directors to be elected at the Annual General Meeting.

According to the decision of the General Meeting, the Shareholders' Nomination Committee is comprised of four members. The company's three largest shareholders each nominate one member and the Association of Finnish Local and Regional Authorities nominates one member. The three largest shareholders are Keva, the Republic of Finland and the City of Helsinki. The three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2013 Annual General Meeting:

- Sampsa Kataja (Member of Parliament, Chairman of the Board of Directors, Keva until 25.1.2013), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Jussi Pajunen (Mayor, City of Helsinki)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities).

The three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2014 Annual General Meeting

- Pekka Alanen (Acting CEO, Deputy to CEO, Keva), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Tapio Korhonen (CEO, Helsinki City Executive Office)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities).

The Shareholders' Nomination Committee convened for the 2013 Annual General Meeting and made the required proposals to the General Meeting. The Annual General Meeting approved the proposals as submitted.

The proposals made to the 2014 Annual General Meeting and the Board of Directors to be elected at the meeting will be published as an appendix to the invitation to the 2014 Annual General Meeting and made available on the company's website.

Board of Directors

The duties of the Board of Directors

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 Limited Liability 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, annual 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 auditor and internal control report to the Board of Directors, which ensures that the Board of Directors receives independent information on the status of the company. The Board confirms the company's values and ethical operating principles and other policies that guide operations. The Board is responsible for the appointment and termination of employment of the CEO and Deputy to the CEO and decides on the principles of the remuneration system.

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. The Board will convene upon the summons of the Chairman as often as company business requires. During the 2013 financial year the Board of Directors convened ten times. The average attendance rate of Board members at these meetings was 94%. The Board conducts an annual independent assessment of the effectiveness and quality of its work and performance of its duties.

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 in addition to the two specified above. The Board appoints, from among its own members, the chairmen and the members of these committees. Committees 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, internal control and risk management. 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 part of the company's Corporate Governance Policy. The members of the Audit Committee at the end of the 2013 financial year were:

- Fredrik Forssell, Chairman
- Sirpa Louhevirta
- Tuula Saxholm
- Asta Tolonen

The Audit Committee convened a total of four times during the financial year, and the average attendance rate was 100%.
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 remuneration system, assessment of whether the objectives are attained, development of the remuneration system and the remuneration and other benefits for the CEO and the Deputy to the CEO. The members of the Remuneration Committee at the end of the 2013 financial year were:

- Eva Liljeblom, Chairman
- Teppo Koivisto
- Juha Yli-Rajala

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

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control, risk management and reporting

Municipality Finance is, due to the nature of its operations, 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 included in day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives.

Risk management of the balance sheet's risk position related to financing activities is intended to ensure that the risks associated with lending, funding acquisition, investment activities and other business operations are in line with the company's accepted risk profiles. The objective is to maintain the overall risk position at a level that is low enough not to compromise the parent company's strong credit rating. Municipality Finance's internal control comprises the financial administration function, which is in charge of financial reporting, the risk management function, which is independent of the company's business operations, reports on the company's risk position and changes thereto and is also responsible for the development of risk management methods, and operational level internal control, which produces reports that are processed by the managers responsible for the functions in question, the CEO assisted by the Board of Management and the Board of Directors.

Reporting and 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 Board of Directors has confirmed the company's operating policies which include the operating principles and limits pertaining to internal control and risk management. The Board of Directors has confirmed the risk management strategy as part of the company's overall strategy. The aim of the operating policies is to guide the companies operations such that the company's risk position is maintained at a level that corresponds to its confirmed risk profile through guiding the company's operations. The operating policies are revised annually, with the latest revision made in the summer of 2013.

As part of the effective implementation of internal audit and risk management, the Board of Directors has confirmed the company's operating principles for internal audit, the annual audit plan for internal audit as well as the key principles concerning regulatory compliance (as part of the operating policies), the information security policy, business continuity plan and other guidelines and principles necessary for the management of operational risks. These principles are assessed on a regular basis to ensure that their status is current and they are revised as necessary.

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The current plan extends to 2018. The long term horizon for capital adequacy planning is related to the changes in the regulation of credit institutions that are currently being planned at the EU level, including the leverage ratio requirement. The possible implementation of the leverage ratio requirement in 2018 has forced the company to begin preparations at this early stage, as the implementation of the leverage ratio would mean that requirements concerning the company's own funds would be multiplied. The leverage ratio requirement is based on comparing total own funds with balance sheet assets without consideration for risks related to the assets that are incorporated into capital adequacy calculations. 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 report as required by legislation.

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the Company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the Company's currency position is very small and it is therefore not necessary to reserve capital for the currency risk.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. The company's risk position is regularly reported to the Board of Directors as a part of monthly reporting, and, in addition, the director responsible for risk management prepares a broader overall review of the company's risk position in relation to various risk areas to the Board of Directors every six months.

Supervision and reporting 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, where everyone involved has their own duties and areas of responsibility.

Decision-making and the implementation of decisions have been delegated to different functions or individuals.

Reliable and timely reporting on the company's financial performance is a key tool for management. Reporting on financial performance is carried out by the financial administration and risk management functions, but in part also independently at the operational level to control the accuracy and sufficiency of financial reporting. The basic elements of financial reporting include internally produced reports on a monthly basis and the interim and annual reports required for external reporting.

Financial reporting is based on appropriately prepared bookkeeping and other materials pertaining to transactions. In order to ensure the accuracy of financial reporting, the financial administration 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 procedures include regular routines pertaining to the reconciliation of accounts and transactions and payment transfer processes that always follow the four-eye principle. Some of the control measures are automated by the company's information systems while some are based on manual inspection. The Audit Committee is charged with supervising the financial reporting processes.

The company has a risk management function that is independent of the company's business operations; 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 company's various functions are responsible for day-to-day risk management decisions within the established principles, policies, authorisations and limits. The risk management function ensures that risks are maintained within acceptable limits and that the methods used for measuring risks are appropriate. The risk management function reports to the management on a monthly basis on the company's risk position relative to the limits set and, as necessary, on individual risk events of material significance.

The management of operational risks, including information systems critical to the company's operations, and the supervision of operational risks are part of the normal processes of functions and departments. In addition, the department charged with the supervision of overall risk has the general responsibility of coordinating the management of operational risks. The company conducts an annual survey of operational risks. The survey evaluates risks and their probability of realisation and effects and decides on means of managing the risks in question.

The CEO, supported by the Board of Management, is responsible for managing the company's operations and organising risk management and financial reporting. In addition, the company has a separate credit risk group whose duty is to monitor and supervise the company's credit risk and make decisions pertaining to the management of credit risks. Besides the credit risk group, the company has an Asset and Liability Management group, which outlines strategic policies related to market, liquidity and funding risks and, with regard to these, is responsible for risk management principles. The company has also established an IFRS group to ensure the accuracy of financial reporting. The group's task is to develop and monitor the Group's IFRS accounting and take operational and market changes into consideration. The business development department is responsible for managing development projects according to the project model in use at the company.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the company's legal affairs and compliance department. Reports on the compliance function are produced on a monthly basis to the Board of Management and annually to the Board of Directors. The reporting frequency may be increased if necessary. The Board of Directors also receives regular reviews of the development of banking regulation and its impacts on Municipality Finance's operations.

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 regularly. In addition, each employee has a job description that specifies their key duties and back-up arrangements. The heads of departments also prepare and revise process instructions and other specific guidelines as necessary.

The company conducts annual stress testing to evaluate the impact of various scenarios on financial development (including the need for capital).

Regular external reporting on the company's operations to the Finnish Financial Supervisory Authority, the Bank of Finland, the Tax Administration, Statistics Finland and, where necessary, other authorities is undertaken based on the reporting obligations set forth by the authorities at the times required.

External and internal audit

The company has outsourced the audit work of internal auditing to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's legal affairs and compliance department. The tasks of the internal audit function include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. Its tasks also include ensuring that the company has adequate and properly organised manual and IT systems for its operations and that the risks associated with operations are being managed adequately.

The Board of Directors approves the internal audit plan for each financial year and all reviews undertaken by the internal audit during the 2013 financial year were reported to the company's Board of Management, the Audit Committee and the Board of Directors. The recommendations issued by the internal audit are systematically monitored in the company and their implementation is reported to the company's Board of Management and the Audit Committee and Board of Directors annually. The internal audit function assesses the status of the implementation of recommended measures.

Municipality Finance Plc's auditors during the 2013 financial year were KPMG Oy Ab with Marcus Tötterman, Authorised Public Accountant, as the auditor with principal responsibility.

The Board of Directors

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

Composition of the Board of Directors

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

In accordance with the proposal of the Shareholders' Nomination Committee, the 2013 Annual General Meeting elected the following persons to the Board of Directors for the 2013-2014 term (from the Annual General Meeting to the next Annual General Meeting):

Eva Liljeblom

Chairman
on the Board of Directors since 2003

Education: D.Sc. (Econ)
Year of birth: 1958
Primary occupation: Rector, Professor, Hanken School of Economics in Helsinki
Independence: Independent of the company and its significant shareholders

Fredrik Forssell

Vice Chairman
on the Board of Directors since 2011

Education: M.Sc. (Econ)
Year of birth: 1968
Primary occupation: CIO, Internal equity & FI Management, Keva
Independence: Independent of the company

Teppo Koivisto

on the Board of Directors since 2011

Education: M.A. (Pol. Sci.)
Year of birth: 1966
Primary occupation: Head of Division, State Treasury
Independence: Independent of the company

Sirpa Louhevirta

on the Board of Directors since 2011

Education: M.Sc. (Econ)
Year of birth: 1964
Primary occupation: Group Treasurer, Sanoma Oyj
Independence: Independent of the company and its significant shareholders

Tuula Saxholm

on the Board of Directors since 2013

Education: M.Sc. (Econ)
Year of birth: 1961
Primary occupation: Finance Director, City of Helsinki
Independence: Independent of the company

Asta Tolonen

on the Board of Directors since 2011

Education: M.Sc. (Econ)
Year of birth: 1960
Primary occupation: Municipal Manager, Municipality of Suomussalmi
Independence: Independent of the company and its significant shareholders

Juha Yli-Rajala

on the Board of Directors since 2011

Education: M.A. (Adm. Sci)
Year of birth: 1964
Primary occupation: Director, City of Tampere
Independence: Independent of the company and its significant shareholders

From the 2012 Annual General Meeting until the 2013 Annual General Meeting, the members of the Board of Directors were the following:

- Eva Liljeblom
- Fredrik Forssell
- Teppo Koivisto
- Tapio Korhonen (personal profile available in Municipality Finance's Annual Report 2012)
- Sirpa Louhevirta
- Ossi Repo (personal profile available in Municipality Finance's Annual Report 2012)
- Asta Tolonen
- Juha Yli-Rajala

Board of Management

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

CEO and the Board of Management

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

CEO and the Board of Management at the end of the 2013 financial year:

Pekka Averio

President and CEO
At Municipality Finance since 1993
Education: Master of Laws, MBA
Year of birth: 1956

Esa Kallio

Deputy to the CEO, Executive Vice President
At Municipality Finance since 2005
Education: M.Sc. (Econ)
Year of birth: 1963

Toni Heikkilä

Senior Vice President, CRO, Risk management & IT
At Municipality Finance since 1997
Education: Lic.Sc. (Econ), M.Sc. (Finance)
Year of birth: 1965

Jukka Helminen

Senior Vice President, Customer Finance
At Municipality Finance since 2013
Education: M.Sc. (Tech)
Year of birth: 1964

Marjo Tomminen

Senior Vice President, CFO
At Municipality Finance since 1992
Education: vocational qualification in Business Administration, EMBA
Year of birth: 1962

Mari Tyster

Senior Vice President, Administration and Legal
At Municipality Finance since 2009
Education: Master of Laws
Year of birth: 1975

Municipality Finance Plc Financial Statements 1.1.–31.12.2013

Contents

Report of the Board of Directors

Summary of 2013:

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

Key figures (group):

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

The calculation formulas for the key figures are given on page 38.
All figures mentioned in this annual report are for the Municipality Finance Group unless otherwise mentioned.

Credit ratings

Municipality Finance's credit ratings

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

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

The Municipal Guarantee Board's credit ratings

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

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

Operating environment in 2013

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

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

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

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

Development of business operations

Group structure

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

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

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

Net interest income and net operating profit

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

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

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

Expenses

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

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

Balance sheet

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

Capital adequacy

Municipality Finance's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan annually.

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

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

Municipality Finance Group's own funds totalled EUR 511.5 million at the end of the year (2012: EUR 428.9 million). The Group's Tier 1 capital totalled EUR 454.2 million at the end of 2013 (2012: EUR 331.9 million). No provision for dividend distribution was made for Tier 1 capital, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its dividend proposal based on the company's financial situation, the applicable regulation and taking into account the company's ownership structure. The Group's Tier 2 capital totalled EUR 57.3 million at the end of the year (2012: EUR 96.9 million). Detailed descriptions of the subordinated loans and debenture loans included in own funds are included in Note 22 in the notes of the consolidated financial statements.

Municipality Finance repaid the "Upper Tier II loan 1/2008" bond of EUR 40 million on 31 March 2013 with the permission of the Finnish Financial Supervisory Authority. In the 2012 financial statements, the loan was still fully included in own funds and capital adequacy.

In its Tier 1 capital, the company has a capital loan of EUR 10 million in addition to capital investments amounting to EUR 1 million. These items do not fully satisfy the requirements of capital adequacy regulations that entered into force from the beginning of 2014. As a result, only the portion of these items determined by the competent authority can be included in own funds going forward.

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

The leverage ratio requirement is scheduled to enter into effect from the beginning of 2018. The Company has taken this into account by beginning to prepare for changes. The final level and content of the leverage ratio requirement is likely to become known in 2017. Municipality Finance has performed analyses of the impacts the new leverage ratio requirement will have on the Company's ability to continue its current operations and grow in accordance with its strategy. The Company aims to achieve the required level by increasing its own funds through the result of its operations. At the end of 2013, the leverage ratio stood at 1.7%, calculated using currently known calculation principles.

Consolidated own funds, Group

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

Consolidated key figures for capital adequacy

	31 Dec 2013	31 Dec 2012
Capital adequacy ratio, %	39.88	33.87
Capital adequacy ratio for Tier 1 capital, %	35.42	26.22

Minimum requirement for own funds, Group

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

Funding

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

Euro Medium Term Note (EMTN) programme	EUR m 22,000
Domestic debt programme	EUR m 800
Euro Commercial Paper programme	EUR m 4,000
AUD debt programme (Kangaroo)	AUD m 2,000

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

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

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

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

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

Customer financing

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

Long-term lending

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

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

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

Leasing operations

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

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

Short-term lending

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

With interest rates remaining low, customers continued actively use short-term financing. At the end of the year, the total value of municipal paper and municipal commercial paper programmes concluded with Municipality Finance was EUR 3,265 million (2012: EUR 3,054 million). At the end of the year, the company had EUR 704 million in municipal papers and municipal commercial papers on its balance sheet (2012: EUR 753 million) and during the entire year, customers acquired EUR 8,993 million in financing under short-term programmes (2012: EUR 9,109 million).

Investment operations

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

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

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

Inspira

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

Turnover comprised a wide range of assignments related to financing solutions for public sector investments as well as various reorganisations of activities in the municipal sector. The demand for the services offered by Inspira increased in 2013, which was reflected in the number of tender requests received. Inspira acted as an advisor in 66 assignments during the year.

Governance

Corporate Governance Policy

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

The Board is responsible for ensuring that Municipality Finance complies with its Corporate Governance Policy and is committed to developing it further. As a part of the Annual Report 2013 (as a separate section), Municipality Finance publishes a corporate governance statement, including the description of the key characteristics of internal control and risk management systems related to the financial reporting processes as required in the Securities Market Act.

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

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 26 March 2013. The Annual General Meeting confirmed the financial statements for 2012 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2012. In addition, the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 21,641,120.68 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the Annual General Meeting decided that the Board of Directors shall have seven members during the 2013-2014 term of office, instead of eight members as previously, and elected the members of the Board of Directors. The Annual General Meeting also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members (more information on remuneration is provided in Note 41 to the parent company financial statements).

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

Board of Directors

At the Annual General Meeting of 26 March 2013, the Shareholders' Nomination Committee made a proposal to the Annual General Meeting to be elected for the term beginning at the end of the Annual General Meeting of 2013 and concluding at the end of the following Annual General Meeting. The Annual General Meeting elected the following members to the Board of Directors: Eva Liljeblom (chairman), Fredrik Forssell (vice chairman), Teppo Koivisto, Sirpa Louhevirta, Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala.

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

The operation of the Company's Board and its Committees is discussed in more detail in the Corporate Governance Statement included in the annual report.

Personnel

Municipality Finance Group employed 83 people at the end of 2013 (2012: 72), of whom 70 worked for the parent company (2012: 61). Wages and salaries paid to the staff totalled EUR 8.4 million in the Group (2012: EUR 7.4 million).

The President and CEO of Municipality Finance is Pekka Averio. Executive Vice President Esa Kallio acts as deputy to the CEO.

In addition, the Board of Management of Municipality Finance includes Senior Vice President Toni Heikkilä, Senior Vice President Jukka Helminen, Senior Vice President Marjo Tomminen and Senior Vice President Mari Tyster. Senior Vice President Jukka Helminen was appointed as a member of the Board of Management effective 25 February 2013.

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

Salaries and remuneration

The remuneration paid to the management and employees of Municipality Finance consists of fixed remuneration (base salary and fringe benefits) and variable remuneration based on the conditions of the remuneration system. The Board of Directors confirms the principles of the remuneration system and these are evaluated annually. The Remuneration Committee of the Board of Directors assists the Board in matters related to the remuneration systems and remunerations. A more detailed description of salaries and remuneration is available in Note 28 to the consolidated financial statements.

Internal audit

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

Risk management

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

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

The Investments department is responsible for investing within set counterparty limits. The Treasury department is in charge of managing balance sheet risk with regard to market and financial risks. The company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance carries out regular risk analyses of various risk areas. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of analysis results.

A comprehensive stress test is conducted at the company annually by an independent external party. The main aims for the test conducted in the autumn of 2013 was to analyse the development of Municipality Finance's equity and its range in 2013–2018. The testing applied to operational market and credit risks and their estimated financial impact under different scenarios. The test also included a so-called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. The results of the test showed that with the current capital requirements, the level of the company's capital is sufficient in the review period even in highly unfavourable circumstances.

There were no material changes in the company's risk standing in 2013. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements established for it. The company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the company's risk standing in relation to various risk areas every six months.

Strategic risks

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

Credit risk

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

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

Municipality Finance limits credit risk of the derivative agreements with ISDA Credit Support Annexes in case of major derivative counterparties. The company has 44 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risk related to the derivative contracts of certain counterparties.

Balance sheet and binding loan commitment liabilities

31 Dec 2013 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	10,012,742	8,329,298	-	1,578,395	105,049
Enterprises and housing corporations	10,216,288	9,287,948	-	51,968	876,371
Non-profit organisations	183,992	183,992	-	-	-
Credit institutions	4,806,755	-	589,144	4,217,610	-
Other	137,672	-	-	137,672	-
Total	**25,357,447**	**17,801,239**	**589,144**	**5,985,644**	**981,420**

31 Dec 2012 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	8,904,446	7,428,634	-	1,391,274	84,539
Enterprises and housing corporations	9,323,201	8,104,843	-	55,309	1,163,049
Non-profit organisations	166,647	166,647	-	-	-
Credit institutions	4,689,600	-	106,828	4,582,772	-
Other	608,476	-	-	608,476	-
Total	**23,692,371**	**15,700,124**	**106,828**	**6,637,831**	**1,247,588**

Breakdown of derivative agreements by counterparty credit rating

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Finnish municipalities	1,460,644	1,136,356
AAA	-	-
AA	12,551,206	10,086,480
A	38,458,997	29,999,588
BBB	274,131	2,750,112
Total	**52,744,978**	**43,972,536**

Market risk

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

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other price risks. Derivatives may only be used for hedging purposes.

Foreign currency denominated funding

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Liabilities to credit institutions	172,032	371,473
Liabilities to the public and public sector entities	245,791	343,452
Debt securities issued	19,318,547	17,788,370
Total	**19,736,370**	**18,503,296**

The company has specified limits for the following market risks:

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

Currency position

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

(EUR 1,000)	Currency	Currency position
31 Dec 2013	USD	–12
31 Dec 2012	USD	–1

Duration

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

	Receivables	Liabilities	Difference
31 Dec 2013	1.538 years	1.470 years	25 days
31 Dec 2012	1.704 years	1.600 years	38 days

Value-at-Risk

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

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2013	1,110	749	560	1,110
2012	810	924	470	1,650

Breakdown of financial liabilities by maturity

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

31 Dec 2012 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	2,049,851	225,297	1,686,581	3,961,729
Liabilities to the public and public sector entities	47,606	216,996	784,875	1,049,477
Debt securities issued	9,019,033	7,422,376	2,356,966	18,798,375
Subordinated liabilities	50,000	39,346	1,009	90,355
Total	**11,166,490**	**7,904,015**	**4,829,431**	**23,899,936**

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

Economic Value

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

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2013	10,000	2.0%
31 Dec 2012	3,100	0.7%

Income risk

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

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2013	–3,096	2.4%
31 Dec 2012	–3,066	3.3%

Price risk

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

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2013	0.33%	-53,046	10.4%
31 Dec 2012		No comparative figure	

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

Liquidity risk

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

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

Market liquidity risk

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

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

The company has been approved as a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland (parent company note 37).

Operational risks

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

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

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

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

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

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operative risk events are reported to the Board of Management and Board of Directors. No material losses were incurred as a result of operational risks in 2013.

Share capital and owners

At the end of the 2013 financial year, Municipality Finance's paid share capital registered in the Trade Register was EUR 43.0 million and the number of shares was 39,063,798. Each share confers one vote at the Annual General Meeting.

At the end of 2013, Municipality Finance had 284 shareholders (31 December 2012: 296).

10 largest shareholders 31 December 2013

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

Events after the reporting period

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

Prospects for 2014

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

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

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

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

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

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

The Group's development

	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009
Turnover (EUR m)	196.8	292.5	319.0	198.9	285.3
Net interest income (EUR m)	149.5	142.4	94.2	78.7	50.6
% of turnover	76.0	48.7	29.5	39.6	17.7
Net operating profit (EUR m)	141.3	138.6	65.3	58.3	33.7
% of turnover	71.78	47.38	20.45	29.32	11.82
Cost-to-income ratio	0.15	0.14	0.23	0.23	0.31
Loan portfolio (EUR m)	17,801	15,700	13,625	11,698	9,741
Funding portfolio (EUR m)	23,108	22,036	20,092	17,162	13,218
Balance sheet total (EUR m)	26,156	25,560	23,842	20,047	14,557
Return on equity (%) (ROE)	30.58	38.04	27.08	28.42	27.84
Return on assets, % (ROA)	0.48	0.42	0.23	0.42	0.31
Equity ratio (%)	1.80	1.35	0.86	0.85	0.91
Tier 1 capital (EUR m)	454.2	331.9	227.6	177.5	145.4
Own funds (EUR m)	511.5	428.9	288.4	245.9	207.7
Capital adequacy ratio, Tier 1 capital (%)	35.42	26.22	19.04	13.92	14.12
Capital adequacy ratio (%)	39.88	33.87	24.13	19.28	20.17
Number of employees	83	72	67	61	53

Basis for calculating the key figures

Turnover

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

Cost-to-income ratio

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

Return on equity (%) (ROE)

$$\frac{\text{Net operating profit - taxes}}{\text{Equity and non-controlling interest (average year beginning and year end)}} * 100$$

Return on assets (%) (ROA)

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

Equity ratio (%)

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

Capital adequacy ratio, Tier 1 capital (%)

$$\frac{\text{Total Tier 1 capital}}{\text{Total minimum requirement for own funds}} * 8$$

Capital adequacy ratio (%)

$$\frac{\text{Total own funds}}{\text{Minimum requirement of own funds total}} * 8$$

Municipality Finance Group

Financial statements

Consolidated statement of financial position

(EUR 1,000)	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Cash and cash equivalents	(8)	354,232	228,188
Loans and advanced to credit institutions	(9)	589,144	106,828
Loans and advances to the public and public sector entities		17,882,282	15,764,232
Debt securities	(10)	5,985,644	6,637,831
Shares and participations	(11)	10,050	10,035
Derivative contracts	(7, 12)	1,094,150	2,551,683
Intangible assets	(13, 15)	4,740	2,399
Tangible assets	(14, 15)	2,525	2,341
Other assets	(16)	1,977	2,410
Accrued income and prepayments	(17)	231,656	254,214
TOTAL ASSETS	(4, 5, 6)	**26,156,402**	**25,560,160**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		2,264,386	3,961,730
Liabilities to the public and public sector entities		929,209	1,049,477
Debt securities issued	(19)	20,269,298	18,798,375
Derivative contracts	(7, 12)	1,818,359	937,983
Other liabilities	(20)	1,395	1,306
Accrued expenses and deferred income	(21)	268,590	297,999
Subordinated liabilities	(22)	48,974	90,355
Deferred tax liabilities	(18)	85,967	77,670
TOTAL LIABILITIES	(4, 5, 6)	**25,686,178**	**25,214,895**
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(23)	42,583	42,583
Reserve fund	(23)	277	277
Fair value reserve		22,285	21,927
Reserve for invested non-restricted equity	(23)	40,366	40,366
Retained earnings		364,641	239,944
Total equity attributable to parent company equity holders		**470,153**	**345,097**
Non-controlling interest		**71**	**168**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**470,224**	**345,265**
TOTAL LIABILITIES AND EQUITY	(4, 5, 6)	**26,156,402**	**25,560,160**

Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Interest income	(29)	180,014	275,660
Interest expense	(29)	–30,524	–133,259
NET INTEREST INCOME	(29)	**149,490**	**142,402**
Commission income	(30)	1,933	1,730
Commission expense	(31)	–4,135	–3,225
Net income from securities and foreign exchange transactions	(32)	5,023	14,340
Net income from available-for-sale financial assets	(33)	214	405
Net income from hedge accounting	(34)	9,617	340
Other operating income	(35)	5	26
Admistrative expenses	(36)	–14,802	–13,495
Depreciation and impairment on tangible and intangible assets	(15)	–1,196	–1,067
Other operating expenses	(37)	–4,937	–4,874
Impairment losses on other financial assets	(38)	54	2,020
NET OPERATING PROFIT		**141,266**	**138,601**
Income tax expense	(39)	–16,567	–33,991
PROFIT FOR THE PERIOD		**124,699**	**104,611**
Profit attributable to:			
Equity holders of the parent company		124,697	104,510
Non-controlling interest		1	100

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Profit for the period		124,699	104,611
Components of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets (fair value reserve):			
Net change in fair value		1,004	47,308
Net amount transferred to profit or loss		–2,356	283
IAS 39 reclassification adjustment	(10)	167	272
Taxes related to components of other comprehensive income		290	–11,726
Change in corporate tax rate		1,254	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**125,057**	**140,747**
Total comprehensive income attributable to:			
Equityholders of the parent company		125,056	140,647
Non-controlling interest		1	100

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
CASH FLOW FROM OPERATING ACTIVITIES	**−62,468**	**−482,695**
Net change in long-term funding	3,381,994	1,478,271
Net change in short-term funding	234,714	1,127,527
Net change in long-term loans	−2,271,953	−2,046,141
Net change in short-term loans	52,280	−219,555
Net change in investments	397,440	−929,650
Net change in collateral	−1,970,860	−32,890
Interest paid	−28,664	−172,854
Interest received	171,333	309,769
Other income	16,716	9,503
Payments of operating expenses	−31,525	−10,013
Taxes paid	−13,943	3,339
CASH FLOW FROM INVESTING ACTIVITIES	**−3,709**	**−1,128**
Acquisition of tangible assets	−748	−390
Acquisition of intangible assets	−2,961	−738
CASH FLOW FROM FINANCING ACTIVITIES	**−40,098**	**−173**
Change in subordinated liabilities	−40,000	-
Dividens paid	−98	−173
CHANGE IN CASH FUNDS	**−106,275**	**−483,996**
CASH FUNDS AT 1 JANUARY	**1,991,448**	**2,475,444**
CASH FUNDS AT 31 DECEMBER	**1,885,173**	**1,991,448**

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

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	354,232	228,188
Loans and advances to credit institutions	589,144	106,828
Debt securities maturing within three months	941,796	1,656,432
TOTAL CASH FUNDS	**1,885,173**	**1,991,448**

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders: Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
EQUITY AT 31 DECEMBER 2011	**42,583**	**277**	**−14,210**	**40,366**	**135,434**	**204,450**	**241**	**204,691**
Dividends paid for 2011	-	-	-	-	-	-	**−173**	−173
Profit for the period	-	-	-	-	104,510	104,510	**100**	104,610
Components of other comprehensive income								
Items to be reclassified to profit or loss in subsequent periods								
Available-for-sale financial assets (fair value reserve):								
Net change in fair value	-	-	47,308	-	-	47,308	**-**	47,308
Net amount transferred to profit or loss	-	-	283	-	-	283	**-**	283
IAS 39 reclassification adjustment	-	-	272	-	-	272	**-**	272
Taxes related to components of other comprehensive income	-	-	−11,726	-	-	−11,726	**-**	−11,726
Change in corporate tax rate	-	-	-	-	-	-	**-**	-
EQUITY AT 31 DECEMBER 2012	**42,583**	**277**	**21,927**	**40,366**	**239,944**	**345,097**	**168**	**345,265**
Dividends paid for 2012	-	-	-	-	-	-	**−98**	−98
Profit for the period	-	-	-	-	124,698	124,698	**1**	124,699
Components of other comprehensive income								
Items to be reclassified to profit or loss in subsequent periods								
Available-for-sale financial assets (fair value reserve):								
Net change in fair value	-	-	1,004	-	-	1,004	**-**	1,004
Net amount transferred to profit or loss	-	-	−2,356	-	-	−2,356	**-**	−2,356
IAS 39 reclassification adjustment	-	-	167	-	-	167	**-**	167
Taxes related to components of other comprehensive income	-	-	290	-	-	290	**-**	290
Change in corporate tax rate	-	-	1,253	-	-	1,253	**-**	1,253
EQUITY AT 31 DECEMBER 2013	**42,583**	**277**	**22,285**	**40,366**	**364,642**	**470,153**	**71**	**470,224**

Notes to the consolidated financial statements

Notes to the statement of financial position and other notes

Notes to the income statement

Note 1. Summary of significant accounting policies

General information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (referred to as Municipality Finance or the company) and Financial Advisory Services Inspira Ltd (subsidiary). The role of Municipality Finance is to offer market-based funding to municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA) by acquiring funding from capital markets at competitive costs.

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

A copy of the consolidated financial statements is available online at www.munifin.fi or from the Group's parent company at Jaakonkatu 3 A, 00100 Helsinki.

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 6 February 2014. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financi al statements at the Annual General Meeting held after their publication. The Annual General Meeting may also alter the financial statements.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2013. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) no. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

The consolidated financial statements have been prepared under historical cost convention, except for 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 hedge accounting.

Capital adequacy information according to Financial Supervisory Authority standard 4.5 (Pillar 3) is presented as part of these financial statements and, where applicable, in the Report of the Board of Directors.

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

Municipality Finance reclassified certain debt securities in its prefunding portfolio. Based on the amendments to IAS 39 and IFRS 7, debt securities classified as available-for-sale were transferred to held-to-maturity at their fair value on 1 July, 2008. In addition, debt securities classified as available-for-sale were reclassified to held-to-maturity investments also on 1 January, 2008. The transfers are presented in Note 10.

In preparing the financial statements under IFRS, the Group management, is required to make certain estimates and use its judgement in the application of the accounting policies. The section "Accounting policies requiring management judgement and key uncertainty factors related to estimates" under "Summary of significant accounting policies" provides information on the items in which the figures presented may be most affected by management judgement or uncertainty factors.

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

Basis of consolidation

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

Inter-company share ownership has been eliminated by using the acquisition method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement. Non-controlling interest is presented in the statement of financial position as a separate item under "Equity".

Segment reporting

Municipality Finance Group's line of business is credit institution operations and providing financial advisory services. The Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decision-maker. Group-level information pursuant to IFRS 8 with respect to information on products and services are presented in Note 29. Breakdown of net interest income and expense and 30. Commission income. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The Group does not have any single customer that constitutes more than 10% of its income.

Translation of foreign currency denominated items

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

Classification of financial instruments and measurement

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

Loans and receivables

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

The items are initially recognised at fair value adjusted by transaction costs and subsequently measured at amortised cost. However, lending included in hedge accounting are measured at fair value for the risk hedged.

Available-for-sale financial assets

Available-for-sale financial assets are assets not included in derivative assets that have either been specifically classified in this category or not classified in any other category.

The company includes investments of pre-funding in debt securities and fund units in this category.

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

Held-to-maturity investments

The financial assets classified in this category are non-derivative financial assets with fixed or determinable payments that mature on a specific date and that the company intends and is able to hold to maturity. These financial assets are recorded at amortised cost using the effective interest rate method upon initial recognition.

Financial assets and liabilities at fair value through profit or loss

The company classifies its short term debt instruments denominated in foreign currencies (ECP) and certificates of deposit at fair value through profit or loss under the fair value option. Investments in debt securities of which the interest risk is hedged with interest rate derivatives as well as certain floating rate lending are also classified as fair value through profit or loss under the fair value option. Short term debt instruments denominated in foreign currencies and debt securities for which the interest risk is hedged with interest rate swaps but not included in hedge accounting are valued using the fair value option in order to eliminate the accounting mismatch between the derivative and the hedged item. The fair value option is also applied to certificates of deposit and certain loans, as the items in question are reported to the management and managed on the basis of their fair value. Changes in the fair values of these items are recognised in the income statement under Net income from securities and foreign exchange transactions.

Derivatives are recognised at fair value through profit or loss, and derivative contracts are recognised on the balance sheet. Positive fair value changes of derivative contracts that are recorded on the balance sheet are recognised in balance sheet assets under Derivative contracts and negative fair value changes in balance sheet liabilities under the corresponding item Derivative contracts. Fair value changes of derivatives which are not included in fair value hedge accounting are recognised in the income statement under Net income from securities and foreign exchange transactions.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment of an item or group recognised under financial assets can include information of the following loss events:

- the issuer or debtor is experiencing significant financial difficulty;
- breach of contract, such as default or delinquency in interest or principal payments;

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

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

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

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

Financial liabilities

The company's financial liabilities are measured at amortised cost using the effective interest rate method. Funding in hedge accounting is recognised at fair value for the risk hedged. Recognition of transaction costs in funding: If the amount of debt on the subscription date is lower or higher than the amount the company is required to repay under its terms and conditions on maturity, the debt adjusted by commissions expenses, is recognised on the balance sheet. Differences between the issue price and the nominal value are amortised until 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 financial year in which they accrue.

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 independent parties.

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

Embedded derivatives

The company has financial assets and liabilities in which the financial characteristics of the embedded derivative are not closely related with the financial characteristics of the principal contract. Embedded derivatives in such hybrid instruments are recognised on the balance sheet, and changes in the fair value of the derivative are recognised through profit or loss. The balance sheet value of the host contract is calculated in accordance with the instrument classification laid out in IAS 39. The company has, in its funding, hedged all embedded derivatives.

Hedge accounting

The company applies fair value hedge accounting for interest risk to the following items: fixed rate lending, lending tied to long-term reference rates, lending based on structured interest rate terms, financial leasing at fixed rates, fixed rate funding and funding denominated in foreign currencies and fixed rate investments.

The relationship between hedging instruments and the hedged items is documented at inception of the hedge relationship. Hedging is considered effective when the hedge 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 in 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 receivables are recognised on 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.

Offsetting financial instruments

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

Leases

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

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

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

Intangible and tangible assets

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

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

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

Impairment of intangible and tangible fixed assets

The company assesses at each 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 carrying amount of an asset item is greater than the recoverable amount, an impairment loss is recognised in the income statement.

Recognition of income and expenses

Net interest income

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

Commission income and expenses

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

Net income from hedge accounting

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

Employee benefits

The company's remuneration system is contribution based. The system is described in the notes to the parent company's financial statements. 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.

Provisions

The voluntary credit loss allowance recognised under the Finnish Accounting Standards does not meet the recognition criteria set out in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and the allowance is thus released in the consolidated financial statements and transferred to equity. A deferred tax liability has been recorded for the released credit loss allowance 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 are recognised in the income statement, except if they are associated with other comprehensive income or items directly recognised in equity. In this case, the tax is also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

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

The company does not have tax-related items for which deferred tax assets or liabilities have not been recorded.

Exceptional items

Transactions that are not part of ordinary business operations and are of exceptional size or nature are recognised as exceptional items. The income statements and cash flow statements for 2013 and the comparison year 2012 do not include any exceptional items.

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

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

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

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

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

The risk management principles applied are described in the Report of Board of Directors and the notes to the consolidated financial statements.

Application of new standards

New and amended standards applied during the financial year ended 31 December 2013

The company has applied the following new and amended standards that were effective from the beginning of 2013:

Amendments to IAS 1 *Presentation of Financial Statements*: The major change is the requirement to group items of other comprehensive income as to whether or not they are reclassifiable to profit or loss subsequently when specific conditions are met. The amendments have had an impact on the presentation of the company's Other comprehensive income.

IFRS 13 *Fair Value Measurement*: IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value, but it provides guidance on how to measure fair value when fair value is required or permitted in another standard. The new requirements for disclosures included in IFRS 13 have been taken into account in the notes to the consolidated financial statements.

Amendments to IFRS 7 *Financial Instruments: Disclosures:* The amendments clarify disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The impact of the amended standard has been taken into account in the notes to the consolidated financial statements.

Annual Improvements to IFRSs 2009-2011 (May 2012): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total five standards. Their impact has not been significant.

Other new or amended standards that entered into effect in 2013 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted

The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

IFRS 10 *Consolidated Financial Statements and subsequent amendments* (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is assessed not to have a material impact on the company's consolidated financial statements.

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

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

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

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

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

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

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for financial years beginning on or after 1 January 2014): The amendments made to IAS 39 provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which a derivative instrument defined as a hedging instrument is changed from a single counterparty to a central counterparty as a result of regulations. The amendments are not assessed to have a significant impact on the company's consolidated financial statements.

Standards published by IASB that have not yet been approved for application in the EU as of 31 December 2013:

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

IFRS 9 *Financial Instruments and subsequent amendments* (the effective date has been postponed from the original date of 1 January 2015, with the new effective date to be determined later): IFRS 9 is the first step of the IASB's originally three-phase project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. The amendments resulting from the first phase (published in November 2009) address the classification and measurement of financial assets. Based on measurement, financial assets are classified into two main groups: financial assets at amortised cost and financial assets at fair value. Classification depends on a company's business model and the characteristics of contractual cash flows. The amendments published in October 2010 deal with the classification and measurement of financial liabilities and the standard retains most of the related IAS 39 requirements. Amendments dealing with general hedge accounting were issued in November 2013. The unfinished part of IFRS 9, impairment of financial assets, is still a work in progress. Furthermore, the IASB is also considering amendments regarding the classification and measurement of financial assets. The macro hedge accounting phase has been taken apart from the IFRS 9 project as a separate project. As the IFRS 9 project is incomplete, the impacts of the standard on the consolidated financial statements cannot yet be assessed.

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

Note 2. Risk management

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

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

The Investments department is responsible for investing within set counterparty limits. The Treasury department is in charge of managing balance sheet risk with regard to market and financial risks. The company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance carries out regular risk analyses of various risk areas. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of analysis results.

A comprehensive stress test is conducted at the company annually by an independent external party. The main aims for the test conducted in the autumn of 2013 was to analyse the development of Municipality Finance's equity and its range in 2013-2018. The testing applied to operational market and credit risks and their estimated financial impact under different scenarios. The test also included a so-called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. The results of the test showed that with the current capital requirements, the level of the company's capital is sufficient in the review period even in highly unfavourable circumstances.

There were no material changes in the company's risk standing in 2013. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements established for it. The company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the company's risk standing in relation to various risk areas every six months.

Strategic risks

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

Credit risk

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

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

Balance sheet and binding loan commitment liabilities

31 Dec 2013 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	10,012,742	8,329,298	-	1,578,395	105,049
Enterprises and housing corporations	10,216,288	9,287,948	-	51,968	876,371
Non-profit organisations	183,992	183,992	-	-	-
Credit institutions	4,806,755	-	589,144	4,217,610	-
Other	137,672	-	-	137,672	-
Total	**25,357,447**	**17,801,239**	**589,144**	**5,985,644**	**981,420**

31 Dec 2012 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	8,904,446	7,428,634	-	1,391,274	84,539
Enterprises and housing corporations	9,323,201	8,104,843	-	55,309	1,163,049
Non-profit organisations	166,647	166,647	-	-	-
Credit institutions	4,689,600	-	106,828	4,582,772	-
Other	608,476	-	-	608,476	-
Total	**23,692,371**	**15,700,124**	**106,828**	**52,744,978**	**43,972,536**

Municipality Finance limits credit risk of the derivative agreements with ISDA Credit Support Annexes in case of major derivative counterparties. The company has 44 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risk related to the derivative contracts of certain counterparties.

Breakdown of nominal value of derivative agreements by counterparty credit rating

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Finnish municipalities	1,460,644	1,136,356
AAA	-	-
AA	12,551,206	10,086,480
A	38,458,997	29,999,588
BBB	274,131	2,750,112

Market risk

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

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other price risks. Derivatives may only be used for hedging purposes.

Foreign currency denominated funding

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Liabilities to credit institutions	172,032	371,473
Liabilities to the public and public sector entities	245,791	343,452
Debt securities issued	19,318,547	17,788,370
Total	**19,736,370**	**18,503,296**

The company has specified limits for the following market risks:

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

Currency position

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

(EUR 1,000)	Currency	Currency position
31 Dec 2013	USD	–12
31 Dec 2012	USD	–1

Duration

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

	Receivables	Liabilities	Difference
31 Dec 2013	1.538 years	1.470 years	25 days
31 Dec 2012	1.704 years	1.600 years	38 days

Value-at-Risk

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

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2013	1,110	749	560	1,110
2012	810	924	470	1,650

Economic Value

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

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2013	10,000	2.0%
31 Dec 2012	3,100	0.7%

Income risk

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

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2013	–3,096	2.4%
31 Dec 2012	–3,066	3.3%

Price risk

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

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2013	0.33%	–53,046	10.4%
31 Dec 2012		No comparative figure	

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

Liquidity risk

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

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

Breakdown of financial liabilities by maturity

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

31 Dec 2012 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	2,049,851	225,297	1,686,581	3,961,729
Liabilities to the public and public sector entities	47,606	216,996	784,875	1,049,477
Debt securities issued	9,019,033	7,422,376	2,356,966	18,798,375
Subordinated liabilities	50,000	39,346	1,009	90,355
Total	**11,166,490**	**7,904,015**	**4,829,431**	**23,899,936**

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

Market liquidity risk

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

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

The company has been approved as a counterparty of monetary policy of the Bank of Finland. The company has pledged loans to the Bank of Finland (parent company note 37).

Operational risks

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

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

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

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

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

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operative risk events are reported to the Board of Management and the Board of Directors. No material losses were incurred as a result of operational risks in 2013.

Note 3. Capital adequacy

Municipality Finance's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan annually.

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

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against currency risk by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small and it is not necessary to reserve capital for the currency risk. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. In capital adequacy calculations for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit

Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Municipality Finance Group's own funds totalled EUR 511.5 million at the end of the year (2012: EUR 428.9 million). The Group's Tier 1 capital totalled EUR 454.2 million at the end of 2013 (2012: EUR 331.9 million). No provision for dividend distribution was made for Tier 1 capital, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its dividend proposal based on the company's financial situation, the applicable regulation and, taking into account the company's ownership structure. The Group's Tier 2 capital totalled EUR 57.3 million at the end of the year (2012: EUR 96.9 million). Detailed descriptions of the subordinated loans and debenture loans are included in Note 22 in the notes of the consolidated financial statements.

Municipality Finance repaid the "Upper Tier II loan 1/2008" bond of EUR 40 million on 31 March 2013 with the permission of the Finnish Financial Supervisory Authority. In the 2012 financial statements, the loan was still fully included in own funds and capital adequacy.

In its Tier 1 capital, the Company has a capital loan of EUR 10 million in addition to capital investments amounting to EUR 1 million. These items do not fully satisfy the requirements of capital adequacy regulations that entered into force from the beginning of 2014. As a result, only the portion of these items determined by the competent authority can be included in own funds going forward.

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

The leverage ratio requirement is scheduled to enter into force from the beginning of 2018. The company has taken this into account by beginning to prepare for changes. The final level and content of the leverage ratio requirement is likely to become known in 2017. Municipality Finance has performed analyses of the impacts a new leverage ratio requirement will have on the company's ability to continue its current operations and grow in accordance with its strategy. The company aims to achieve the required level by increasing its own funds through the result of its operations. At the end of 2013, the leverage ratio stood at 1.7%, calculated using currently known calculation principles.

Consolidated own funds

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

Consolidated key figures for capital adequacy

	31 Dec 2013	31 Dec 2012
Capital adequacy ratio, %	39.88	33.87
Capital adequacy ratio for Tier 1 capital, %	35.42	26.22

Minimum requirement for own funds, Group

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

Exposure by category

Exposure category (EUR 1,000)	Total exposure **2013**	Risk-weighted receivables **2013**	Total exposure **2012**	Risk-weighted receivables **2012**
Claims on governments and central banks	871,488	-	581,870	-
Claims on local government and local authorities	9,042,168	-	8,264,929	-
Claims on international organisations	223,518	-	220,068	-
Claims on credit institutions and investment firms	3,631,141	477,916	4,383,058	569,367
Claims on corporates	4,177,264	-	3,728,430	-
Claims covered by mortgaged real property	5,415,371	-	4,594,011	-
Covered bonds	1,943,658	209,159	1,670,960	169,096
Securitised items	142,995	364,112	164,309	359,441
Shares in investment funds	10,023	1,651	10,008	1,310
Other items	236,189	34,546	258,995	38,595
Off-balance-sheet items	981,420	-	1,247,588	-
Total	**26,675,235**	**1,087,383**	**25,124,227**	**1,137,809**

Remaining maturity of exposures by category

Exposure category 31 Dec 2013 (EUR 1,000)	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Claims on governments and central banks	404,241	-	199,207	227,567	40,473	871,488
Claims on local government and local authorities	683,479	290,124	2,133,158	4,282,262	1,653,145	9,042,168
Claims on international organisations	-	-	136,375	87,143	-	223,518
Claims on credit institutions and investment firms	1,390,098	160,883	1,783,852	268,793	27,516	3,631,141
Claims on corporates	38,523	50,591	294,014	534,120	3,260,015	4,177,264
Claims covered by mortgaged real property	39,575	43,479	349,817	468,559	4,513,942	5,415,371
Covered bonds	20,025	239,486	1,300,089	384,058	-	1,943,658
Securitised items	-	-	30,435	24,946	87,614	142,995
Shares in investment funds	-	-	-	-	10,023	10,023
Other items	80,126	139,584	16,479	-	-	236,189
Off-balance-sheet items	981,420	-	-	-	-	981,420
Total	**2,656,067**	**924,146**	**6,243,426**	**6,277,448**	**9,592,728**	**26,675,235**

Exposure category 31 Dec 2012 (EUR 1,000)	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Claims on governments and central banks	248,252	-	96,642	192,835	44,141	581,870
Claims on local government and local authorities	755,078	268,400	2,052,034	3,875,261	1,314,155	8,264,929
Claims on international organisations	30,021	-	138,338	51,709	-	220,068
Claims on credit institutions and investment firms	1,718,075	923,206	1,568,257	159,636	13,883	4,383,058
Claims on corporates	49,923	21,706	291,636	471,563	2,893,602	3,728,430
Claims covered by mortgaged real property	689	31,971	368,015	541,166	3,652,171	4,594,011
Covered bonds	66,565	72,666	1,428,180	103,549	-	1,670,960
Securitised items	947	-	30,211	10,000	123,151	164,309
Shares in investment funds	-	-	-	-	10,008	10,008
Other items	88,520	152,853	17,622	-	-	258,995
Off-balance-sheet items	1,247,588	-	-	-	-	1,247,588
Total	**4,205,658**	**1,470,802**	**5,990,936**	**5,405,719**	**8,051,110**	**25,124,227**

Exposure by risk weight before and after credit risk reduction techniques

Risk weight (%) 31 Dec 2013 (EUR 1,000)	Value of exposure before credit risk reduction techniques	Value of exposure after credit risk reduction techniques	Risk-weighted receivables
0	11,189,545	22,058,589	-
10	1,820,240	1,820,240	182,024
20	3,973,745	2,697,336	539,467
50	28,311	51,542	25,771
100	9,622,694	6,828	6,828
Other risk weights	40,700	40,700	333,293
Total	**26,675,235**	**26,675,235**	**1,087,383**

Risk weight (%) 31 Dec 2012 (EUR 1,000)	Value of exposure before credit risk reduction techniques	Value of exposure after credit risk reduction techniques	Risk-weighted receivables
0	10,383,886	20,494,452	-
10	1,674,334	1,674,334	167,433
20	4,588,032	2,799,906	559,981
50	39,731	47,680	23,840
100	8,403,245	72,855	72,855
Other risk weights	34,999	34,999	313,700
Total	**25,124,227**	**25,124,226**	**1,137,809**

Notes to the statement of financial position and other notes

Note 4. Financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Financial assets

31 Dec 2012 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value through profit and loss	Hedging derivative contracts	Total	Fair value
Cash and cash equivalents	228,188	-	-	-	-	228,188	228,188
Loans and advances to credit institutions	106,828	-	-	-	-	106,828	106,828
Loans and advances to the public and public sector entities	15,439,889	-	-	324,343	-	15,764,232	16,451,002
Debt securities	-	4,435,129	885,299	1,317,403	-	6,637,831	6,622,858
Shares and participations	-	10,035	-	-	-	10,035	10,035
Derivative contracts	-	-	-	273,441	2,278,242	2,551,683	2,551,683
Total	**15,774,905**	**4,445,164**	**885,299**	**1,915,187**	**2,278,242**	**25,298,796**	**25,970,593**

Loans and advances to the public and public sector entities includes EUR 64,107 thousand receivables based on leasing agreements.

Fair value hedge accounting for interest rate risk is applied to EUR 1,846,917 thousand of debt securities available-for-sale in 2012. Loans and advances to the public and public sector entities includes EUR 6,368,984 thousand in loans and receivables included in fair value hedge accounting for interest rate risk.

Financial liabilities

31 Dec 2012 (EUR 1,000)	Other financial liabilities	Fair value through profit or loss	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	3,961,730	-	-	3,961,730	3,961,513
Liabilities to the public and public sector entities	1,049,477	-	-	1,049,477	1,045,307
Debt securities issued	17,884,532	913,843	-	18,798,375	18,795,007
Derivative contracts	-	321,554	616,429	937,983	937,983
Subordinated liabilities	90,355	-	-	90,355	91,371
Total	**22,986,094**	**1,235,397**	**616,429**	**24,837,920**	**24,831,182**

Fair value hedge accounting for interest rate risk is applied to EUR 16,883,952 thousand of other financial liabilities in 2012.

Note 5. Fair values of financial assets and liabilities

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

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

31 Dec 2012 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt securities	737,575	579,828	-	1,317,403
Loans and advances to the public and public sector entities	-	6,399,702	-	6,399,702
Derivative contracts	-	273,441	-	273,441
Hedging derivatives	-	2,278,242	-	2,278,242
Available-for-sale assets				
Debt securities	4,418,203	16,926	-	4,435,129
Shares in investment funds	10,035	-	-	10,035
Total	**5,165,812**	**9,548,139**	**-**	**14,713,951**

31 Dec 2012 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Liabilities to credit institutions	-	1,928,415	-	1,928,415
Liabilities to the public and public sector entities	-	851,236	-	851,236
Debt securities issued	-	15,018,143	-	15,018,143
Subordinated liabilities	-	39,346	-	39,346
Derivative contracts	-	321,554	-	321,554
Hedging derivatives	-	616,429	-	616,429
Total	**-**	**18,775,123**	**-**	**18,775,123**

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

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

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

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

During the 2013 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.
During the 2012 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

Note 6. Breakdown of the balance sheet by maturity

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

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

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

Breakdown of financial assets and liabilities by maturity

31 Dec 2012 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Loans and advances to credit institutions	98,828	8,000	-	-	-	106,828
Loans and advances to the public and public sector entities	223,208	1,074,287	5,185,649	3,813,222	5,467,866	15,764,232
Debt securities	1,656,432	1,020,865	3,261,629	517,729	181,174	6,637,831
Total	**1,978,469**	**2,103,152**	**8,447,278**	**4,330,951**	**5,649,040**	**22,508,890**

31 Dec 2012 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	1,781,880	267,971	225,297	355,912	1,330,669	3,961,730
Liabilities to the public and public sector entities	20,986	26,620	216,996	473,148	311,726	1,049,477
Debt securities issued	2,854,234	6,164,798	7,422,376	1,695,948	661,018	18,798,375
Subordinated liabilities	40,000	10,000	39,346	-	1,009	90,355
Total	**4,697,101**	**6,469,389**	**7,904,016**	**2,525,009**	**2,304,422**	**23,899,936**

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company expects to call in 40-50% of its callable liabilities in 2013. In 2012, the company called in 34% of its callable liabilities.

Note 7. Offsetting financial assets and liabilities

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

31 Dec 2013 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Amounts not offset in the statement of financial position: Received cash collateral	Given cash collateral	Net
Financial assets						
Derivative contracts	1,094,150	-	1,094,150	−354,890	-	739,260
Financial liabilities						
Derivative contracts	1,818,359	-	1,818,359	-	−533,200	1,285,159

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

31 Dec 2012 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Amounts not offset in the statement of financial position: Received cash collateral	Given cash collateral	Net
Financial assets						
Derivative contracts	2,551,683	-	2,551,683	−1,774,050	-	777,633
Financial liabilities						
Derivative contracts	937,983	-	937,983	-	−1,500	936,483

The company has not offset any financial assets or liabilities in its statement of financial position in 2012.

Note 8. Cash and cash equivalents

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Cash	3	3
Central bank deposits payable on demand	354,229	228,185
Total	**354,232**	**228,188**

Note 9. Loans and advances to credit institutions

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

31 Dec 2012 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	56,242	5,144	51,098
Foreign credit institutions	50,586	586	50,000
Total	**106,828**	**5,730**	**101,098**

Note 10. Debt securities

31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities issued by public sector entities	926,386	652,008	1,578,395
Held-to maturity	-	652,008	652,008
Municipal commercial papers	-	652,008	652,008
Available-for-sale	900,169	-	900,169
Government bonds	517,258	-	517,258
Bonds issued by other public sector entities	382,910	-	382,910
Fair value through profit or loss	26,217	-	26,217
Bonds issued by other public sector entities	26,217	-	26,217
Debt securities issued by other than public sector entities	4,103,393	303,856	4,407,250
Held-to-maturity	-	172,816	172,816
Bank bonds	-	4,999	4,999
Commercial papers	-	51,968	51,968
Other debt securities	-	115,849	115,849
Available-for-sale	3,437,314	11,145	3,448,459
Bank bonds	3,426,636	-	3,426,636
Other debt securities	10,678	11,145	21,823
Fair value through profit or loss	666,079	119,896	785,975
Bank certificates of deposit	-	119,896	119,896
Bank bonds	666,079	-	666,079
Total	**5,029,780**	**955,865**	**5,985,644**
Eligible for central bank refinancing	4,654,390	3,903	4,658,293
Total non-interest bearing	4,999	-	4,999

31 Dec 2012 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities issued by public sector entities	693,933	697,341	1,391,274
Held-to-maturity	-	697,341	697,341
Municipal commercial papers	-	697,341	697,341
Available-for-sale	667,143	-	667,143
Government bonds	333,618	-	333,618
Bonds issued by other public sector entities	333,525	-	333,525
Fair value through profit or loss	26,790	-	26,790
Bonds issued by other public sector entities	26,790	-	26,790
Debt securities issued by other than public sector entities	4,594,494	652,063	5,246,557
Held-to-maturity	132,649	55,309	187,958
Bank bonds	-	4,999	4,999
Commercial papers	-	55,309	55,309
Other debt securities	-	127,650	127,650
Available-for-sale	3,751,060	16,926	3,767,986
Bank certificates of deposit	-	-	-
Bank bonds	3,338,586	-	3,338,586
Other debt securities	412,474	16,926	429,400
Fair value through profit or loss	710,785	579,828	1,290,613
Bank certificates of deposit	-	579,828	579,828
Bank bonds	659,358	-	659,358
Other debt securities	51,426	-	51,426
Total	**5,288,427**	**1,349,404**	**6,637,831**
Eligible for central bank refinancing	4,534,815	70,152	4,604,967
Total non-interest bearing	4,999	-	4,999

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

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

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

2013	1,139
2012	2,182
2011	5,238
2010	3,903
2009	–3,487
2008	–22,319
Cumulative	**–13,344**

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

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

Note 11. Shares and participations

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

31 Dec 2012 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	10,008	27	10,035	-
Total	**10,008**	**27**	**10,035**	**-**

Note 12. Derivative contracts

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 Dec 2013 (EUR 1,000)	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,688,698	2,692,239	2,093,043	**6,473,980**	45,484	–59,989
Forward rate agreements	5,000	-	-	**5,000**	-	–2
Currency derivatives						
Cross currency interest rate swaps	-	23,807	15,354	**39,160**	145	–142
Forward exchange contracts	1,442,027	-	-	**1,442,027**	-	–26,134
Equity derivatives	216,133	1,989,851	26,382	**2,232,366**	88,486	–88,486
Other derivatives	29,896	166,888	56,500	**253,285**	34,422	–34,182
Total	**3,381,755**	**4,872,785**	**2,191,279**	**10,445,819**	**168,537**	**–208,935**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,685,500	10,568,883	13,158,175	**25,412,558**	273,041	–258,375
Currency derivatives						
Cross currency interest rate swaps	3,476,168	11,039,449	2,370,984	**16,886,601**	652,572	–1,351,049
Total	**5,161,668**	**21,608,332**	**15,529,159**	**42,299,159**	**925,613**	**–1,609,424**
Grand total	**8,543,423**	**26,481,118**	**17,720,438**	**52,744,978**	**1,094,150**	**–1,818,359**

31 Dec 2012 (EUR 1,000)	Nominal value of underlying instrument, Remaining maturity: Less than 1 year	1–5 years	Over 5 years	Total	Fair value: Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	582,000	4,068,764	1,545,619	**6,196,383**	56,035	–91,858
Currency derivatives						
Cross currency interest rate swaps	-	35,554	18,304	**53,858**	329	–323
Forward exchange contracts	927,088	-	-	**927,088**	592	–13,249
Equity derivatives	1,002,111	2,701,622	86,760	**3,790,493**	172,391	–172,391
Other derivatives	145,019	164,043	56,500	**365,562**	44,093	–43,733
Total	**2,656,217**	**6,969,983**	**1,707,184**	**11,333,384**	**273,441**	**–321,554**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	261,784	7,434,418	10,928,828	**18,625,030**	516,296	–378,058
Currency derivatives						
Cross currency interest rate swaps	2,483,905	7,587,950	3,969,502	**14,041,357**	1,761,946	–238,371
Total	**2,745,689**	**15,022,368**	**14,898,329**	**32,666,387**	**2,278,242**	**–616,429**
Grand total	**5,401,907**	**21,992,351**	**16,605,513**	**43,999,772**	**2,551,683**	**–937,983**

Note 13. Intangible assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
IT systems	4,740	2,399
Total	**4,740**	**2,399**

Note 14. Tangible assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Real estate	873	914
Office renovation expenses	604	814
Other tangible assets	1048	614
Total	**2,525**	**2,341**

Note 15. Changes in intangible and tangible assets during the financial year

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

31 Dec 2012 (EUR 1,000)	Intangible assets	Tangible assets		
	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	4,156	1,167	2,888	4,055
+ Additions	738	40	350	390
- Disposals	–55	-	-	-
Acquisition cost 31 Dec	4,839	1,207	3,238	4,445
Accumulated depreciation 1 Jan	1,882	254	1,340	1,594
- Accumulated depreciation on disposals	–1	-	-	-
+ Depreciation for the financial year	559	39	470	509
Accumulated depreciation 31 Dec	2,440	293	1,810	2,103
Carrying amount 31 Dec	**2,399**	**914**	**1,428**	**2,342**

Note 16. Other assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Leasing receivables	3,200	1,954
Other	–1,222	456
Total	**1,977**	**2,410**

Note 17. Accrued income and prepayments

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Interest	229,647	253,683
Other	2,009	531
Total	**231,656**	**254,214**

Note 18. Deferred tax assets and liabilities

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

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

Deferred tax liabilities in 2013 have been calculated applying the corporate tax rate of 20% that entered into force on 1 January 2014. The change in tax rate from 24.5% to 20% was approved in Finnish Government proposal HE 185/2013 on 17 December 2013. A decrease of EUR 12,959 thousand in the deferred tax liability was recorded in the income statement as a result of the change in tax rate.

Deferred tax assets (EUR 1,000)	31 Dec 2011	Recognised in the income statement	Recognised in the statement of comprehen-sive income	31 Dec 2012
On other temporary differences				
On fair value reserve	4,611	-	-4,611	-
Total	**4,611**	**-**	**-4,611**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2011	Recognised in the income statement	Recognised in the statement of comprehen-sive income	31 Dec 2012
On other temporary differences				
On fair value reserve	-	-	7,115	7,115
On change in voluntary provisions	43,605	26,950	-	70,555
Total	**43,605**	**26,950**	**7,115**	**77,670**

Note 19. Debt securities issued

	31 Dec 2013		31 Dec 2012	
(EUR 1,000)	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	18,677,686	22,391,949	17,434,533	20,045,787
Other	1,591,612	1,592,027	1,363,841	1,377,088
Total	**20,269,298**	**23,983,977**	**18,798,375**	**21,422,875**

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

Note 20. Other liabilities

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Payment transfer	6	1,059
Other	1,389	247
Total	**1,395**	**1,306**

Note 21. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Interest	260,743	284,677
Other	7,847	13,322
Total	**268,590**	**297,999**

Note 22. Subordinated liabilities

31 Dec 2013 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest re-payment
1) Debenture loan 1/06	EUR	35,000	37,965	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10.12.2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		**46,009**	**48,974**		

31 Dec 2012 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest re-payment
1) Debenture loan 1/06	EUR	35,000	39,346	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10.12.2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 Mths	31.3.2013
Total		**86,009**	**90,355**		

Loan terms and conditions:

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

2) The loan does not have a maturity date. The company has agreed to pay interest only if the amount to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets on the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervisory Authority grants permission to repay the loan. Under the terms of the loan, the company has the right on 10 December 2010, and each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the financial year. 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 seniority as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loan has priority over the company's shares.

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are sufficient, and the Board of Directors of the credit institution approves. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2013.

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 Supervisory Authority as of 31 March 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 seniority 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.

   On 31 March 2013, the Company repaid the perpetual loan of EUR 40 million (Perpetual loan 1/08) with the permission of the Finnish Financial Supervisory Authority.

Note 23. Equity

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

(EUR 1,000)	Number of shares	Share capital	Reserve fund	Reserve for invested non-restricted equity	Total
1.1.2012	39,063,798	42,583	277	40,366	83,226
31.12.2012	39,063,798	42,583	277	40,366	83,226
31.12.2013	39,063,798	42,583	277	40,366	83,226

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

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

Note 24. Contingent assets

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

Note 25. Liabilities and collateral

Liabilities and collateral (EUR 1,000)	31 Dec 2013	31 Dec 2012
Loans pledged to the central bank	2,207,573	2,036,320
Loans pledged to the Municipal Guarantee Board	15,451,996	13,381,558
Debt securities pledged to the Municipal Guarantee Board	5,191,218	5,738,476
Deposits pledged to the Municipal Guarantee Board	-	20,000
Total	**22,850,788**	**21,176,354**

Off-balance-sheet commitments (EUR 1,000)	31 Dec 2013	31 Dec 2012
Binding loan commitments	981,420	1,247,588
Total	**981,420**	**1,247,588**

Note 26. Lease and other rental commitments

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Maturing within one year	1,405	1,456
Maturing in one to five years	1,941	3,040
Maturing in more than five years	-	-
Total	**3,346**	**4,496**

Note 27. Related-party transactions

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

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

Transactions with, receivables from and liabilities to the subsidiary

(EUR 1,000)	**2013**	**2012**
Sales	41	33
Purchases	–38	–75
Receivables	0	-
Liabilities	10	19

Note 28. Salaries and remuneration

Employee benefits for management

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

Salaries and remuneration (EUR 1,000)	**2013**	**2012**
President and CEO	586	497
Deputy to the CEO	465	389
Total	**1,051**	**886**

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

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

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

Remuneration of the Board of Directors

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

Salaries and remuneration (EUR 1,000)	**2013**	**2012**
Members of the Board of Directors		
Eva Liljeblom, Chairman	41	35
Fredrik Forssell, Vice Chairman	26	19
Teppo Koivisto	22	17
Tapio Korhonen, member until 26 March 2013	12	19
Sirpa Louhevirta	21	17
Ossi Repo, member until 26 March 2013	10	15
Tuula Saxholm, member from 26 March 2013	11	-
Asta Tolonen	21	15
Juha Yli-Rajala	22	18
Total	**184**	**154**

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

Salaries and remuneration

Remuneration system

The remuneration paid to the management and employees of Municipality Finance consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. The variable remuneration is intended to ensure the availability and retention of skilled personnel in the company, to promote the achievement of challenging targets and to improve the productivity of work, thereby increasing the company's shareholder value.

The Board of Directors confirms the salaries and other remunerations of the CEO and the Deputy to the CEO as well as their terms of employment. In addition, the Board of Directors confirms the salaries and remunerations of staff reporting directly to the CEO based on the CEO's proposal. The company does not offer any unusual fringe benefits. The housing and car benefits implemented by the company are part of the employee's total remuneration.

In line with the strategy confirmed by the Board of Directors, Municipality Finance monitors the developments in the financial sector and its operating environment with respect to salaries and remuneration. A job evaluation has been carried out for all positions in order to achieve sufficient comparability with market information. The following external parties have been consulted in the development of the remuneration system and the related market comparisons: Hay Group Oy, Alexander Corporate Finance Oy and KPMG Oy.

The company does not have a separate remuneration system for management. The remuneration system approved by the Board of Directors applies to all personnel. The remuneration system was prepared for approval by the Board of Directors by the Board's Remuneration Committee, which comprises the following Board members: Chairman of the Board of Directors Eva Liljeblom, Teppo Koivisto and Juha Yli-Rajala.

The Remuneration Committee prepares all matters related to remuneration before they are discussed by the Board of Directors. These matters include changes to the terms of the remuneration system, the achievement of company-specific targets and related remuneration, the variable pay of the CEO and the members of the Board of Management, and summarised information on the remuneration of all employees.

The targets for the remuneration system are set for each calendar year (earning year). In all employee groups, including management, the remuneration system is based on the evaluation of performance of both the company and the individual. The weight assigned to company-level, unit-level and individual targets in the remuneration system varies between employee groups. For the CEO and the members of the Board of Management, targets are exclusively company-specific, but the assessment of targets always takes into account personal performance with respect to the targets. The evaluation of the company's performance is approved by the Board of Directors, that of a unit's performance by the Board of Management and that of an individual employee by the supervisor of each employee.

Due to regulations on credit institutions, the payment of remuneration earned for each year is delayed and paid over the four following years if the person's remuneration exceeds EUR 50,000. As required by regulations, the Board of Directors always has the final say in whether or not to pay the remuneration if the payment would endanger the company's capital adequacy or otherwise contradict customary and cautious business principles. The remuneration of people working in duties related to risk management is not based on the result of the function they monitor. The Board of Directors also has the final say in whether or not to pay the earned or delayed remuneration of an individual employee on the basis of a risk-based assessment.

A variable remuneration may only be paid to a person who is employed by the company at the time of payment.

Variable remuneration is always paid in cash. The company does not have any share or stock option based remuneration systems. Half of the variable remuneration is linked to the company's credit rating in relation to the credit rating of the Republic of Finland. The variable remuneration may therefore decrease if the company's credit rating deteriorates in relation to that of the Republic of Finland.

Salaries and remuneration in 2013

The variable remuneration paid in 2013 was based on Municipality Finance's remuneration system approved by the Board of Directors and the targets set under the system for 2012. Remuneration payments were also made in 2013 for remuneration that had been delayed for payment in 2013.

For variable remuneration paid in 2013 and earned in 2012, the target remuneration level for the CEO and the members of the Board of Management was equal to six months' pay. The maximum remuneration level was equal to twelve months' pay. In other employee groups, the target remuneration levels varied from one and a half months' to four months' pay, and the maximum remuneration levels from three months' to eight months' pay. The maximum remuneration can only be paid on the basis of exceptional performance.

Despite the company's excellent success in 2012, the company did not pay maximum remuneration under the remuneration system in 2013 in any employee group for performance in 2012. The company had no remuneration recipients in 2013 whose remuneration exceeded EUR one million during the financial year.

The following table includes more detailed information on the salaries and remuneration, pursuant to the regulations on credit institutions, of the company's management (CEO and other members of the Board of Management), heads of departments responsible for business operations (lending, leasing, funding, investments and treasury), the risk management director (member of the Board of Management) and the compliance director (member of the Board of Management) in 2013:

(EUR 1,000)	2013	2012
Number of people in the group	11	10
The group's fixed salaries	1,925	1,704
The group's variable remuneration earned during the financial year	1,125	1,188
The amount of variable remuneration delayed for payment in subsequent years	450	324
The amount of delayed remuneration payments accrued in previous years and paid during the financial year	388	-
Total salaries and remuneration paid during the financial year (earned and delayed for previous years)	1,063	864

None of the figures presented in the preceding tables include other personnel expenses.

In 2013, the Board of Directors decided to amend the remuneration system by decreasing the maximum remuneration level of the CEO and other members of the Board of Management by 25 per cent. This means that the maximum remuneration changed from an amount equal to 12 months' pay to an amount equal to 9 months' pay. The change took effect from the beginning of 2014 and will first apply to remuneration determined in 2015 and earned in 2014.

Notes to the income statement

Note 29. Interest income and expense

Interest income (EUR 1,000)	2013	2012
Loans and advances to credit institutions and central banks	338	1,422
Loans and advances to the public and public sector entities	260,267	313,775
Debt securities	88,154	91,935
Derivative contracts	–171,555	–134,503
Leasing operations	1,279	1,080
Other interest income	1,531	1,952
Total	**180,014**	**275,660**

Interest expense (EUR 1,000)	2013	2012
Liabilities to the public and public sector entities	22,563	28,691
Liabilities to credit institutions and central banks	59,212	45,450
Debt securities issued	320,135	519,486
Derivative contracts	–374,177	–463,471
Subordinated liabilities	1,850	2,563
Other interest expense	942	540
Total	**30,524**	**133,259**

Note 30. Commission income

(EUR 1,000)	2013	2012
Financial advisory services	1,641	1,730
Other operations	292	-
Total	**1,933**	**1,730**

Note 31. Commission expenses

(EUR 1,000)	2013	2012
Commission fees paid	137	128
Other	3,999	3,097
Total	**4,135**	**3,225**

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

Note 32. Net income from securities and foreign exchange transactions

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

2012 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	-	−8,021	−8,021
Items valued with the fair value option	−1,162	23,524	22,362
Total net income from securities transactions	**−1,162**	**15,503**	**14,341**
Net income from foreign exchange transactions	15	−16	−1
Total	**−1,147**	**15,487**	**14,340**

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

(EUR 1,000)	2013	2012
Income from shares in investment funds	254	-
Disposal of financial assets	−2,396	159
Reversals of impairment	-	529
Transfers from the fair value reserve	2,356	−283
Total	**214**	**405**

Note 34. Net income from hedge accounting

(EUR 1,000)	2013	2012
Net income from hedging instruments	−548,729	335,210
Net income from hedged items	558,346	−334,870
Total	**9,617**	**340**

Note 35. Other operating income

(EUR 1,000)	2013	2012
Other income from credit institution operations	5	26
Total	**5**	**26**

Note 36. Administrative expenses

(EUR 1,000)	2013	2012
Personnel expenses		
Wages and salaries	8,355	7,416
Pension costs	1,603	1,407
Other personnel-related costs	400	363
Total	10,358	9,186
Other administrative expenses	4,445	4,309
Total	**14,802**	**13,495**

Personnel	2013 Average	2013 End of year	2012 Average	2012 End of year
Permanent full-time	70	73	60	65
Permanent part-time	4	4	2	2
Fixed term	5	6	6	5
Total	**79**	**83**	**68**	**72**

Note 37. Other operating expenses

(EUR 1,000)	2013	2012
Rental expenses	2,030	1,918
Other expenses from credit institution operations	2,907	2,956
Total	**4,937**	**4,874**

Note 38. Impairment losses on other financial assets

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

31 Dec 2012 (EUR 1,000)	Impairment losses per agreement	Decrease	Recognised in the income statement
Debt securities held-to-maturity	-	−2,020	−2,020
Total	**-**	**−2,020**	**−2,020**

Note 39. Income tax expense

(EUR 1,000)	2013	2012
Tax based on the profit for the financial year	6,726	7,041
Deferred tax	9,841	26,950
Total	**16,567**	**33,991**
Profit before tax	141,266	138,601
Taxes at domestic tax rate	34,610	33,957
Non-deductible expenses	46	33
Change in corporate tax rate	−18,089	-
Taxes in the income statement	**16,567**	**33,991**

Note 40. Events after the reporting period

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

Municipality Finance Plc parent company

Financial statements

Balance sheet

(EUR 1,000)	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Cash and cash equivalents		354,232	228,188
Cash		3	3
Central bank receivables payable on demand		354,229	228,185
Debt securities eligible for central bank refinancing	(4)	4,658,293	4,604,967
Loans and advances to credit institutions	(2)	588,904	106,458
Payable on demand		10,481	5,360
Other		578,423	101,098
Loans and advances to the public and public sector entities	(3)	17,801,239	15,700,124
Leasing assets	(5)	81,044	64,107
Debt securities	(4)	1,327,351	2,032,864
From public sector entities		652,008	697,341
From others		675,342	1,335,523
Shares and participations	(6)	10,050	10,035
Shares and participations in Group companies	(6)	100	100
Derivative contracts	(7)	1,094,150	2,551,683
Intangible assets	(8, 10)	5,338	3,175
Tangible assets	(9, 10)	1,922	1,527
Other tangible assets		1,922	1,527
Other assets	(11)	1,796	2,167
Accrued income and prepayments	(12)	231,652	254,212
TOTAL ASSETS	(18, 19)	**26,156,069**	**25,559,607**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks		2,264,386	3,961,730
To credit institutions		2,264,386	3,961,730
Other		2,264,386	3,961,730
Liabilities to the public and public sector entities		929,209	1,049,477
Other liabilities		929,209	1,049,477
Debt securities issued	(14)	20,269,298	18,798,375
Bonds		18,677,686	17,434,533
Other		1,591,612	1,363,841
Derivative contracts	(7)	1,818,359	937,983
Other liabilities	(15)	1,301	1,228
Accrued expenses and deferred income	(16)	268,446	297,769
Subordinated liabilities	(17)	48,974	90,355
Deferred tax liabilities	(13)	5,571	7,115
TOTAL LIABILITIES		**25,605,544**	**25,144,032**
APPROPRIATIONS			
Voluntary provisions		401,980	287,980
EQUITY	(23, 24, 25)		
Share capital		43,008	43,008
Other restricted reserves		22,562	22,203
Reserve fund		277	277
Fair value reserve		22,285	21,927
Non-restricted reserves		40,743	40,743
Rerserve for invested non-restricted equity		40,743	40,743
Retained earnings		21,641	144
Profit for the financial period		20,591	21,497
TOTAL EQUITY		**148,545**	**127,595**
TOTAL LIABILITIES AND EQUITY	(18, 19)	**26,156,069**	**25,559,607**
OFF-BALANCE SHEET COMMITMENTS	(40)		
Irrevocable commitments given in favour of customer		981,420	1,247,588

Income statement

(EUR 1,000)	Note	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
Interest income	(26)	178,735	274,581
Net income from leasing operations	(27)	1,279	1,080
Interest expense	(26)	–30,524	–133,259
NET INTEREST INCOME		**149,490**	**142,402**
Income from equity investments		64	102
In Group companies		64	102
Commission income	(28)	293	0
Commission expense	(28)	–4,133	–3,222
Net income from securities and foreign exchange transactions	(29)	5,023	14,340
Net income from securities		4,928	14,341
Net income from foreign exchange transactions		94	0
Net income from available-for-sale financial assets	(30)	214	405
Net income from hedge accounting	(31)	9,617	340
Other operating income	(32)	47	64
Administrative expenses		-13,569	-12,237
Personnel expenses		–9,320	–8,107
Wages and salaries		–7,511	–6,542
Personnel-related costs		–1,809	–1,565
Pension costs		–1,438	–1,243
Other personnel-related costs		–371	–322
Other admistrative expenses		–4,249	–4,130
Depreciation and impairment on tangible and intangible assets	(34)	–1,194	–1,056
Other operating expenses	(33)	–4,594	–4,674
Impairment losses on other financial assets	(35)	54	2,020
OPERATING PROFIT		**141,312**	**138,483**
Appropriations		–114,000	–110,000
Income tax		–6,721	–6,986
PROFIT FOR THE PERIOD		**20,591**	**21,497**

Statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
CASH FLOW FROM OPERATING ACTIVITIES	**–62,437**	**–482,723**
Net change in long-term funding	3,381,994	1,478,271
Net change in short-term funding	234,714	1,127,527
Net change in long-term loans	–2,271,953	–2,046,141
Net change in short-term loans	52,280	–219,555
Net change in investments	397,440	–929,650
Net change in collateral	–1,970,860	–32,890
Interest paid	–28,664	–172,854
Interest received	171,333	309,769
Other income	14,963	7,754
Payments of operating expenses	–29,749	–8,339
Taxes paid	–13,935	3,385
CASH FLOW FROM INVESTING ACTIVITIES	**–3,709**	**–1,128**
Acquisition of tangible assets	–724	–390
Acquisition of intangible assets	–2,986	–738
CASH FLOW FROM FINANCING ACTIVITIES	**–40,000**	**–**
Change in subordinated liabilities	–40,000	-
CHANGE IN CASH FUNDS	**–106,146**	**–483,852**
CASH FUNDS AT 1 JANUARY	**1,991,078**	**2,474,930**
CASH FUNDS AT 31 DECEMBER	**1,884,932**	**1,991,078**

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

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	354,232	228,188
Loans and advances to credit institutions	588,904	106,458
Debt securities maturing within three months	941,796	1,656,432
TOTAL CASH FUNDS	**1,884,932**	**1,991,078**

Notes to the parent company financial statements, FAS

Notes to the balance sheet

Notes to the income statement

Notes on collateral and contingent liabilities

Notes on personnel and management

Related party transactions

Holdings in other companies

Other notes

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

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

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

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

Notes to the balance sheet

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

Note 2. Loans and advances to credit institutions

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

31 Dec 2012 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	55,872	4,774	51,098
Foreign credit institutions	50,586	586	50,000
Total	**106,458**	**5,360**	**101,098**

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

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Enterprises and housing corporations	9,287,948	8,104,843
Public sector entities	8,329,298	7,428,634
Non-profit organisations	183,992	166,647
Total	**17,801,239**	**15,700,124**

Note 4. Debt securities

31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities issued by public sector entities	926,386	652,008	1,578,395
Held-to-maturity	-	652,008	652,008
Municipal commercial papers	-	652,008	652,008
Available-for-sale	900,169	-	900,169
Government bonds	517,258	-	517,258
Bonds issued by other public sector entities	382,910	-	382,910
Fair value through profit or loss	26,217	-	26,217
Bonds issued by other public sector entities	26,217	-	26,217
Debt securities issued by other than public sector entities	4,103,393	303,856	4,407,250
Held-to-maturity	-	172,816	172,816
Bank bonds	-	4,999	4,999
Commercial papers	-	51,968	51,968
Other debt securities	-	115,849	115,849
Available-for-sale	3,437,314	11,145	3,448,459
Bank bonds	3,426,636	-	3,426,636
Other debt securities	10,678	11,145	21,823
Fair value through profit or loss	666,079	119,896	785,975
Bank certificates of deposit	-	119,896	119,896
Bank bonds	666,079	-	666,079
Total	**5,029,780**	**955,865**	**5,985,644**
Eligible for central bank refinancing	4,654,390	3,903	4,658,293
Total non-interest bearing	4,999	-	4,999

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 1,139 thousand on the fair value reserve.

In 2013 EUR 167 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

31 Dec 2012 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities issued by public sector entities	693,933	697,341	1,391,274
Held-to-maturity	-	697,341	697,341
Municipal commercial papers	-	697,341	697,341
Available-for-sale	667,143	-	667,143
Government bonds	333,618	-	333,618
Bonds issued by other public sector entities	333,525	-	333,525
Fair value through profit or loss	26,790	-	26,790
Bonds issued by other public sector entities	26,790	-	26,790
Debt securities issued by other than public sector entities	4,594,494	652,063	5,246,557
Held-to-maturity	132,649	55,309	187,958
Bank bonds	-	4,999	4,999
Commercial papers	-	55,309	55,309
Other debt securities	-	127,650	127,650
Available-for-sale	3,751,060	16,926	3,767,986
Bank certificates of deposit	-	-	-
Bank bonds	3,338,586	-	3,338,586
Other debt securities	412,474	16,926	429,400
Fair value through profit or loss	710,785	579,828	1,290,613
Bank certificates of deposit	-	579,828	579,828
Bank bonds	659,358	-	659,358
Other debt securities	51,426	-	51,426
Total	**5,288,427**	**1,349,404**	**6,637,831**
Eligible for central bank refinancing	4,534,815	70,152	4,604,967
Total non-interest bearing	4,999	-	4,999

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 2,182 thousand on the fair value reserve. In 2012 EUR 272 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

Note 5. Assets leased under financial leasing

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Machinery and equipment	79,812	62,843
Other assets	1,232	1,264
Total	**81,044**	**64,107**

Note 6. Shares and participations

31 Dec 2013 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	10,023	27	10,050	-
Group companies	-	100	100	-
Total	**10,023**	**127**	**10,150**	**–**

31 Dec 2012 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	10,008	27	10,035	-
Group companies	-	100	100	-
Total	**10,008**	**127**	**10,135**	**–**

Note 7. Derivative contracts

31 Dec 2013 (EUR 1,000)	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,688,698	2,692,239	2,093,043	**6,473,980**	45,484	–59,989
Forward rate agreements	5,000	-	-	**5,000**	-	–2
Currency derivatives						
Cross currency interest rate swaps	-	23,807	15,354	**39,160**	145	–142
Forward exchange contracts	1,442,027	-	-	**1,442,027**	-	–26,134
Equity derivatives	216,133	1,989,851	26,382	**2,232,366**	88,486	–88,486
Other derivatives	29,896	166,888	56,500	**253,285**	34,422	–34,182
Total	**3,381,755**	**4,872,785**	**2,191,279**	**10,445,819**	**168,537**	**–208,935**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	1,685,500	10,568,883	13,158,175	**25,412,558**	273,041	–258,375
Currency derivatives						
Cross currency interest rate swaps	3,476,168	11,039,449	2,370,984	**16,886,601**	652,572	–1,351,049
Total	**5,161,668**	**21,608,332**	**15,529,159**	**42,299,159**	**925,613**	**–1,609,424**
Grand total	**8,543,423**	**26,481,118**	**17,720,438**	**52,744,978**	**1,094,150**	**–1,818,359**

31 Dec 2012 (EUR 1,000)	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	582,000	4,068,764	1,545,619	**6,196,383**	56,035	–91,858
Currency derivatives						
Cross currency interest rate swaps	-	35,554	18,304	**53,858**	329	–323
Forward exchange contracts	927,088	-	-	**927,088**	592	–13,249
Equity derivatives	1,002,111	2,701,622	86,760	**3,790,493**	172,391	–172,391
Other derivatives	145,019	164,043	56,500	**365,562**	44,093	–43,733
Total	**2,656,217**	**6,969,983**	**1,707,184**	**11,333,384**	**273,441**	**–321,554**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	261,784	7,434,418	10,928,828	**18,625,030**	516,296	–378,058
Currency derivatives						
Cross currency interest rate swaps	2,483,905	7,587,950	3,969,502	**14,041,357**	1,761,946	–238,371
Total	**2,745,689**	**15,022,368**	**14,898,330**	**32,666,387**	**2,278,242**	**–616,429**
Grand total	**5,401,907**	**21,992,351**	**16,605,513**	**43,999,772**	**2,551,683**	**–937,983**

Note 8. Intangible assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
IT systems	4,740	2,399
Other intangible assets	598	776
Total	**5,338**	**3,175**

Note 9. Tangible assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Real estate		
Buildings	440	480
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	1048	614
Total	**1,922**	**1,527**

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

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

	Intangible assets	Tangible assets		
31 Dec 2012 (EUR 1,000)	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	5,414	1,167	1,579	2,746
+ Additions	740	40	349	389
- Disposals	–55	-	-	-
Acquisition cost 31 Dec	6,099	1,207	1,928	3,135
Accumulated depreciation 1 Jan	2,127	254	1,094	1,348
- Accumulated depreciation on disposals	–1	-	-	-
+ Depreciation for the financial year	798	39	220	259
Accumulated depreciation 31 Dec	2,924	293	1,314	1,607
Book value 31 Dec	**3,175**	**914**	**614**	**1,528**

Note 11. Other assets

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Muut	1,796	2,167
Total	**1,796**	**2,167**

Note 12. Accrued income and prepayments

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Interest	229,647	253,683
Other	2,005	529
Total	**231,652**	**254,212**

Note 13. Deferred tax assets and liabilities

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

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

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

Deferred tax assets (EUR 1,000)	31 Dec 2011	Recognised in the income statement	Recognised in equity	31 Dec 2012
On other than temporary differences				
On fair value reserve	4,611	-	−4,611	-
Total	**4,611**	**-**	**−4,611**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2011	Recognised in the income statement	Recognised in equity	31 Dec 2012
On other temporary differences				
On fair value reserve	-	-	7,115	7,115
Total	**-**	**-**	**7,115**	**7,115**

Voluntary provisions include EUR 70,555 thousand in non-recognised deferred tax liabilities.

Note 14. Debt securities issued

	31 Dec 2013		31 Dec 2012	
(EUR 1,000)	Book value	Nominal value	Book value	Nominal value
Bonds	18,677,686	22,391,949	17,434,533	20,045,787
Other	1,591,612	1,592,027	1,363,841	1,377,088
Total	**20,269,298**	**23,983,977**	**18,798,375**	**21,422,875**

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

Note 15. Other liabilities

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Payment transfer	6	1,059
Other	1295	169
Total	**1,301**	**1,228**

Note 16. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Interest	260,743	284,677
Other	7,703	13,092
Total	**268,446**	**297,769**

Note 17. Subordinated liabilities

31 Dec 2013 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,965	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10.12.2010
3) Capital investments	EUR	1009	1009	Euribor 12 Mths	
Total		**46,009**	**48,974**		

31 Dec 2012 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	39,346	Fixed	9.5.2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 Mths	10.12.2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 Mths	31.3.2013
Total		**86,009**	**90,355**		

Loan terms and conditions:

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

2) The loan does not have a maturity date. The company has agreed to pay interest only if the amount to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets on the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervisory Authority grants permission to repay the loan. Under the terms of the loan, the company has the right on 10 December 2010, and each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the financial year. 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 seniority as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loan has priority over the company's shares.

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are sufficient, and the Board of Directors of the credit institution approves. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2013.

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 Supervisory Authority as of 31 March 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 seniority 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.

   On 31 March 2013, the Company repaid the perpetual loan of EUR 40 million (Perpetual loan 1/08) with the permission of the Finnish Financial Supervisory Authority.

Note 18. Breakdown of financial assets and liabilities by maturity

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

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

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

31 Dec 2012 (EUR 1,000)	0–3 months	3-12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	696,772	473,811	2,824,729	467,693	141,962	4,604,967
Loans and advances to credit institutions	98,458	8,000	-	-	-	106,458
Loans and advances to the public and public sector entities	219,515	1,063,207	5,145,980	3,803,556	5,467,866	15,700,124
Debt securities	959,661	547,054	436,900	50,037	39,212	2,032,864
Total	**1,974,406**	**2,092,072**	**8,407,609**	**4,321,286**	**5,649,040**	**22,444,413**

31 Dec 2012 (EUR 1,000)	0–3 months	3-12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	1,781,880	267,971	225,297	355,912	1,330,669	3,961,729
Liabilities to the public and public sector entities	20,986	26,620	216,996	473,149	311,726	1,049,477
Debt securities issued	2,854,235	6,164,798	7,422,376	1,695,948	661,018	18,798,375
Subordinated liabilities	40,000	10,000	39,346	-	1,009	90,355
Total	**4,697,101**	**6,469,389**	**7,904,015**	**2,525,009**	**2,304,422**	**23,899,936**

Liabilities that may be called prematurely have been entered in the table in the maturity class corresponding to the first possible call date. The company expects to call 40-50% of its loans in 2013. In 2012, the company called 34% of its loans.

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

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

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

31 Dec 2012 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	4,604,967	-	4,604,967
Loans and advances to credit institutions	106,120	338	106,458
Loans and advances to the public and public sector entities	15,764,232	-	15,764,232
Debt securities	2,032,864	-	2,032,864
Derivative contracts	2,551,683	-	2,551,683
Other assets incl. cash and cash equivalents	499,404	-	499,404
Total	**25,559,268**	**338**	**25,559,607**

31 Dec 2012 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	3,590,257	371,473	3,961,730
Liabilities to the public and public sector entities	706,025	343,452	1,049,477
Debt securities issued	1,010,005	17,788,370	18,798,375
Derivative contracts	937,983	-	937,983
Subordinated liabilities	90,355	-	90,355
Other liabilities	545,178	176,509	721,688
Total	**6,879,802**	**18,679,805**	**25,559,607**

Note 20. Repurchase agreements for securities

(EUR 1,000)	31 Dec 2013	31 Dec 2012
Repo purchase agreements		
Loans and advances to credit institutions	-	50,000
Loans and advances to others	-	-
Total	**-**	**50,000**

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

Financial assets	31 Dec 2013		31 Dec 2012	
(EUR 1,000)	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	354,232	354,232	228,188	228,188
Debt securities eligible for central bank refinancing	4,658,293	4,657,989	4,604,967	4,596,706
Loans and advances to credit institutions	588,904	588,913	106,458	106,458
Loans and advances to the public and public sector entities	17,801,239	18,494,945	15,700,124	16,386,894
Debt securities	1,327,351	1,313,471	2,032,864	2,026,152
Shares and participations	10,050	10,050	10,035	10,035
Shares and participations in Group companies	100	100	100	100
Derivative contracts	1,094,150	1,094,150	2,551,683	2,551,683
Total	**25,834,318**	**26,513,851**	**25,234,419**	**25,906,216**

Financial liabilities	31 Dec 2013		31 Dec 2012	
(EUR 1,000)	Book value	Fair value	Book value	Fair value
Liabilities to credit institutions	2,264,386	2,264,267	3,961,730	3,961,513
Liabilities to the public and public sector entities	929,209	925,254	1,049,477	1,045,307
Debt securities issued	20,269,298	20,268,860	18,798,375	18,795,007
Derivative contracts	1,818,359	1,818,359	937,983	937,983
Subordinated liabilities	48,974	49,849	90,355	91,371
Total	**25,330,225**	**25,326,589**	**24,837,920**	**24,831,182**

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

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

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

31 Dec 2012 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	737,575	579,828	-	1,317,403
Loans and advances to the public	-	6,399,702	-	6,399,702
Derivative contracts	-	273,441	-	273,441
Hedging derivatives	-	2,278,242	-	2,278,242
Available-for-sale assets				
Debt securities	4,418,203	16,926	-	4,435,129
Shares in investment funds	10,008	-	-	10,008
Total	**5,165,785**	**9,548,139**	**-**	**14,713,924**

31 Dec 2012 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions	-	1,928,415	-	1,928,415
Liabilities to the public and public sector entities	-	851,236	-	851,236
Debt securities issued	-	15,018,143	-	15,018,143
Subordinated liabilities	-	39,346	-	39,346
Derivative contracts	-	321,554	-	321,554
Hedging derivatives	-	616,429	-	616,429
Total	**-**	**18,775,123**	**-**	**18,775,123**

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

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

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

During the 2013 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.
During the 2012 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

Note 23. Equity

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

31 Dec 2012 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 January 2012	43,008	277	-14,280	40,743	144	69,892
+ increase	-	-	36,207	-	21,497	57,703
- decrease	-	-	-	-	-	-
Book value 31 December 2012	**43,008**	**277**	**21,927**	**40,743**	**21,641**	**127,595**

Note 24. Share capital

The shares in Municipality Finance Plc are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2013, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798.

Note 25. Largest shareholders

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

31 Dec 2013	No. of shares	Per cent
1. Keva	11,975,550	30.66%
2. Republic of Finland	6,250,000	16.00%
3. City of Helsinki	4,066,525	10.41%
4. City of Espoo	1,547,884	3.96%
5. VAV-Asunnot Oy (City of Vantaa)	963,048	2.47%
6. City of Tampere	919,027	2.35%
7. City of Oulu	903,125	2.31%
8. City of Turku	615,681	1.58%
9. City of Kuopio	569,450	1.46%
10. City of Lahti	502,220	1.29%

The total number of shareholders is 284.

Notes to the income statement

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

Note 26. Interest income and expense

Interest income (EUR 1,000)	**2013**	**2012**
Loans and advances to credit institutions and central banks	338	1,422
Loans and advances to the public and public sector entities	260,267	313,775
Debt securities	88,154	91,935
Derivative contracts	–171,555	–134,503
Other interest income	1,531	1,952
Total	**178,735**	**274,581**

Interest expense (EUR 1,000)	**2013**	**2012**
Liabilities to the public and public sector entities	22,563	28,691
Liabilities to credit institutions and central banks	59,212	45,450
Debt securities issued	320,135	519,486
Derivative contracts	–374,177	–463,471
Subordinated liabilities	1,850	2,563
Other interest expense	942	540
Total	**30,524**	**133,259**

Note 27. Net income from leasing operations

(EUR 1,000)	2013	2012
Leasing income	13,653	7,600
Depreciation on lease assets according to plan	−12,377	−6,561
Capital gains and losses on lease assets	3	41
Total	**1,279**	**1,080**

Note 28. Commission income and expense

Commission income (EUR 1,000)	2013	2012
From other operations	293	0
Total	**293**	**0**

Commission expense (EUR 1,000)	2013	2012
Commission fees paid	135	125
Other	3,999	3,097
Total	**4,133**	**3,222**

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

Note 29. Net income from securities and foreign exchange transactions

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

2012 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	-	−8,021	−8,021
Items valued with the fair value option	−1,162	23,524	22,362
Total net income from securities transactions	**−1,162**	**15,503**	**14,341**
Net income from foreign exchange transactions	15	−16	0
Total	**−1,147**	**15,487**	**14,340**

Note 30. Net income from available-for-sale financial assets

(EUR 1,000)	2013	2012
Income from shares in investment funds	254	-
Disposal of financial assets	−2,396	159
Reversals of impairment	-	529
Transfers from fair value reserve	2,356	−283
Total	**214**	**405**

Note 31. Net income from hedge accounting

(EUR 1,000)	2013	2012
Net income from hedging instruments	–548,729	335,210
Net income from hedged items	558,346	–334,870
Total	**9,617**	**340**

Note 32. Other operating income

(EUR 1,000)	2013	2012
Other income from credit institution operations	47	64
Total	**47**	**64**

Note 33. Other operating expenses

(EUR 1,000)	2013	2012
Rental expenses	1,874	1,735
Other expenses from credit institution operations	2,720	2,939
Total	**4,594**	**4,674**

Note 34. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

Note 35. Impairment losses on other financial assets

2013 (EUR 1,000)	Impairment losses per agreement	Decrease	Recognised in the income statement
Debt securities held-to-maturity	-	–54	–54
Total	**-**	**–54**	**–54**

2012 (EUR 1,000)	Impairment losses per agreement	Decrease	Recognised in the income statement
Debt securities held-to-maturity	-	–2,020	–2,020
Total	**-**	**–2,020**	**–2,020**

Note 36. Information on business areas and geographical market

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

Notes on collateral, contingent liabilities and derivative contracts

Note 37. Collateral given

Pledges for own debt (EUR 1,000)	31 Dec 2013	31 Dec 2012
Liabilities to credit institutions	2,264,386	3,961,730
Liabilities to the public and public sector entities	929,209	1,049,477
Debt securities issued	20,269,298	18,798,375
Total	**23,462,893**	**23,809,582**

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

Liabilities and collateral (EUR 1,000)	**31 Dec 2013**	**31 Dec 2012**
Loans pledged to the central bank	2,207,573	2,036,320
Loans pledged to the Municipal Guarantee Board	15,451,996	13,381,558
Debt securities pledged to the Municipal Guarantee Board	5,191,218	5,738,476
Deposits pledged to the Municipal Guarantee Board	-	20,000
Total	**22,850,788**	**21,176,354**

Note 38. Pension liabilities

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

Note 39. Leasing and other rental liabilities

(EUR 1,000)	**31 Dec 2013**	**31 Dec 2012**
Maturing within one year	1,239	1,265
Maturing in one to five years	1,722	2,777
Maturing in more than five years	-	-
Total	**2,961**	**4,042**

Note 40. Off-balance sheet commitments

(EUR 1,000)	**31 Dec 2013**	**31 Dec 2012**
Binding loan commitments	981,420	1,247,588
Total	**981,420**	**1,247,588**

Notes on personnel and management

Note 41. Personnel

	2013		2012	
	Average	End of year	Average	End of year
Permanent full-time	60	62	50	54
Permanent part-time	4	4	2	2
Fixed term	4	4	6	5
Total	**68**	**70**	**58**	**61**

Employee benefits for management
Salaries and remuneration paid to the CEO and Deputy to the CEO subject to withholding tax

Salaries and remuneration (EUR 1,000)	**2013**	**2012**
President and CEO	586	497
Deputy to the CEO	465	389
Total	**1,051**	**886**

Remuneration of the Board of Directors

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

Salaries and remuneration (EUR 1,000) **Members of the Board of Directors**	**2013**	**2012**
Eva Liljeblom, Chairman	41	35
Fredrik Forssell, Vice Chairman	26	19
Teppo Koivisto	22	17
Tapio Korhonen, member until 26 March 2013	12	19
Sirpa Louhevirta	21	17
Ossi Repo, member until 26 March 2013	10	15
Tuula Saxholm, member from 26 March 2013	11	-
Asta Tolonen	21	15
Juha Yli-Rajala	22	18
Total	**184**	**154**

Related party transactions

Note 42. Loans and other financial receivables from the related parties

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

Holdings in other companies

Note 43. Holdings in other companies

	2013		2012	
(EUR 1,000)	Proportion of all shares (%)	Book value	Proportion of all shares (%)	Book value
Subsidiaries				
Financial Advisory Services Inspira Ltd	66.7	100	66.7	100
Total	**66.7**	**100**	**66.7**	**100**

Other notes

Note 44. Audit and other fees paid to the audit firm

(EUR 1,000)	**2013**	**2012**
Audit	87	88
Tax advisory services	21	27
Other services	242	69
Total	**350**	**184**

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

Municipality Finance Plc's distributable funds total EUR 42,232,539.73, of which the profit for the financial year is EUR 20,591,419.05.

The Board of Directors will propose to the Annual General Meeting that:
- no dividend be distributed, and
- the distributable funds totalling EUR 42,232,539.73 be retained in equity.

Signatures to the report of the Board of Directors and financial statements

Helsinki, 6 February 2014

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Fredrik Forssell
Vice Chairman of the Board

Teppo Koivisto
Member of the Board

Sirpa Louhevirta
Member of the Board

Tuula Saxholm
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
President and CEO

Auditor's note

A report on the audit performed has been issued today.
Helsinki, 6 February 2014
KPMG OY AB

Marcus Tötterman
Authorised Public Accountant

Auditor's report

This document is an English translation of the Finnish auditor's 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 31 December, 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

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

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

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

Opinion on the consolidated financial statements

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

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

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

Other opinions

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

Helsinki, 6 February 2014
KPMG OY AB

Marcus Tötterman
Authorized Public Accountant

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