ANNUAL REPORT 2015

Building a Responsible Tomorrow.

MuniFin
MUNICIPALITY FINANCE

Municipality Finance in Brief

Municipality Finance Plc has a duty to ensure the availability of competitive financing for Finland's municipal sector and government-subsidised housing production under all market conditions. Municipality Finance (MuniFin) forms a part of the economic basis of Finland.

MuniFinhas a role in the everyday life of every Finn. It is the only Finnish credit institution that specialises exclusively in financing the municipal sector and central government-subsidised housing production. It plays a central part in building the Finnish society.

The profitability of the company is an asset for all Finnish taxpayers. The advantages of competitively priced, reliable financing can be seen directly in the costs of day care centres, schools, hospitals and other socially significant investments.

Funding is acquired in a diversified manner from international capital markets. The company's funding is guaranteed by the Municipal Guarantee Board. The company is financially sound, operates efficiently and grows profitably.

MuniFin's shareholders are Finnish municipalities, Keva and the Finnish Government. For its long-term funding, the company has the same credit ratings as the Republic of Finland. At the end of 2015 they were Moody's Aaa (neg) and Standard & Poor's AA+ (neg).

Contents

For the reader

RESPONSIBILITY

Responsibility is the cornerstone of all operations at Municipality Finance. The company's core task is to promote the fulfilment of sustainable social responsibility by offering financing for socially significant objects that are aimed at increasing the well-being and improving the quality of life of people in Finland. The company's funding acquisition, financing operations and internal operating methods all rely on the principles of economic, social and ecological responsibility.

EXAMPLES

The projects financed by MuniFin are concretely present in the lives of Finnish citizens. Examples are given of how the company's operations build and develop Finnish society.

Year 2015

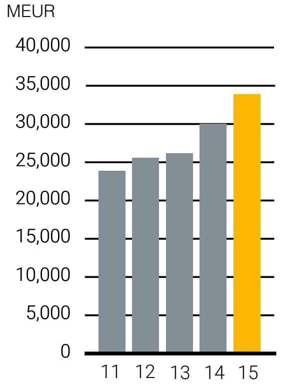
Highlights of the year

- Launch of the new Apollo service. Apollo offers Municipality Finance's customers a user-friendly and secure online service for managing their portfolios of financial agreements.
- Significant increase in demand for real estate-related leasing solutions from MuniFin. These solutions complement the palette of funding options available to municipal decision-makers.
- Two large benchmark bonds (USD 1 bn each) were issued with great success, despite the difficult market conditions.
- Excellent placements for MuniFin in both the Great Place to Work competition, which lists Finland's best workplaces, and in the Employer of the Year category of the European Business Awards.
- MuniFin was named a nationally significant credit institution. From the beginning of 2016, the company has been under the direct supervision of the European Central Bank.
- MuniFin clearly passed a comprehensive assessment by the ECB. The evaluation included a bank stress test.
- In September, MuniFin issued an AT1 capital loan worth EUR 350 million, which comes under Tier 1 capital. This historic issue formed the first public AT1 capital loan arrangement in Finland, and among the first in the world to be issued by a publicly owned company.
- Towards the end of 2015, MuniFin received significant endorsements as an issuer. The British market data provider mtn-i recognised MuniFin as the Issuer of the Year in the Sovereign, Supranational and Agency category, while Capital Market Daily named the company as the Best Issuer of structured loans and Japanese Uridashi loans.

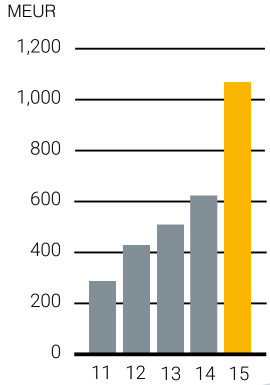
Key figures (Group)

	2015	2014	Change,%
Net interest income (EUR million)	172.2	160.0	8
Net operating profit (EUR million)	151.8	144.2	5
Lending portfolio (EUR million)	20,088	19,205	5
Total funding acquired (EUR million)	28,419	26,616	7
Balance sheet total (EUR million)	33,889	30,009	13
Ratio of total own funds to risk-weighted assets,%	64.61	33.54	93
Total own funds (EUR million)	1,068.8	623.1	72
Leverage ratio,%	3.15	1.8	75

Balance sheet total 2011–2015



Total own funds 2011–2015



> Some of the major events for Municipality Finance in 2015 were the company's appointment as a nationally significant credit institution, and the issue of the AT1 capital loan. The long-term development of the company's capital adequacy continues.
>
> **Marjo Tomminen, Executive Vice President, CFO, Finance**

Municipality Finance made excellent progress in 2015, despite continuous changes. 2015 will go down in MuniFin's history as a year of success amid great pressure for change.

Year of Changes

"2015 will go down in MuniFin's history as a year of success amid great pressure for change.

It was an eventful year, characterised by economic uncertainty, large-scale structural reforms initiated in Finland, growth for MuniFin and the company's appointment as a nationally significant credit institution.

The atmosphere of uncertainty has continued for a long time and was once again strongly present. We had excellent success in our funding acquisition despite the difficult global market conditions. In line with our mission, we were able to offer financing at competitive rates to the municipal sector and to government-subsidised housing production in Finland.

MuniFin is by far the largest financier of its Finnish customer base. Being appointed a nationally significant credit institution and passing the ECB's comprehensive assessment without fault were crucial matters for us. From 2016 onwards we will be under the ECB's direct supervision, which brings new responsibilities.

We have long been preparing in advance for tightening financial regulation. We reinforced our capital structure with an AT1 capital loan that comes under Tier 1 capital. It pleases me to note that our shareholders were able to see the benefits of the arrangement: Finnish investors, most of whom were MuniFin shareholders, played a major role in the subscriptions to the AT1 loan.

The health of Finland's national and municipal economies and the development of welfare in Finland are important issues for us.

Globally speaking, MuniFin is evaluated based on the creditworthiness of the Finnish state and municipalities, so it is a key factor for our funding acquisition that our municipalities have a strong narrative and low risks from an investor's point of view.

The Finnish Government published in 2015 its reform package on healthcare, social welfare and regional government which will revolutionise Finland's municipal sector and public finance. As for MuniFin, it will have to prepare for changes in its own operating model in relation to the reform.

One of the main as-yet unanswered questions is how funding for the regional government model will be secured. By law, we may only use funding guaranteed by the Municipal Guarantee Board to finance municipalities, municipal federations, municipally governed entities and non-profit operators in government-subsidised housing production. If MuniFin is to finance new forms of autonomous local government in the future, the law applying to the Municipal Guarantee Board must be amended.

Some of the main factors that will cause uncertainty in Finland in coming years are the success and completion schedule of the structural reforms planned by the Government. As the population ages, there will also be an inevitable increase in needs for services. If the reforms fail, it will be reflected in Finland's public finance, the country's image and outlook in the eyes of the global market, and therefore the cost of the funding available to MuniFin and ultimately to its customers.

> ***"The main value running through all of MuniFin's operations is responsibility, which guides us through constant change.***

MuniFin is the largest financier of central government-subsidised housing production in Finland. There is increasing pressure for more housing in Finland's urban growth areas, and we fear that not enough will become available in 2016. The terms of subsidised housing production should be sufficiently attractive.

In 2015, MuniFin grew in relation to all indicators. The growth in our business volume and human resources demands continuous development of our operations, and we carried out a reorganisation towards the start of the year. Our focus on operational and HR matters will go on in order to ensure we can continue to serve our customers flexibly, efficiently and responsibly.

Responsibility is a value that runs through all of MuniFin's operations and is maintained despite constant change. I want to thank our customers and personnel for making this year another success despite challenging conditions. Together we are building welfare in Finland.

Pekka Averio
President and CEO
Municipality Finance Plc

Challenging Phase in the Markets

2015 was branded for MuniFin by general economic uncertainty, large-scale public-sector reforms under way in Finland, advancements in digitisation and an emphasis on environmental values. The same trends seem set to continue in 2016.

> Coming under direct supervision by the European Central Bank is a big issue for us. Regulation has changed radically over the years; before it sufficed to know Finland's legislation, but in our current global operating environment we have to understand the impact of various countries' legal systems on our activities.
>
> **Mari Tyster, Executive Vice President, Administration and Legal**

Developments in the global economy are reflected in what MuniFin does, and our operating environment changed in many ways in 2015. The uncertain economic outlook, our customers' altering needs, tightening banking regulations and our investors' shifting requirements demand swift reactions from MuniFin.

The outlook for global economic development is unstable. The actions of the US Federal Reserve and the European Central Bank, fluctuations in share prices, circumstances in the developing world, and the tightening of the global security situation will all have an impact on the economy.

Tightening financial regulation is evident in changes in the demand and supply of various investment products in the international capital market. Demand for MuniFin's products is solid, and the company is seen by the capital markets as a reliable partner.

A major change for MuniFin is coming under the direct supervision of the European Central Bank from the start of 2016. In 2015, the company was named a nationally significant financial institution. The ECB conducted a comprehensive assessment of MuniFin, involving asset quality review and stress testing. The stress testing was a major effort for MuniFin, but the company clearly passed tthe assessment.

MuniFin's status as a significant credit institution and the ECB's supervision signify a shift from the national to the international league for the company. The ever-tightening regulation of the financial sector and the ECB as a supervisory authority require more detailed and broader reporting than before, which means that the company's processes and reporting systems are requiring development.

In Finland, the biggest change in MuniFin's operating area is the ongoing reform in healthcare, social welfare and regional government. The exact implementation method and end results of the reform are still unknown, which causes uncertainty in the municipal sector. The radical changes that will be brought by the social and health services reform in the next few years will have a direct impact on MuniFin's operations. Some of the crucial issues are the relationships between the autonomous regions that will be formed, possible changes in tax legislation and the distribution of tax income, real estate property transfers, and the coming practices for guaranteeing the regions' loans.

The reform and the reorganisation of the municipal sector are linked to the maintenance of the services of the Finnish welfare state. The population is ageing, and this increases demand for services. The population is also becoming concentrated in urban growth areas, which means both more services and housing are needed in cities, while the provision of services in sparsely populated areas creates an additional challenge.

To secure a good level of services, service providers will have to increase efficiency. They will also need to make investments in order to reorganise services, and MuniFin should be permitted to finance these, in order to ensure that funding remains competitively priced.

Economic development is predicted to be slower in Finland than in the rest of Europe. Generally speaking, there was some recovery in the Eurozone in 2015, but Finland's economic growth has been stunted. Slow growth is putting pressure on the Finnish government and municipalities, which has a direct impact on MuniFin's operating environment. Internationally speaking, MuniFin's creditworthiness is evaluated based on the credit ratings of the Finnish state and the municipalities.

"MuniFin will respond to some of the developments in the sector by issuing a green bond, and offering green financing for customers' environmental projects in 2016.

The fight against climate change and the increasing focus on environmental value influence all sectors. There is demand for environmental responsibility also in the finance sector, and international investors are paying increasing attention to the ecological impact of their investment targets. There is more and more demand for sustainable investment products.

MuniFin will respond to this development by offering green financing for customers' environmental projects, and issuing a green bond on the capital market in 2016, if the market conditions allow it.

Digitised services and processes will be a central success factor in coming years. In MuniFin's operations, standardised processes and related information systems play a central role, and the opportunities they offer are utilised extensively. The Apollo service is the first step in MuniFin's offering of new e-service solutions.

"Taking part in the European Central Bank's stress test and coming out of it without faults was a huge effort for the whole organisation. As a whole, the process, which lasted several months, caused substantial amounts of additional work.

Toni Heikkilä, Executive Vice President, CRO, Risk Management and IT

Customers are at the Heart of our Strategy

MuniFin's strategy is to develop by anticipating the changes and altering needs of its customers and operating environment. The changes can also offer opportunities for growth in the form of new products and a transforming clientele.

"Besides financing, Municipality Finance offers its customers assistance already at the investment planning stage, as well as solutions for risk management and overall funding portfolio analysis.

How does MuniFin observe the changing needs of its customers?

MuniFin serves its customers holistically. The company expanded its services in 2015, and now offers an increasingly comprehensive palette of solutions ranging from planning to managing the life cycle of funding. Besides financing, Municipality Finance offers its customers assistance already at the investment planning stage, as well as solutions for risk management and overall funding portfolio analysis. Services and financing solutions are tailored to customers' individual and changing needs. The growth in demand for solutions such as real estate leasing reflects the need to find new funding models.

How does MuniFin safeguard its customers' funding, and manage risks?

MuniFin obtains the funding it lends to its customers in diversified ways from international markets. Risk is reduced through extensive diversification, which can be geographical, between different types of investors and across different markets.

The company conducts a highly conservative risk policy, and in uncertain market conditions risk control is boosted even further. Thanks to its liquidity, MuniFin can ensure the continuity of competitively priced funding in all market conditions.

How does MuniFin maintain its competitiveness?

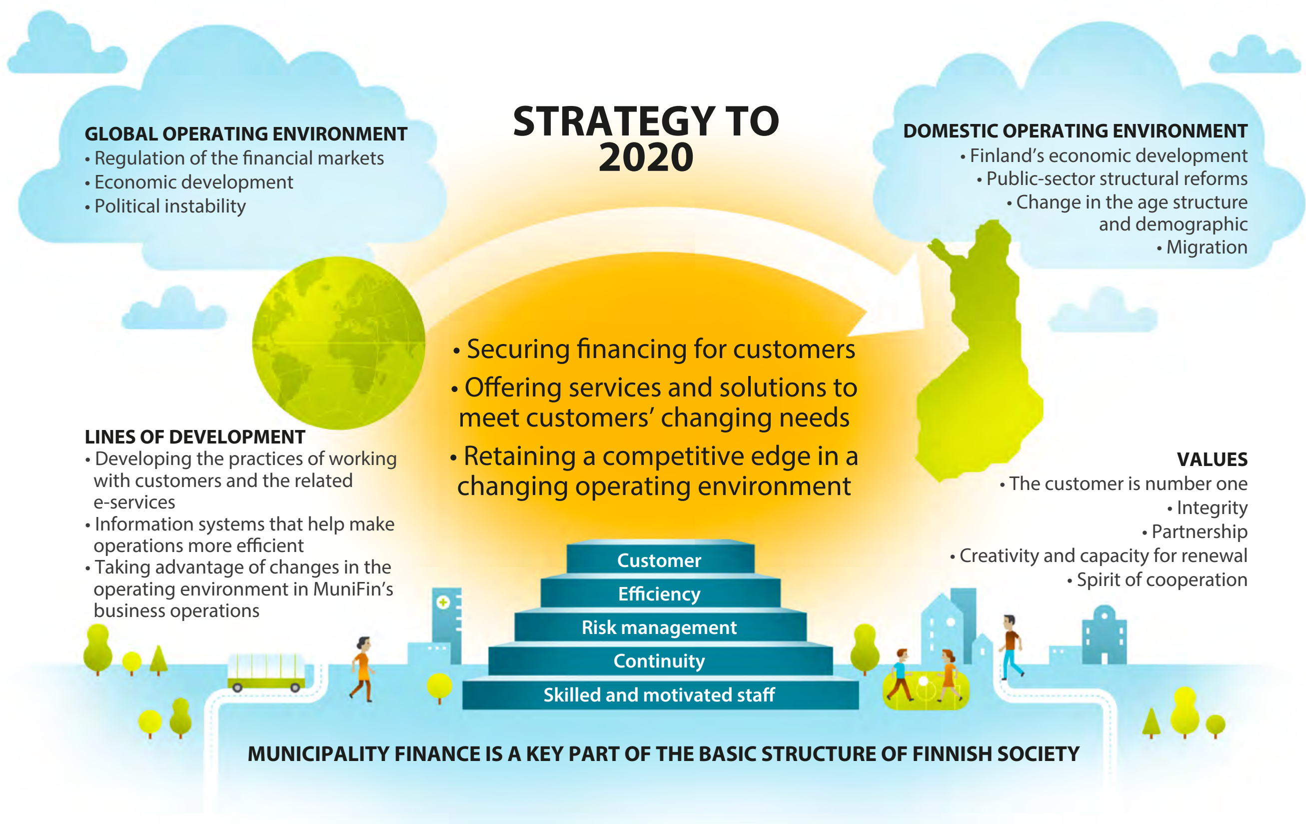
The continuously changing operating environment means that the company must continue developing. In early 2015, MuniFin carried out a reorganisation with the aim of serving its customers even better than before. In line with its growth, the company has continued to hire competent personnel, and their professional skills are improved perpetually through training.

The information systems related to MuniFin's operations are continuously being developed, and the company is shifting from manual to automated processes. This increases operational efficiency, reliability and continuity. Electronic services improve the customer experience and open possibilities for a new kind of customer interaction. MuniFin's mission is to be a farsighted, reliable partner for municipalities.

How is responsibility reflected in MuniFin's operations?

MuniFin's operations are economically, socially and ecologically responsible. The coming demands of tightening banking regulations have been anticipated for a long time, and the company has persistently worked to further enhance its capital adequacy for the last several years.

Thanks to financing provided by MuniFin, customers can invest in targets that are important for the society. Environmental values are taken into account in the company's products. An example will be new green financing, available from 2016.



A Wide Impact on Society

Municipality Finance is a facilitator of smooth everyday life for people in Finland. By financing investments into welfare services and infrastructure, MuniFin is influential throughout the society.

MuniFin is indirectly but decidedly present in everyday life in Finland. For operators in the municipal sector and social housing provision, the company is a reliable long-term partner that knows its customers and their needs.

Customers come to MuniFin for flexible, diverse and overall competitively priced financing solutions for various kinds of investments. The company has positive and open relationships with various authorities and political decision-makers in local and central government.

The definitions of MuniFin's customer base originate from the Act on the Municipal Guarantee Board. MuniFin is owned by the Finnish municipalities, Keva and the Republic of Finland, and the company is by far the largest provider of financing for the municipal sector and the government-subsidised housing production in Finland.

We make welfare possible

- It is the company's duty to ensure the availability of competitive financing for the municipal sector and central government-subsidised housing production under all market conditions.
- The benefits of financing that is competitively priced overall is directly reflected on the costs of the investments passed on to taxpayers.

We offer financing

- The Municipality Finance Group offers financing through loans and leasing, as well as consulting services for managing the entire life cycles of municipal operations and subsidised housing production.
- Our financing solutions are tailored to our customers' individual needs at the time. We care about continuous development to match our customers' needs.

Our operations are financially profitable

- MuniFin is a financially sound, profit-making company. Our operations are farsighted and target-oriented.
- As an economically responsible company we look after our personnel.
- Our growth is cost-effective.

We support the Finnish society

- The targets we finance are socially and nationally important projects related to schools, hospitals, housing, the environment, etc.
- MuniFin knows the conditions and state of Finnish society and its customers. The company's expertise will help customers overcome even the most difficult funding-related challenges.

IMPACT ON SOCIETY

For many years, MuniFin has been anticipating the new capital requirements arising from tightening financial regulation by improving its operational profitability. This will continue being the company’s strategy. The efficiency of MuniFin’s operations is a direct benefit for its customers.

From the point of view of investors in international capital markets, MuniFin is a reliable, flexible and predictable counterparty. The high credit rating of Finland’s municipalities gives MuniFin a good basis for obtaining funding from around the world. For investors, MuniFin offers capital-guaranteed investment products.

The suppliers of operational systems used by MuniFin are regarded as important business partners. The use of electronic solutions is under persistent development in partnership with system suppliers.

> ***"For operators in the municipal sector and social housing provision, MuniFin is a reliable long-term partner that knows its customers and their needs.***

Total loans granted EUR

20.1

billion

↓

MuniFin enables the development of Finnish society

Comprehensive Provider of Financing

MuniFin operates in domestic financing and in international capital markets. The Group's business units support each other.

Predictive Capital Adequacy

In September, MuniFin reinforced its capital structure by issuing an AT1 capital loan worth EUR 350 million, under Tier 1 capital, on the domestic and international markets.

This loan is a step in anticipating the requirements of tightening banking regulations. A new leverage ratio requirement based on the Basel III framework will will enter into force in 2018. MuniFin is preparing for a presumed requirement of three per cent. Thanks to the AT1 loan, MuniFin already exceeds that requirement. All other requirements set for credit institutions' capital adequacy are already clearly fulfilled.

With the loan, MuniFin has safeguarded the prerequisites for its operations to continue regardless of conditions and tightening regulation.

The business operations of the Municipality Finance Group include financing, funding and liquidity management, as well as financial consulting through subsidiary Inspira.

MuniFin offers financing through loans and leasing. For managing interest rate risk, the company offers derivative contracts tailored to various needs. Interest rate hedging can also be provided for leasing-based financing.

MuniFin obtains its funds from international capital markets. Funding is diversified by extensive spreading across markets and instruments, which keeps refinancing risks low.

A liquidity portfolio is in place to ensure the continuity of MuniFin's operations. These investments are easy to realise into cash, ensuring that MuniFin's operations and lending to municipalities can continue without disturbances under all conditions.

Risk management related to funding, lending and liquidity forms a crucial part of the company's operations.

> ***MuniFin's services benefit the customer at all stages of the investment and financing process.***

> The new Apollo service, intended for overall portfolio analysis, simulation and management puts MuniFin's dealings with customers on a whole new level.
>
> **Jukka Helminen, Executive Vice President, Customer Finance**

MuniFin's business covers various parts of the financial sector. It is conducted both in Finland and internationally, and the various parts of the business complement each other.

Inspira is a specialist in public-sector financing that offers independent consulting on investment projects and asset management.

Expert Partner for Municipalities

The customer lies at the heart of MuniFin's strategy. The company has in-depth understanding of its customers' needs and is a genuine business partner. Finland's municipalities are part-owners in MuniFin, so their financial success is an asset for the company.

MuniFin is a competent specialist whose services can benefit the customer at all stages of the investment and financing process. MuniFin offers comprehensive financial services for its customers. Besides actual lending-related services (loans, leasing arrangements and products for managing related interest rate risks), these include consulting for the planning stage of investments, as well as portfolio management services. Service packages are tailored to meet customers' individual needs.

MuniFin follows and anticipates its customers' changing needs and adjusts its operations accordingly. The company reacts swiftly and flexibly to changing situations and can expand its palette of services to respond to demand. Generational changes are taking place in many Finnish municipal governments, and the new generation brings with it new ways of working.

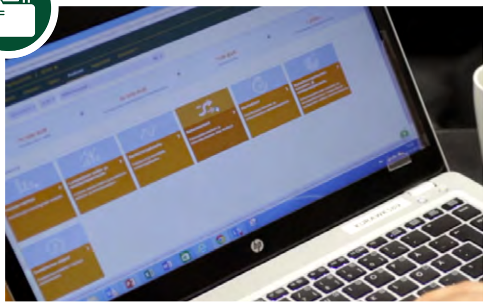
Continuous process improvement and adoption of new digital tools form a central part of MuniFin's operations.

Going Green

In 2016, MuniFin will launch green financing, which it will fund through the issue of a green bond, bringing environmental responsibility visibly into the company's service portfolio.

Investors' interest in ecologically sustainable investments has grown in recent years, and the Paris Agreement of 2015 has made climate issues an even more prominent part of life.

The green bond aimed at investors will be complemented by green financing offered to customers. Both of these will be channelled towards environmental projects that fulfil the criteria for green financing. The environmental aspects of the investment targets will be assessed by an independent evaluation team, and the environmental impact of projects receiving green funding will be reported specifically to investors.



Apollo Improves Portfolio Management

MuniFin's new Apollo service is a solution for customers' financial portfolio management. For customers, Apollo is a user-friendly and data-secure web service. Customers can manage all their financing agreements using the one service, as well as analysing their portfolio, simulating alternative solutions and utilising up-to-date market data.

Apollo was piloted in summer 2015 and launched for standard use later in the year. The pilot project involved seven MuniFin customers that broadly represented the whole clientele. The aim is to gradually expand the Apollo user base during 2016. The service brings MuniFin's customer partnerships to a whole new level.

Financial Services

Financing for Varying Needs

MuniFin offers financing solutions to meet diverse needs in the municipal sector. In addition to traditional short- and long-term loans, the company offers leasing agreements that can suit many targets.

New loans withdrawn in 2015 EUR

2.69

billion

Developing the Customer Experience

In November 2015, MuniFin surveyed its customers' experiences and satisfaction with the services of the Municipality Finance Group. A particular aim was to find out how customers view their collaboration with MuniFin. Nearly 400 customers responded to the survey.

In earlier years, MuniFin has received excellent results from customer satisfaction surveys. This time, the questionnaire focused on issues that had previously been recognised as areas for development, in order to receive more details on customers' wishes for improvements to the overall customer experience. Based on the survey, customer satisfaction received an average value of 5.65 on a scale of 1–7, which was slightly lower than in former years but still a very good result.

The results showed that MuniFin has a very positive image among customers, who are very willing to recommend the company. Customers view their dealings with the company to be easy and smooth. They wished for more support from MuniFin in planning investments and financing, and for more communication after the completion of individual projects. These are some of the demands the group has hoped to respond to with its reorganisation, which was completed in 2015. The objective of the new service model is to develop overall customer service, to identify customers' needs more effectively and to respond to these more flexibly than before. The consulting services offered by the subsidiary Inspira play a significant role in this.

Applying for financing from MuniFin is quick and easy. Loan periods and repayment terms are flexibly arranged according to customers' needs. The terms offered by MuniFin are transparent, which makes the company's operations trustworthy and predictable for customers. The costs associated with MuniFin's loans are competitive.

The company offers long-term financing such as budgeting, investment and interest subsidy loans, as well as non-subsidised mortgages. For short-term financing less than 12 months in duration, MuniFin has municipal commercial paper and municipal company commercial paper programmes.

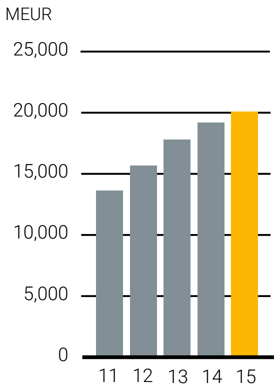
MuniFin's financial leasing is suited to the financing of diverse targets. It refers to capital leasing in which the customer acquires an asset for a certain period. The lease agreement is made for a period that corresponds to the actual financial and technical lifetime of the asset.

The leasing options offered by MuniFin are financial leasing framework agreements and real estate leasing. Financial leasing refers to the long-term rental of fixed assets such as machinery, medical equipment, furniture, vehicles or IT and office equipment. Real estate leasing is usually used for funding schools, day care centres and multipurpose centres.

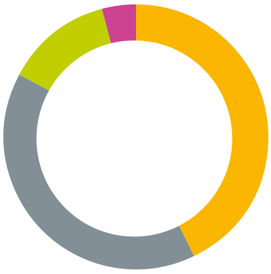
BUSINESS

> The green trend is clearly visible among international investors. The issuance of a new green bond will respond to the growing demand for sustainable investments.
>
> **Esa Kallio, Executive Vice President, Deputy to the CEO**

Lending portfolio 2011–2015

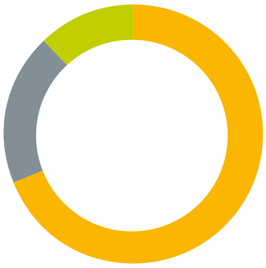


Lending portfolio by customer type



Housing corporations	43%
Municipalities	40%
Local government corporations	13%
Municipal federations	4%

Lending portfolio by rate type



Euribor	69%
Long-term rate	19%
Fixed	12%

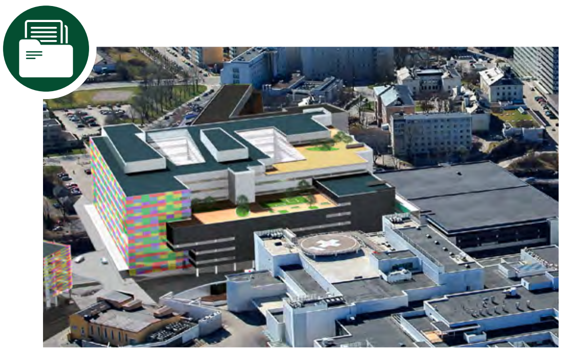
> ***The terms offered by MuniFin are transparent, which makes the company's operations trustworthy and predictable for customers.***

Leasing arrangements do not tie the customer's capital to asset ownership. The costs of the arrangement can be carefully predicted, and relate directly to the target in question. The leasing solutions offered by MuniFin are easy to understand and transparent in terms of costs. They are also competitively priced.

MuniFin offers a free asset registration service for its leasing customers' use, with which they can monitor and maintain some of the financial and technical data related to the assets they have leased. The service facilitates careful tracking so that customers can keep abreast of the details related to their leasing arrangements.

Demand for real estate leasing grew sharply in the municipal sector in 2015. This indicates the active search by municipalities for new alternatives in funding.

MuniFin also offers tailored derivative contracts for managing the interest rate risk of both loans and leasing-based financing. Derivatives are offered only for hedging purposes.



T3 Hospital Financed through Leasing

The T3 Hospital investment of the Hospital District of Southwest Finland in Turku is a pioneer project in real estate leasing in Finland. The project relates to transferring the functions from the old U Hospital, which will be demolished, to the new T3.

The new building will cover approximately 54,000 square metres and its total cost is around EUR 158 million. During the lease period, the building will be owned by MuniFin, after which the Hospital District can either purchase it or sell it to a third party.

Before requesting bids for funding, the Hospital District examined different funding alternatives and markets. In the twenty-first century, the Hospital District has been implementing an extensive investment scheme, and the choice of real estate leasing was a part of its overall portfolio management activity. The use of leasing as an option significantly reduces the refinancing risk of the Hospital District.

Funding

Funds from Around the World

The funds required for providing loans to customers come from around the world. MuniFin carries out its funding in international capital markets.

Great Success of Benchmark Bonds

During 2015, Municipality Finance issued two benchmark bonds worth USD 1 billion each. A five-year bond was issued in January and a three-year in September.

Both issues met with excellent success despite the challenging market conditions. The September issue was preceded by a very difficult market period during which loan risk premiums rose significantly.

The successful issues were practical fulfilments of MuniFin's core mission, which is to secure competitive funding for Finland's municipal sector and government-subsidised housing production regardless of market conditions.

MuniFin has diversified its funding extensively across maturities and currencies. Diversification is used to increase the geographical coverage of funding operations, as well as to ensure there are many types of investors (such as central banks, asset managers and banks) subscribing to MuniFin's bonds. Diversification has significantly reduced the refinancing risks linked to continuity of funding, because it means MuniFin is not dependent on fluctuations in any single market.

Extensive diversification has also made funding efficient, which makes the financing terms for MuniFin's customers competitive. The good credit ratings of the Finnish state, the municipal sector and MuniFin help to keep funding costs low.

For investors and agent banks, MuniFin is one of the most flexible, reliable and swift partners on the capital market. Maintaining and developing a good level of efficiency and fluidity in the company's funding processes are essential factors for investors to continue seeing MuniFin as an attractive business partner. According to research conducted in the summer of 2015 by Prospera research, international investors rated MuniFin as an issuer higher than its Nordic counterparties – even though they all received good feedback in the survey. MuniFin stood out particularly when asking about issuers' understanding

"Municipality Finance is one of the most flexible, reliable and quick operators on the international capital market.

Number of funding arrangements completed in 2015

315

of market requirements. The company also received particularly good feedback on the quality of market data it offers, on its staff competence, and on the ease of reaching the members of its executive management.

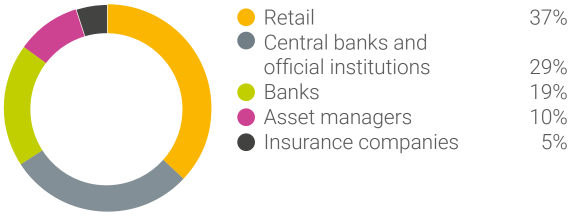
MuniFin is trusted around the world. It is crucial for the company to maintain the competitiveness of its funding, because it is dependent on the global capital market. MuniFin's long-term work in international capital markets and good investor relations are important success factors. For example, MuniFin has had an active presence in Japan for a couple of decades already, creating a strong position as the biggest issuer on the so-called Uridashi market. Similar strong positions and investor relations have also been achieved on the benchmark bond market through determined and systematic investor relation efforts.

MuniFin carries out most of its funding transactions as standardised issues under diverse debt programmes. Debt programmes guarantee extensive investor demand for MuniFin, allowing the company to react quickly and to make use of the opportunities brought by changes in market conditions.

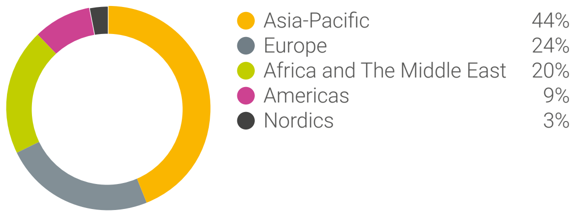
Most international funding is done in foreign currencies, but thanks to the company's strict risk management policy, MuniFin hedges against all related financing risks, including currency and interest rate risks.

In 2015, MuniFin met with excellent success in funding, despite challenging global economic conditions and many uncertainty factors.

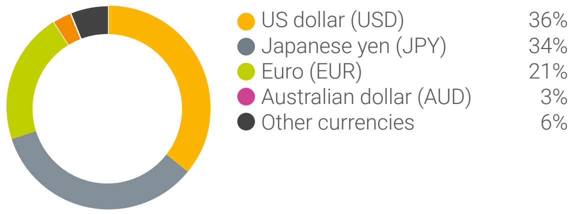
Funding by investor type in 2015



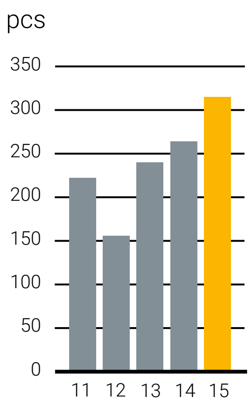
Funding by region in 2015



Funding by currency in 2015



Total number of funding transactions 2011–2015



Investments

Ensuring Continuity through Liquidity

Liquid investments, i.e. ones that can be easily realised into cash, help to safeguard MuniFin's operations in all conditions. These investments have a low risk profile.

For increased efficiency, overall liquidity was subdivided into short- and long-term liquidity in early 2015:

Short-term liquidity = cash in hand and at bank + approx. three months' funding needs
Long-term liquidity = strategic liquidity of the company

Total Liquid Assets EUR

7.73

billion

The company keeps a liquidity portfolio as a buffer that can secure operational continuity through any market conditions. Investments that can be easily realised help to safeguard financing for customers, as well as the refinancing of expiring funds, should the funding obtained from capital markets run out. The company also uses repurchasing contracts with central banks and capital markets for ensuring continuity.

In line with MuniFin's liquidity policy, the total liquidity amount must be enough to cover uninterrupted business for at least six months. At the end of 2015, the liquidity situation was strong. At year-end, the liquidity buffer covered the funding needs of around 11 months. MuniFin's liquid funds amounted to EUR 7.73 billion at the end of 2015.

Short-term liquidity is managed by the company's Treasury, while long-term liquidity is managed by the Investment unit. The ratio between long- and short-term liquidity is reallocated monthly based on anticipated liquidity needs. At year-end, the proportions of short-term and long-term liquidity were 30% and 70% respectively.

"Liquidity management supports the company's core operations, i.e. the provision of funding for customers.

Liquidity investments are made in global fixed-income markets with strong diversification. The primary objective is to protect the invested capital and to ensure liquidity. The investment operations are directed by the operating policies approved by the company's Board, as well as by an annually set risk allocation.

Besides low interest rates, 2015 was characterised by poor secondary market liquidity. The ECB's purchase programme and increased banking regulation lowered the liquidity of bonds on the secondary market. MuniFin continuously evaluates the liquidity of its investments. Additionally, the company regularly calculates liquidity coverage ratio (LCR), which ensures that it has an adequate stock of high-quality liquid assets that can be converted easily into cash to meet the liquidity needs for a 30 days liquidity stress scenario.

The credit and market risks of MuniFin's overall liquidity are managed by diversification into asset classes and different countries. During 2015, the proportion of senior bank bonds was reduced, while, conversely, the proportion of covered bonds, sovereign and public corporation investments was increased. The average maturity of all investments at the end of 2015 was 2.3 years (2014: 2.3 years). The average credit rating of the company's investments remained at AA level.

Responsible Investment

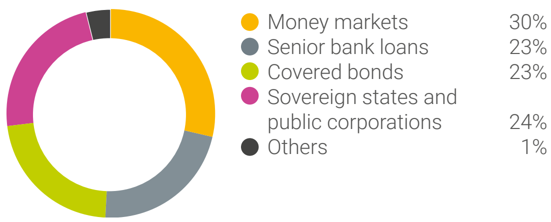
The company abides by the ethical principles approved by its Board in all its investments. Additionally, MuniFin started tracking the ESG* values of its individual investments in 2015. ESG evaluates the environmental, social responsibility and governance practices of the issuers in the liquidity portfolio.

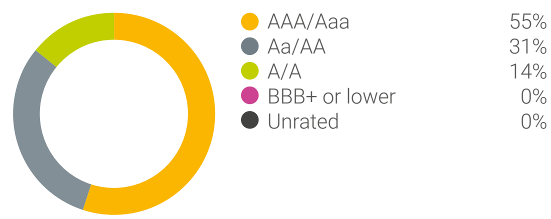
The ESG averages of all investments are compared to the market average and to the closest possible benchmark. The ESG analysis of issuers was conducted by the German asset management company Union Investment, which has over 20 years' experience evaluating and managing responsible investments.

At the end of 2015, MuniFin's liquidity investments had an ESG average of 65 on a scale of 1–100. This is 1.4 points higher than the market's benchmark index (63.6), which is calculated from market indices using a similar asset class distribution as that of the company's liquidity portfolio.

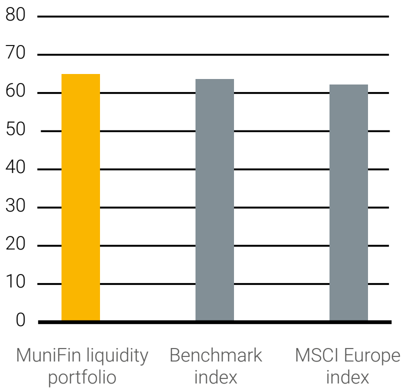
**ESG = Environmental, Social and Corporate Governances*

Overall liquidity by asset class and credit rating





ESG value of MuniFin's liquidity investments



Inspira

Financial Consulting from Inspira

The mission of Inspira is to help the public sector to produce services with lower costs and higher quality.

Increase in the amount of Inspira's assignments

39%

Financial Advisory Services Inspira Ltd, a subsidiary of the Municipality Finance Group, offers municipalities and other public-sector bodies independent expert and consulting services within the finance industry.

Inspira's service portfolio includes financial modelling of investment projects, mapping of financing alternatives, financial advice, and consulting on planning for municipal investments and functional reorganisations. Inspira's strength lies in its knowledge of the special needs of the public sector. Inspira has long and diverse experience of public-sector investments into areas such as schools, elderly care centres, renewable energy projects and motorways.

When the prerequisites, execution options and cost effects of public-sector projects are presented in clear numerical form, it is easier for municipal governments to make decisions on them. In making the preliminary analysis for projects, Inspira looks at diverse financing alternatives and helps the customer to choose the one that best suits their needs at the time. Additionally, Inspira will make clear proposals for further actions to be taken.

Once investment projects are being executed and financed, Inspira can give advice on the entire life cycle of the project. Asset management services are offered as part of arrangements related to assets and service production. Inspira makes tried and tested best practices available to its customers.

Municipalities are paying increasing attention to the profitability of investments, and therefore to diverse execution alternatives. Real estate leasing solutions and life cycle projects showed a clear increase in popularity in Inspira's assignments in 2015. In leasing projects, Inspira often assists in arranging the competitive bidding for service providers.

EFSI Opens Opportunities in Finland

The Ministry of Employment and the Economy in Finland chose Inspira to advise it on more effective use of European funding sources. The consulting agreement was made for three years starting in 2015.

The European Fund for Strategic Investments (EFSI) accelerates investments into Finland. The EU-level programme is looking to activate investments, address the investment deficit and improve employment.

Funding mediated by EFSI is directed at almost all sectors of industry and commerce. Mostly the funding is intended for infrastructure and industry renewal, however, one quarter is channelled towards SMEs. EFSI funding is directed at financially viable projects.

Inspira Assisted in the Sale of Bus Company

Inspira acted as financial advisor to the City of Helsinki in the sale of the business operations of Helsingin Bussiliikenne, a bus company owned by the city. A buyer was sought through a market-based procedure.

The company was bought by the Finnish Koiviston Auto Group. The City of Helsinki approved the sale in October 2015 and it was finalised in December.

This large-scale deal was unusual because municipalities seldom sell their companies. The sale of Helsingin Bussiliikenne derived from a long history of poor profits, the difficult competitive scenario and the change of market conditions in relation to bus traffic in the Helsinki Metropolitan Area.

Skilled staff form the most important resource for Municipality Finance. Developing staff competence and well-being is a continuous effort and an area of focus for the company.

Experts in their Field

Our Work Matters

Staff surveys have shown that MuniFin's employees consider their work to be meaningful. The strong role and responsibility of MuniFin in the society motivate personnel.

Opinions expressed by MuniFin employees in the Great Place to Work survey:

"I feel good about the ways we contribute to the community"
94%

"When I look at what we accomplish, I feel a sense of pride"
93%

" This is a friendly place to work"
99%

In our changing operating environment, it is important to keep developing the competence of staff. MuniFin invests in the competence and well-being of its personnel. The company takes a very positive view of its employees and managers seeking training.

MuniFin's personnel have grown strongly in recent years, and the trend continued in 2015. The number of employees has doubled in the last five years. At the end of 2015, the Municipality Finance Group employed 95 people. The growth of personnel will continue in 2016.

The growth has an impact on the company's internal processes, which have been actively enhanced. Combined with the continuously changing operating environment, the company's growth creates challenges also with regard to developing staff competence and expertise.

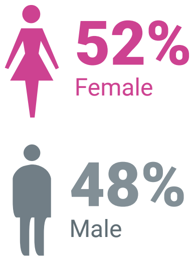
Two staff surveys were carried out at MuniFin in 2015, and their results indicate a high level of job satisfaction. One survey formed a part of the international Great Place to Work study, while the other measured not only job satisfaction but also internal customer satisfaction and operational areas for development.

Research shows that MuniFin employees feel that they are trusted and allowed to work independently. Staff are given extensive decision-making power within their tasks, as well as responsibility for their actions and for identifying development needs in their own competence. As the company and its personnel grow, the employees' job descriptions become more specific. Staff are expected to know their areas of competence even better than before, but agility and the willingness to learn are also important.

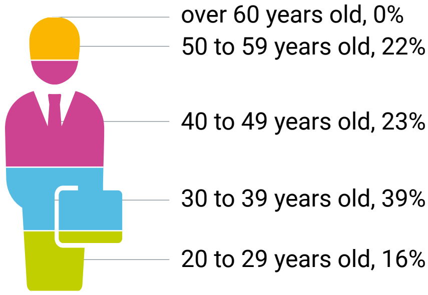
> ***The outcomes of the staff surveys indicate a very high level of job satisfaction.***

Number of employees 2011–2015

Employees by gender



Employees by age



Great Place to Work

GREAT PLACE TO WORK Suomen parhaat työpaikat 2015 Finland

MuniFin has been proven by research to be one of Finland's best workplaces. In the general category of the Great Place to Work survey published in early 2015, the company came 25th among medium-sized workplaces in Finland. The survey examines staff satisfaction, corporate culture and leadership.

The good placement in this list indicates that MuniFin's values are really put into practice. Integrity, partnership, creativity, renewal and team spirit are a part of everyday work at MuniFin.

Great Place to Work examines, identifies and rewards the best workplaces in around 50 countries on six continents. Only the top one third of the organisations that take part in the survey even make it onto the lists.

Finnish Champion among Employers

European Business Awards RSM National Champion 2015/16

In November, MuniFin was the only Finnish finalist in the Employer of the Year category of the European Business Awards. This category evaluates employers' investments into the competence and well-being of their personnel and the financial outcomes that are achieved as a result. The jury consists of experienced opinion leaders in the financial world.

The aim of the European Business Awards is to draw attention to innovations, competence and best practices among successful European companies. The competition was arranged for the ninth time in 2015, and it involved 32,000 companies from 33 European countries. The companies selected as national finalists may choose to continue competing on a second European level.

Board of Directors

Composition of the Board of Directors

According to the company's 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 terminates at the end of the next AGM.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2015 Annual General Meeting elected the following persons to the Board of Directors for the 2015–2016 term (from the end of the AGM to the end of the next AGM):

Top row, from left: Fredrik Forssell, Tapani Hellstén, Sirpa Louhevirta, Eva Liljeblom
Bottom row, from left: Asta Tolonen, Tuula Saxholm, Juha Yli-Rajala, Teppo Koivisto

Eva Liljeblom, 1958
Chairperson

On the Board of Directors since 2003

Education: Doctor of Science (Economics and Business Administration)

Primary occupation: Hanken School of Economics, Professor

Other key positions of trust: State Pension Fund, Chair of the Investment Consultative Committee; Fennia, member of the Board of Directors; Central Fund of the Evangelical Lutheran Church of Finland, member of the Executive Board; Veikkaus Oy, member of the Board of Directors

Independence: independent of the company and its significant shareholders

Tapani Hellstén, 1957
Vice-Chairman

On the Board of Directors since 2014

Education: Master of Administrative Sciences

Primary occupation: Keva, Executive Vice President

Other key positions of trust: Häme District of TUL, Chair of the Council; Service Foundation of the Deaf, Chair of the Administrative Council; KuntaPro, Deputy Chair of the Board of Directors; Sibelius Birth Town Foundation, Chair

Independence: independent of the company

Fredrik Forssell,1968
On the Board of Directors since 2011

Education: Master of Science (Economics and Business Administration)

Primary occupation: Keva, Director of Direct Security Investments

Other key positions of trust: Finnish Centre for Pensions, member of Investment Advisory Committee

Independence: independent of the company

Teppo Koivisto, 1966
On the Board of Directors since 2011

Education: Master of Social Sciences

Primary occupation: State Treasury, Head of Division

Other key positions of trust: Tiukula Foundation, Chair of the Board of Directors

Independence: independent of the company

Sirpa Louhevirta, 1964
On the Board of Directors since 2011

Education: Master of Science (Economics and Business Administration)

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

Other key positions of trust: -

Independence: independent of the company and its significant shareholders

Tuula Saxholm, 1961
On the Board of Directors since 2013

Education: Master of Science (Economics and Business Administration)

Primary occupation: City of Helsinki, Budget Director

Other key positions of trust: Helsingin Asumisoikeus Oy, Chair of the Board of Directors; Helsinki Metropolia University of Applied Sciences Oy, member of the Board of Directors; Länsimetro Oy, member of the Board of Directors; Helsingin kaupungin asunnot Oy, member of the Board of Directors; Helsingin Leijona Oy, member of the Board of Directors; Port of Helsinki, member of the Board of Directors; City of Helsinki's Department of Financial Management Services, Chair of the Executive Management Group

Independence: independent of the company (employed by a significant customer)

Asta Tolonen, 1960
On the Board of Directors since 2011

Education: Master of Science (Economics and Business Administration)

Primary occupation: Municipality of Suomussalmi, Municipal Manager

Other key positions of trust: Kainuu Province Cooperation Group, member and Vice Chair; Centenary of Finland's Independence project, member of the Board of Directors;

Independence: independent of the company and its significant shareholders

Juha Yli-Rajala, 1964
On the Board of Directors since 2011

Education: Master of Administrative Sciences

Primary occupation: City of Tampere, Director

Other key positions of trust: Tampere Chamber of Commerce, Yhteishotelli Oy and Pirkanmaan Kansanterveys ry, member of Board of Directors

Independence: independent of the company and its significant shareholders (employed by a significant customer)

Executive Management Team

CEO and Executive Management Team

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 operations in line with the strategy, risk management principles and limits set by the Board of Directors.

Supported by the Executive Management Team, 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.

From left: Jukka Helminen, Esa Kallio, Pekka Averio, Mari Tyster, Toni Heikkilä and Marjo Tomminen

CEO and Executive Management Team at the end of 2015:

Pekka Averio
President and CEO

At Municipality Finance since 1993

Education: Master of Laws, MBA

Year of birth: 1956

Esa Kallio
Deputy CEO, Executive Vice President

At Municipality Finance since 2005

Education: Master of Science (Economics and Business Administration)

Year of birth: 1963

Toni Heikkilä
Executive Vice President, CRO, Risk Management and IT

At Municipality Finance since 1997

Education: Licentiate of Science (Economics and Business Administration), Master of Science (Finance)

Year of birth: 1965

Jukka Helminen
Executive Vice President, Customer Finance

At Municipality Finance since 2013

Education: Master of Science (Technology)

Year of birth: 1964

Marjo Tomminen
Executive Vice President, CFO, Finance

At Municipality Finance since 1992

Education: Vocational Qualification in Business and Administration, EMBA

Year of birth: 1962

Mari Tyster
Executive Vice President, Administration and Legal

At Municipality Finance since 2009

Education: Master of Laws

Year of birth: 1975

Municipality Finance describes its operations and financial situation openly in its communications.

MuniFin is Guided by Good Governance Practices

MuniFin's operations are governed by EU-level regulations, as well as laws and decrees applicable to credit institutions. Besides legislation, the company complies with rules and instructions from the Finnish Financial Supervisory Authority and European authorities. The company has been under the direct supervision of the European Central Bank since the start of 2016. Several development projects are under way to ensure that MuniFin will continue to fulfil the operational and reporting requirements set by law and the ECB.

MuniFin follows the Governance Code of the Helsinki Stock Exchange, and puts it into practice where applicable, taking into account the fact that the company's shares are not subject to public trading. The company keeps an eye on international best practices in the financial sector. MuniFin develops its administration and operating models to respond even better to the expectations of its shareholders, customers, investors and personnel, as well as to the requirements of increasing regulations.

In all of its operations, MuniFin adheres to the principle of responsibility. For the company, this encompasses social, economic and ecological responsibility. MuniFin forms a crucial part of the economic structure of Finland. This requires professional operations that always take into account the outlook for the future.

To fulfil its economic responsibility, MuniFin must enforce an effective risk management policy. This involves controlling counterparty, market and operational risks, among others. The company's risk management principles are very strict, and they are set by the Board. Through its efficient operations and low overall risk position, MuniFin can help to ensure the maintenance of its good credit rating.

MuniFin's financing makes it possible for customers to conduct projects involving environmentally or socially responsible investments. In its internal communications, the company makes use of technological advances, such as video conferencing. MuniFin has a Green Office certificate, which is audited by the World Wildlife Fund. Environmental efficiency is emphasised in the company's purchases.

Green Office Requires Environmental Awareness from All Staff

The Green Office system is designed by WWF to improve the environmental efficiency of companies. Green Office members select the indicators that best apply to their operations, according to which their environmental efforts are reported. Green Office companies are required to continue improving their environmental efficiency, and WWF conducts audits every three years.

At MuniFin, the system has led to more efficient recycling, as well as reduced electricity and paper consumption. The company supports travel by public transport, chooses long-lasting goods instead of disposables, and favours organic products. Small everyday choices can lead to large-scale, positive environmental impacts on an annual level.

GREEN OFFICE
A WWF INITIATIVE TO REDUCE ECOLOGICAL FOOTPRINT
WWF

Municipality Finance Financial Statements 1 January–31 December 2015

Contents

Report of the Board of Directors

2015 in Brief

- The Group's net operating profit amounted to EUR 151.8 million (2014: EUR 144.2 million). The growth over the previous year was 5.3%.
- Net interest income grew by 7.6% compared with the previous year, totalling EUR 172.2 million (2014: EUR 160.0 million).
- The balance sheet total was EUR 33,889 million (2014: EUR 30,009 million). The growth compared to the end of 2014 was 12.9%.
- The Group's capital adequacy continued to strengthen, with the ratio of total own funds to risk-weighted assets being 64.61% at the end of 2015 (2014: 33.53%) and the ratio of Tier 1 capital to risk-weighted assets being 62.49% (2014: 29.98%).
- In 2015 the company reinforced its capital structure with an AT1 capital loan worth EUR 350 million, under Additional Tier 1 capital. The leverage ratio at the end of 2015 was 3.15% (2014: 1.8%)
- The lending portfolio increased to EUR 20,088 million (2014: EUR 19,205 million) and the total of new loans withdrawn amounted to EUR 2,687 million (2014: EUR 2,775 million).
- The leasing portfolio stood at EUR 187 million at the end of the year (2014: EUR 133 million).
- Total funding for 2015 amounted to EUR 7,297 million (2014: EUR 7,440 million). A total of EUR 4,824 million was issued in short-term debt instruments under the Euro Commercial Paper programme in 2015 (2014: EUR 5,904 million). The total amount of funding grew by 6.8% to EUR 28,419 million (2014: EUR 26,616 million).
- At the end of June, total liquidity was EUR 7,732 million (2014: EUR 6,751 million).
- The turnover of Municipality Finance's subsidiary Inspira was EUR 2.3 million (2014: EUR 2.5 million). Net operating profit at the end of 2015 totalled EUR 0.2 million (2014: EUR 0.4 million).

Key Figures (Consolidated):

	31 Dec 2015	31 Dec 2014
Net interest income (EUR million)	172.2	160.0
Net operating profit (EUR million)	151.8	144.2
New loans issued (EUR million)	2,687	2,775
New long-term funding (EUR million)	7,297	7,440
Balance sheet total (EUR million)	33,889	30,009
Tier 1 capital (EUR million)	1,033.8	557.2
Total own funds (EUR million)	1,068.8	623.1
Ratio of Tier 1 capital to risk-weighted assets,%	62.49	29.98
Ratio of total own funds to risk-weighted assets,%	64.61	33.53
Leverage ratio,%	3.15	1.8
Return on equity (ROE),%	14.84	21.66
Cost-to-income ratio	0.16	0.15
Personnel	95	90

The calculation formulas for the key figures can be found on page 35. All figures presented in the Report of the Board of Directors are those of the Municipality Finance Group, unless otherwise stated.

Operating Environment in 2015

2015 was characterised by economic uncertainty, as well as by major structural reforms initiated in Finland, such as the social and health services reform and the related decision to establish new autonomous regions that will organise services. Municipality Finance's operations continued to develop positively. The company's profitability improved while the volume of business transactions grew. The growth in volume and human resources demands continuous development of operations and processes from the company. In the early part of the year, the company streamlined its organisation in order to serve its customers more flexibly and efficiently.

Municipality Finance was designated as a nationally significant financial institution in Finland. The company was transferred from under the Finnish Financial Supervisory Authority to the supervision of the European Central Bank (ECB) at the start of 2016. This was preceded by a comprehensive assessment involving asset quality review and stress testing. Municipality Finance clearly exceeded all the minimum requirements set.

For many years, Municipality Finance has striven to anticipate future demands arising from tightening financial regulation. In 2015 the company reinforced its capital structure with an AT1 capital loan worth EUR 350 million, under Additional Tier 1 capital, which means it already fulfils the leverage ratio requirement as it is currently expected to be. The issue was met with extensive interest by investors, and it was oversubscribed by nearly 300%.

During 2015, Municipality Finance's ratings remained stable – Aaa from Moody's and AA+ from Standard & Poor's. Both agencies changed their rating outlooks to negative, in line with their outlooks for Finland as a whole. The outlook shift is primarily due to the slow recovery of the Finnish economy.

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

Group Structure

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

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

Inspira provides financial advisory services to the public sector. These services include planning and executing investment and asset management initiatives for central government, municipalities and cities, as well as for companies and organisations. Inspira helps the public sector to arrange its services more effectively and to invest more economically.

Net Operating Result and Balance Sheet

The Group's operations remained positive. The Group's net operating profit for the financial year amounted to EUR 151.8 million (2014: EUR 144.2 million). The parent company's net operating profit stood at EUR 147.7 million (2014: EUR 143.8 million). The figure includes changes in the IFRS fair valuation of financial items that are unrealised and change in the fluctuation of market interest rates. The impact of IFRS valuations on profit was EUR -2.7 million (2014: EUR -2.1 million).

Net interest income continued developing well, with a growth of 7.6%. The total net interest income at the end of the year was EUR 172.2 million (2014: EUR 160.0 million). Net interest income includes EUR 1.4 million in commissions from the repurchase of own bonds (2014: EUR 1.5 million). The improvement in net interest income was thanks to the growth in business volume.

The net operating profit of MuniFin's subsidiary Inspira was EUR 0.2 million for 2015 (2014: EUR 0.4 million).

The Group's commission expenses totalled EUR 3.8 million at the end of the year (2014: EUR 3.8 million). Operating expenses increased by 14.8% to EUR 24.9 million during the year (2014: EUR 21.7 million). The growth in expenses was mainly due to an increase in administrative expenses resulting from changes in the company's operating environment, as well as on-going IT system development projects. Additionally, from 2015 MuniFin has incurred new fees charged by the authorities, including financial supervision costs paid to the ECB and the Financial Stability Authority of the Ministry of Finance. Administrative expenses came to EUR 16.7 million (2014: EUR 14.7 million), of which personnel expenses comprised EUR 10.9 million (2014: EUR 9.3 million). Depreciation of tangible and intangible assets amounted to EUR 1.6 million (2014: EUR 1.4 million). Other operating expenses were EUR 6.6 million (2014: EUR 5.5 million).

The Group's balance sheet total stood at EUR 33,889 million at the end of 2015, compared to EUR 30,009 million at the end of the previous year. Balance sheet growth is due to the growth of business. Liquidity was kept at a high level in 2015, as the company prepared for refinancing needs coming up in early 2016.

Capital Adequacy

The Group's own funds totalled EUR 1,068.8 million at the end of 2015 (2014: EUR 623.1 million). Common Equity Tier 1 (CET1) totalled EUR 686.3 million (2014: EUR 556.4 million). Tier 1 capital amounted to EUR 1,033.8 million (2014: EUR 557.2 million). The unrealised profits from assets measured at fair value (fair value reserve) have been included in CET1 capital (transitional provision for the period 1 January 2015–31 December 2017). In the figures for the comparison year, the fair value reserve is included in Tier 2 capital. Tier 2 capital totalled EUR 35.0 million (2014: EUR 65.9 million).

The Group's capital adequacy improved significantly. The ratio of own funds to risk-weighted assets being 64.61% (2014: 33.53%). The ratio of Common Equity Tier 1 (CET1) to risk-weighted assets was 41.49% (2014: 29.94%).

Consolidated Own Funds (EUR 1,000)	31 Dec 2015	31 Dec 2014
Common Equity Tier 1 before adjustments	692,573	562,977
Adjustments to Common Equity Tier 1	−6,244	−6,623
COMMON EQUITY TIER 1 (CET1)	**686,329**	**556,354**
Additional Tier 1 capital before adjustments	347,454	807
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**807**
TIER 1 CAPITAL (T1)	**1,033,782**	**557,162**
Tier 2 capital before adjustments	35,000	65,914
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**35,000**	**65,914**
TOTAL OWN FUNDS	**1,068,782**	**623,075**

Consolidated key figures for capital adequacy	31 Dec 2015	31 Dec 2014
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets,%	41.49	29.94
Ratio of Tier 1 capital (T1) to risk-weighted assets,%	62.49	29.98
Ratio of total own funds to risk-weighted assets,%	64.61	33.53

Consolidated minumum requirement for own funds

		31 Dec 2015		31 Dec 2014
(EUR 1,000)	Total exposure	Risk-weighted assets	Total exposure	Risk-weighted assets
Credit and counterparty risk, standard method	**107,434**	**1,342,928**	**127,077**	**1,588,468**
Exposures to regional governments or local authorities	368	4,598	-	-
Exposures to multilateral development banks	1,367	17,089	-	-
Exposures to institutions	69,645	870,561	77,840	972,994
Exposures to public sector entities	3,320	41,501	1,367	17,089
Exposures in the form of covered bonds	16,283	203,542	15,258	190,731
Items representing securitisation positions	15,743	196,792	27,028	337,851
Exposures in the form of shares in CIUs	108	1,354	101	1,258
Other items	599	7,490	5,484	68,545
Market risk	**47**	**594**	**6**	**73**
Credit valuation adjustment risk (CVA VaR), standard method	**1,009**	**12,613**	**1,586**	**19,829**
Operational risk, basic method	**23,851**	**298,143**	**19,994**	**249,928**
Total	**132,342**	**1,654,278**	**148,664**	**1,858,298**

In early October, Municipality Finance made history by issuing a EUR 350 million AT1 capital loan. Municipality Finance is not only the first Finnish company but also the first publicly owned company to issue an AT1 capital loan on the international market. The issue was met with extensive interest by investors, and it was oversubscribed by nearly 300%. With it, Municipality Finance reinforced its Additional Tier 1 capital in order to prepare for the current expectations of the leverage ratio requirement. At the end of 2015, the company's leverage ratio stood at 3.15% (2014: 1.8%), calculated using currently valid calculation principles.

The capital adequacy management principles applied and key figures are described in the Consolidated Financial Statements, after the Report of the Board of Directors, in Note 3: "Capital Adequacy Management Principles" and in Notes 43–59: "Capital Adequacy Data in Accordance with Pillar III". The parent company's capital adequacy is described in Notes 46–49 to the Parent Company Financial Statements.

Municipality Finance will publish the disclosure principles applied to the information disclosed based on the Capital Requirements Regulation (CRR) in a separate document. The document can be found in English on the company's website.

Customer Financing

Municipality Finance's customers consist of municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA). The company offers its customer base diverse financial services and is by far the biggest single provider of financing in its customer segment.

The market in which the company's customers operate was characterised by uncertainty during the period, just as in preceding years. Weak economic growth and doubts concerning the progress of structural reforms in the municipal sector have hampered investment decisions.

During 2015, Municipality Finance enhanced its customer service by reorganising its customer financing functions. The aim of the reorganisation was to ensure that new service needs arising from the changing customer environment are recognised even more effectively than before. Customers' needs are fulfilled by improving electronic services and by offering new products and comprehensive solutions. The development of the service model has also involved closer collaboration internally.

Despite the uncertainty in the operating environment of its customers, demand for the group's services has remained stable, and has also grown significantly for certain services.

With regard to lending, competition to attract customers in the municipal sector increased during the year. The group was able to respond market competition and maintain its status as the most important financing provider for its customer segment, thanks to its strong financial position. Municipality Finance plays a particularly important role in financing state-subsidised housing construction.

The total volume of tender requests received by Municipality Finance during the year was EUR 4,834 million (2014: EUR 4,387 million), and the company won EUR 3,181 million worth of these bids (2014: EUR 2,814 million). The total amount of new loans withdrawn in 2015 was lower than in the previous year at EUR 2,687 million (2014: EUR 2,775 million). At the end of the year, the long-term loan portfolio stood at EUR 20,088 million (2014: EUR 19,205 million). This represents an increase of 4.6% on the previous year.

There was also continued demand for short-term financing. At the end of 2015, the total value of municipal commercial paper and municipal company commercial paper programmes concluded with Municipality Finance was EUR 4,087 million (2014: EUR 3,787 million). The company's balance sheet included EUR 1,115 million in such papers issued by municipalities and municipal companies at the end of the year (2014: EUR 845 million), and during the year, customers acquired EUR 9,231 million in financing under short-term programmes (2014: EUR 9,638 million).

Besides loans, Municipality Finance offers municipalities, municipal federations and municipal enterprises derivative contracts tailored to their needs for the management of interest rate risk. Demand for derivative products remained high in 2015. As interest rates stayed low, customers hedged their loans against future possible increases in market rates.

Municipality Finance has offered leasing financing to municipalities, municipal federations and municipality-controlled entities since 2010. Long-term work has been carried out to ensure maximum transparency in the service model and its pricing. Demand for leasing solutions grew solidly in 2015. The group's customers are particularly interested in leasing-based solutions for real estate financing. The leasing portfolio grew by 40.7% during the year and stood at EUR 187 million at year-end (2014: EUR 133 million).

As part of the group's new customer service model, Municipality Finance strengthened its collaboration with its subsidiary Inspira, which offers advisory services, during 2015.

Demand for Inspira's services increased in 2015. Inspira's turnover in 2015 was EUR 2.3 million (2014: EUR 2.5 million). Its net operating profit for the financial year was EUR 0.2 million (2014: EUR 0.4 million). The subsidiary's turnover came mostly from assignments concerning the financing of its customers' investments, as well as consulting on operational reorganisations and on structures and responsibilities related to consolidated city groups. Inspira also carried out several projects involving competitive tendering and financing arrangements for broadband investments. The single biggest order came from the E18 Hamina-to-Vaalimaa motorway project, for which Inspira provided financial advisory services during the procurement process. During 2015, Inspira was selected to provide consulting related to projects funded by the European Fund for Strategic Investments (EFSI). The assignments obtained in 2015 included an increasing proportion of life cycle projects, for which Inspira provides services related to choosing the form of execution and arranging the tendering process for service providers.

Capital Markets Operations

The international capital markets were characterised by high liquidity in 2015, especially in the first six months. Municipality Finance's funding team succeeded in obtaining financing for its customers at competitive prices.

During the year, EUR 7,297 million was acquired in long-term funding (2014: EUR 7,440 million). In January 2015, the first public bond of the year was issued in the form of a USD 1 billion fixed-rate benchmark bond. In April, Municipality Finance stepped up its presence in the Australian market by increasing the size of its public bond under the Kangaroo programme by AUD 75 million. All in all, the company issued AUD 315 million under the Kangaroo programme in 2015. September saw the issue of the second USD 1 billion benchmark bond of the year. A total of EUR 4,824 million was issued in short-term debt instruments under the Euro Commercial Paper programme during the year (2014: EUR 5,904 million), and total funding under the programme amounted to EUR 1,230 million at the year-end (2014: EUR 1,259 million).

Total funding at the end of 2015 was EUR 28,419 million (2014: EUR 26,616 million). Of this amount, 18% was denominated in euros (2014: 18%) and 82% in foreign currencies (2014: 82%). The company issued bonds denominated in 12 different currencies in 2015 (2014: 15 currencies).

Municipality Finance currently obtains all of its funds from the international capital market, where the group is a well-known, valued and active participant. The total of long-term funding arrangements made in 2015 was 315 (2014: 264).

The group's funding strategy is to diversify funding sources, and this has proved to be a successful approach. Municipality Finance has various diversification strategies: by market, geographically, by issuing bonds targeted at different investor groups, and by issuing bonds with different maturities. Active, long-term collaboration with investors has increased the company's visibility in various markets, and investor relations are increasingly progressing towards the maintenance of key investor relationships.

Besides diversification, Municipality Finance's funding strategy is based on reliability, speed and flexibility. The majority of funding is carried out as standardised issues under debt programmes, of which Municipality Finance uses the following:

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

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, as well as for funding arrangements outside the programmes. As a result, debt instruments issued by Municipality Finance are classified as zero-risk when calculating the capital adequacy of credit institutions in the EU.

Municipality Finance's investment operations mostly comprise investments of acquired funding. The funds are invested in liquid and highly rated financial instruments to ensure the stability of the company's operations in all market conditions. According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations (including new net lending) for at least the following six months. The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. These investments are not included in calculations of the company's liquidity adequacy.

The company's liquidity remained excellent during 2015, despite exceptionally sharp fluctuations due to major variations in the cash collateral received on the basis of derivative collateral agreements. New investments were made in covered bonds, as well as bonds issued by public sector entities in strong eurozone countries and bonds issued by banks.

At the end of 2015, investments in securities totalled EUR 5,897 million (2014: EUR 5,581 million), and their average credit rating was AA (2014: AA). The average maturity of the security portfolio stood at 2.3 years at the end of 2015 (2014: 2.3 years). Additionally, the company had EUR 1,834 million in other investments (2014: EUR 1,170 million), of which EUR 1,814 million was in central bank deposits (2014: EUR 593 million) and EUR 20 million in money market deposits in credit institutions (2014: EUR 27 million). There were no repurchase agreements at the end of 2015 (2014: EUR 550 million).

Governance

Corporate Governance Policy

In addition to corporate legislation, Municipality Finance complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website. On publication of the Annual Report, Municipality Finance publishes on its website a Corporate Governance Statement, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act, which is separate from this Report of the Board of Directors and includes the description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions.

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 26 March 2015. The AGM confirmed the financial statements for 2014 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year. In addition, the AGM adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 53,158,350.27 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM decided that the Board of Directors would have eight members during the 2015–2016 term of office (from the end of the 2015 AGM to the end of the 2016 AGM), and elected the members. The AGM also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

The AGM decided to adopt a technical change to the Articles of Association proposed by the Board with regard to a reference to legislation. In accordance with the proposal of the Shareholders' Nomination Committee, the meeting decided to amend its previous decision regarding the operation of said committee in consideration of the amendments to credit institution legislation. Further, the AGM decided to update the election process of Shareholders' Nomination Committee members in respect of the stability of the company's ownership structure.

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

Board of Directors

At the Annual General Meeting of 26 March 2015, the Shareholders' Nomination Committee made a proposal to the meeting regarding the Board members to be elected for the term 2015–2016 from the end of the 2015 AGM to the end of the 2016 AGM). The AGM elected the following members to the Board of Directors: Eva Liljeblom (Chairman), Tapani Hellstén (Vice Chairman), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala.

In order to organise its work as efficiently as possible, the Board has established Audit, Risk and Remuneration Committees that assist in and prepare matters for the Board. The Risk Committee was established in the spring of 2015 because the new Act on Credit Institutions requires nationally significant credit institutions to have separate audit and risk committees. The members of the Audit Committee at the year-end were Tuula Saxholm (Chair), Tapani Hellstén, Asta Tolonen and Juha Yli-Rajala. The members of the Risk Committee were Fredrik Forssell (Chair), Eva Liljeblom and Sirpa Louhevirta. The members of the Remuneration Committee were Eva Liljeblom (Chair), Teppo Koivisto and Juha Yli-Rajala.

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

Personnel

At the end of 2015, the Municipality Finance Group had 95 employees (2014: 90), of whom 83 were in the parent company (2014: 78). Wages and salaries paid to the personnel totalled EUR 8.7 million in the Group (2014: EUR 7.5 million).

The President and CEO of Municipality Finance is Pekka Averio. Executive Vice President Esa Kallio acts as deputy to the CEO. Esa Kallio is also the head of the company's Capital Markets function. The other members of the Executive Management Team are Toni Heikkilä (EVP, CRO, Risk Management and IT), Jukka Helminen (EVP, Customer Finance), Marjo Tomminen (EVP, CFO, Finance) and Mari Tyster (EVP, Administration and Legal).

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

Salaries and Remuneration

The remuneration paid to the management and employees of Municipality Finance consists of fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. The principles of the remuneration system are confirmed by the Board of Directors on an annual basis. The Remuneration Committee advises the Board of Directors on remuneration-related matters. For more information on salaries and remuneration, please refer to Note 29, "Salaries and Remuneration", and to the Remuneration Report for 2015 found on the company's website.

Internal Audit

Internal audit has been outsourced to Deloitte & Touche Ltd. The company's Legal Affairs and Compliance department is responsible for the co-ordination of the outsourced audit. Internal auditing 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 appropriate and properly organised manual and IT systems for its operations, and that the risks associated with the operations are adequately managed. The internal audit reports to the Board of Directors and its Audit Committee.

Risk Management

There were no material changes in the company's risk position in 2015. Risks remained within the set limits and, based on the company's assessment, the risk management function met with its requirements. Risk management principles and the group's risk position are described in Note 2 to the Consolidated Financial Statements.

Share Capital and Shareholders

At the end of the 2015 financial year, Municipality Finance had paid share capital registered in the Trade Register for EUR 43.0 million, and the number of shares was 39,063,798. The company has two series of shares (A and B), with equal voting and dividend rights. The difference between the series is in the redemption clause. Each share confers one vote at the Annual General Meeting. At the end of 2015, Municipality Finance had 281 shareholders (2014: 284).

Credit Ratings

Municipality Finance credit ratings

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

Municipal Guarantee Board credit ratings

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

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. Both credit ratings remained unchanged during the year, but Moody's changed the outlook for its highest rating, Aaa, to negative in June 2015. Moody's revised its credit rating for Municipality Finance in December 2015, keeping it unchanged at Aaa.

Standard & Poor's changed the outlook for Municipality Finance's AA+ credit rating from stable to negative in October 2015, and confirmed both the rating and the outlook in December.

The lowering of the outlook for long-term funding was a direct consequence of a similar lowering of the rating of the Republic of Finland, because in accordance with the credit rating methodology of Moody's and Standard & Poor's, the credit rating of Municipality Finance and the Municipal Guarantee Board cannot be higher than the rating of the sovereign.

10 largest shareholders 31 Dec 2015

		No. of shares	Percentage
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	573,350	1.47%
10.	City of Lahti	502,220	1.29%

Events After the Reporting Period

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

Prospects for 2016

The outlook for global economic development is unstable. The actions of the US Federal Reserve and the European Central Bank, fluctuations in share prices, circumstances in the developing world, and the tightening of the global security situation will all have an impact on the economy. Economic development is predicted to be slower in Finland than in the rest of Europe. Slower growth will put pressure on the Finnish government and municipalities, which will have a direct impact on MuniFin's operating environment.

Tightening financial regulation is evident in the form of changes in the demand and supply of various investment products. Demand for MuniFin's products is solid, and the company is seen by the capital markets as a reliable and interesting business partner.

The Finnish government will continue the structural reforms planned; the most essential are the social and health services and regional government reforms. These changes might have an effect to the company's business. The most important task is to ensure the continuity of funding, even after the social and health services and regional government reforms. There is also increased pressure on Finland to increase government subsidised housing production in urban growth areas.

The company will continue to systematically develop its operations, while also actively working to anticipate the changing needs of its customers. There will be continued focus on improving customer service and systems in order to further enhance efficiency, as well as on digitisation of services.

From the start of 2016, Municipality Finance has been directly under the supervision of the ECB, which implies new development projects related to operations and reporting.

The profitability of Municipality Finance's operations is expected to remain strong in 2016.

Proposal from the Board of Directors Concerning Profit for the Financial Year

The Municipality Finance Plc has distributable funds of EUR 54,688,359.49, of which the profit for the financial year totalled EUR 1,530,009.22. The Board proposes to the Annual General Meeting that no dividend be paid out, and that the distributable funds of EUR 54,688,359.49 be retained in equity.

The Board of Directors considers this to be a well-reasoned decision, as the company needs to continue preparing for tightening own funds requirements by increasing its Tier 1 capital through profit and loss.

The Group's Development

	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
Turnover (EUR million)	166.7	222.0	196.8	292.5	319.0
Net interest income (EUR million)	172.2	160.0	149.5	142.4	94.2
% of turnover	103.3	72.1	76.0	48.7	29.5
Net operating profit (EUR million)	151.8	144.2	141.3	138.6	65.3
% of turnover	91.1	64.9	71.8	47.4	20.5
Cost-to-income ratio	0.16	0.15	0.15	0.14	0.23
Loan portfolio (EUR million)	20,088	19,205	17,801	15,700	13,625
Total funding acquired (EUR million)	28,419	26,616	23,108	22,036	20,092
Balance sheet total (EUR million)	33,889	30,009	26,156	25,560	23,842
Return on equity (ROE) (%)	14.84	21.66	30.58	38.04	27.08
Return on assets (ROA) (%)	0.38	0.41	0.48	0.42	0.23
Equity ratio (%)	3.08	1.98	1.80	1.35	0.86
Tier 1 capital (EUR million)	1,033.8	557.2	454.2	331.9	227.6
Total own funds (EUR million)	1,068.8	623.1	511.5	428.9	288.4
Ratio of Tier 1 capital to risk-weighted assets (%)	62.49	29.98	35.42	26.22	19.04
Ratio of total own funds to risk-weighted assets (%)	64.61	33.53	39.88	33.87	24.13
Leverage ratio (%)	3.15	1.8	1.7	-	-
Personnel	95	90	83	72	67

The consolidated key figures for capital adequacy for 2015 and 2014 have been calculated in accordance with the EU Capital Requirements Regulation, effective as of 1 January 2014.

Calculation of Key Figures

Turnover

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

Cost-to-income ratio

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

Return on equity (ROE) (%)

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

Return on assets (ROA) (%)

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

Equity ratio (%)

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

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

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

Ratio of Tier 1 capital to risk-weighted assets (%)

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

Ratio of total own funds to risk-weighted assets (%)

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

Leverage ratio (%)

$$\frac{\text{Tier 1 capital}}{\text{Consolidated statement of financial position}} \times 100$$

Municipality Finance Group

Financial Statements

Consolidated statement of financial position

(EUR 1,000)	Note	31 Dec 2015	31 Dec 2014
ASSETS			
Cash and balances with central banks	(8)	1,813,813	592,907
Loans and advances to credit institutions	(9)	614,294	1,072,099
Loans and advances to the public and public sector entities		20,275,561	19,337,730
Debt securities	(10)	7,003,318	6,416,586
Shares and participations	(11)	9,620	9,789
Derivative contracts	(7, 12)	3,925,025	2,321,699
Intangible assets	(13, 15)	5,812	4,757
Tangible assets	(14, 15)	2,298	2,465
Other assets	(16)	6,277	2,196
Accrued income and prepayments	(17)	232,792	249,032
TOTAL ASSETS	**(4, 5, 6)**	**33,888,811**	**30,009,259**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions	(19)	4,893,270	3,882,771
Liabilities to the public and public sector entities		954,026	963,662
Debt securities issued	(20)	24,804,490	23,230,298
Derivative contracts	(7, 12)	1,799,692	934,399
Other liabilities	(21)	2,131	2,056
Accrued expenses and deferred income	(22)	217,768	249,902
Subordinated liabilities	(23)	35,542	37,943
Deferred tax liabilities	(18)	138,576	114,124
TOTAL LIABILITIES	**(4, 5, 6)**	**32,845,497**	**29,415,155**
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(24)	42,583	42,583
Reserve fund	(24)	277	277
Fair value reserve	(24)	11,354	30,914
Reserve for invested non-restricted equity	(24)	40,366	40,366
Retained earnings	(24)	601,065	479,686
Total equity attributable to parent company equity holders	**(24)**	**695,645**	**593,825**
Non-controlling interest	**(24)**	**216**	**279**
Other equity instruments issued	**(24)**	**347,454**	**-**
TOTAL EQUITY	**(24)**	1,043,314	594,104
TOTAL LIABILITIES AND EQUITY	**(4, 5, 6)**	**33,888,811**	**30,009,259**

Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
Interest income	(30)	158,462	212,351
Interest expense	(30)	13,782	−52,343
NET INTEREST INCOME	**(30)**	**172,245**	**160,008**
Commission income	(31)	5,157	5,047
Commission expense	(32)	−3,776	−3,834
Net income from securities and foreign exchange transactions	(33, 34)	−3,865	−5,711
Net income from available-for-sale financial assets	(35)	6,336	6,629
Net income from hedge accounting	(36)	583	3,693
Other operating income	(37)	21	11
Admistrative expenses	(38)	−16,653	−14,721
Depreciation and impairment on tangible and intangible assets	(15)	−1,600	−1,442
Other operating expenses	(39)	−6,646	−5,521
NET OPERATING PROFIT		**151,801**	**144,160**
Income tax expense	(41)	−30,307	−28,908
PROFIT FOR THE PERIOD		**121,494**	**115,252**
Profit attributable to:			
Equity holders of the parent company		121,379	115,044
Non-controlling interest		115	207

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–31 Dec 2015	1 Jan - 31 Dec 2014
Profit for the period		121,494	115,252
Components of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets (fair value reserve):			
Net change in fair value		−17,972	14,462
Net amount transferred to profit or loss	(35)	−6,562	−3,769
IAS 39 reclassification adjustment	(10)	84	92
Taxes related to components of other comprehensive income		4,890	−2,157
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**101,934**	**123,880**
Total comprehensive income attributable to:			
Equityholders of the parent company		101,820	123,673
Non-controlling interest		115	207

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2015	1 Jan - 31 Dec 2014
CASH FLOW FROM OPERATING ACTIVITIES	**813,006**	**–1,084,822**
Net change in long-term funding	1,139,992	1,502,695
Net change in short-term funding	–11,297	–402,107
Net change in long-term loans	–1,021,891	–1,293,531
Net change in short-term loans	–270,112	–141,407
Net change in investments	204,933	–2,264,245
Net change in collaterals	609,050	1,359,670
Interest paid	–18,290	–59,423
Interest received	187,169	210,535
Other income	39,097	32,799
Payments of operating expenses	–42,958	–24,318
Taxes paid	–2,687	–5,489
CASH FLOW FROM INVESTING ACTIVITIES	**–2,488**	**–1,348**
Acquisition of tangible assets	–533	–523
Acquisition of intangible assets	–1,955	–825
CASH FLOW FROM FINANCING ACTIVITIES	**346,188**	**–10,000**
Change in subordinated liabilities	–1,009	–10,000
Change in other equity intruments issued	347,375	-
Change in shares and participations	19	-
Dividends paid	–197	-
CHANGE IN CASH AND CASH EQUIVALENTS	**1,156,706**	**–1,096,170**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**789,003**	**1,885,173**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**1,945,709**	**789,003**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Cash and balances with central banks	1,813,813	592,907
Loans and advances to credit institutions	131,896	1,072,099
Debt securities maturing within three months	-	1,516,653
Impact of amending the definition of cash and cash equivalents	-	–2,392,656
TOTAL CASH AND CASH EQUIVALENTS	**1,945,709**	**789,003**

Consolidated statement of changes in equity

	Total equity attributable to parent company equity holders								
(EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Other equity instruments issued	Total equity
EQUITY AT 31 DECEMBER 2013	**42,583**	**277**	**22,285**	**40,366**	**364,641**	**470,153**	**71**	**-**	**470,224**
Dividends paid for 2013	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	115,044	115,044	207	-	115,252
Components of other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods									
Available-for-sale financial assets (fair value reserve):									
Net change in fair value	-	-	14,462	-	-	14,462	-	-	14,462
Net amount transferred to profit or loss	-	-	−3,769	-	-	−3,769	-	-	−3,769
IAS 39 reclassification adjustment	-	-	92	-	-	92	-	-	92
Taxes related to components of other comprehensive income	-	-	−2,157	-	-	−2,157	-	-	−2,157
EQUITY AT 31 DECEMBER 2014	**42,583**	**277**	**30,914**	**40,366**	**479,686**	**593,825**	**279**	**-**	**594,104**
Share issue	-	-	-	-	-	-	19	-	19
Issuance of Additional Tier 1 capital loan	-	-	-	-	-	-	-	347,454	347,454
Dividends paid for 2014	-	-	-	-	-	-	−197	-	−197
Profit for the period	-	-	-	-	121,379	121,379	115	-	121,494
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	-	-	−17,972	-	-	−17,972	-	-	−17,972
Net amount transferred to profit or loss	-	-	−6,562	-	-	−6,562	-	-	−6,562
IAS 39 reclassification adjustment	-	-	84	-	-	84	-	-	84
Taxes related to components of other comprehensive income	-	-	4,890	-	-	4,890	-	-	4,890
EQUITY AT 31 DECEMBER 2015	**42,583**	**277**	**11,354**	**40,366**	**601,065**	**695,645**	**216**	**347,454**	**1,043,314**

Notes to the consolidated financial statements

Notes to the statement of financial position and other notes

Notes to the income statement

Pillar III disclosures

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

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 9 February 2016. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also alter the financial statements.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2015. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) No. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

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

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

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

Basis of consolidation

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

Segment reporting

Municipality Finance Group's line of business is credit institution operations and providing financial 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 30. Breakdown of net interest income and expense and 31. Commission income. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The Group does not have any single customer that constitutes more than 10% of its income.

Translation of foreign currency denominated items

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

Classification of financial instruments and measurement principles

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

Held-to-maturity investments

The financial assets classified in this category are non-derivative financial assets with fixed or determinable payments that mature on a specific date and that the company intends and is able to hold to maturity. These financial assets are recorded at amortised cost using the effective interest method upon initial recognition. In 2008, Municipality Finance reclassified debt securities as held-to-maturity. Based on the amendments to IAS 39 and IFRS 7, debt securities classified as available-for-sale were transferred to held-to-maturity at their fair value on 1 January 2008 and 1 July 2008. The transfers and their impacts are shown in Note 10. Held-to-maturity investments include municipal papers, municipal commercial papers and the debt securities reclassified in 2008.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities held-for-trading

All derivatives not included in hedge accounting are classified as held-for-trading, even if they have been entered into based on risk management to hedge risks. In Municipality Finance, this category contains the following: derivatives hedging financial assets and liabilities which are valued using the fair value option, derivatives with municipalities, derivatives hedging derivatives with municipalities and derivatives hedging balance sheet interest rate risk, for which no specific hedged item has been defined. In addition to the aforementioned, derivatives hedging financial liabilities with embedded derivatives and embedded derivatives separated from the host contract are classified as held-for-trading.

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 Derivative contracts. Fair value changes of derivatives held-for-trading are reported in the income statement under Net income from securities, with exception to foreign exchange gains and losses which are recognised under Net income from foreign exchange.

Fair value option

The company classifies certain financial assets and liabilities at fair value through profit or loss under the fair value option. Financial assets that are classified as fair value through profit or loss under the fair value option include investment in commercial paper, certain floating rate lending and certain debt securities of which the interest rate risk is hedged with interest rate derivatives. The fair value option is also applied to commercial paper and certain lending, as the items in question are reported to the management and managed on the basis of their fair value. Debt securities of which the interest rate risk is hedged with interest rate swaps, but which are not included in hedge accounting, are classified under the fair value option in order to eliminate the accounting mismatch between the derivative and the hedged item.

In financial liabilities, the fair value option is applied to short-term debt instruments denominated in foreign currencies for which the currency risk is hedged with FX swaps. The fair value option is applied in order to eliminate the accounting mismatch between the derivative and the hedged item. Changes in the fair values of these items are recognised in the income statement under Net income from securities and foreign exchange transactions. The impact of the fair value option on profit and loss is presented in Notes 33 and 34.

Other financial liabilities

Other financial liabilities contains all financial liabilities which are not classified at fair value through profit and loss through using the fair value option. Other financial liabilities are liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued and subordinated liabilities. Other financial liabilities are recognized on the balance sheet on settlement date and after initial recognition valued at amortised cost.

Issued structured debt securities can contain an embedded derivative. If economic characteristics of the embedded derivative are not closely related with the economic characteristics of the host contract, the embedded derivative is separated from the host contract. The separated embedded derivative is measured at fair value in the balance sheet with changes in fair value booked through profit and loss. The company hedges each embedded derivative, which has been separated from the issued debt security, in its entirety. The fair value changes of the embedded derivative and derivative are recognised in the income statement under Net income from securities and foreign exchange transactions.

Impairment of financial assets

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

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

Recognition and derecognition of financial assets and liabilities

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

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

Offsetting financial instruments

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

Cash and cash equivalents

Cash and cash equivalents contain cash and balances with central banks in addition to loans and advances to credit institutions payable on demand. Deposits and investments with maturities less than three months from acquisition date can also be included in cash and cash equivalents. The company has amended its definition of cash and cash equivalents during 2015. Previously cash and cash equivalents contained all investments maturing in the following three months. The change in cash and cash equivalents is presented as part of the statement of cash flows.

Determination of fair value

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

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying valuation techniques. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates and valuation methods widely recognised on the market. Fair value levels and valuation methods are described in Note 5.

Hedge accounting

The interest rate and foreign exchange rate risk of the company are managed by entering into derivative transactions. Foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms.

Fair value hedge accounting is applied to euro denominated financial assets and liabilities, where the interest rate of the hedged item has been swapped to a floating rate using derivatives. In addition hedge accounting is applied to foreign currency denominated financial assets and liabilities, which have been hedged by exchanging the principal into euros and its interest rate into a floating rate.

In financial assets, the company applies fair value hedge accounting to fixed-rate lending and leasing, lending tied to long-term reference rates and fixed rate investments. In these financial assets the hedged risk is interest rate risk. In addition the company applies hedge accounting to lending containing structured interest rates, the hedged risk being an optionality contained in the loan or another risk in the interest terms.

For loans and receivables the hedged item is at amortised cost with exception to the interest rate risk which is included in hedge accounting. The changes in the fair value of the hedged risk is accounted for as an adjustment to the carrying amount of the hedged item through profit and loss. The customer marginal of lending and leasing is not part of the hedge relationship.

The company applies fair value hedge accounting to investments in debt securities in foreign currencies. The hedged item is foreign exchange risk in addition to interest rate risk. The hedged items have been classified as available-for-sale financial assets. Both the fair value changes in the hedged interest rates risk and foreign exchange difference caused by foreign exchange risk are recognised in profit and loss. The hedged items classified as available-for-sale financial assets are measured at fair value in their entirety, with the changes in the hedged risk recognised in the income statement.

Interest rate swaps and cross currency interest rate swaps with mirrored interest terms are used a hedging instruments.

In financial liabilities, fair value hedge accounting is applied to fixed rate euro denominated funding, floating and fixed rate funding denominated in foreign currencies and funding with structured interest rate terms, which does not contain embedded derivatives. In euro denominated funding the hedged item is interest rate risk. The hedged item can also include an optionality of the financial liability. For foreign currency denominated financial liabilities the hedged item is foreign exchange and interest rate risk. In funding with structured interest rate terms the hedged risk can also be an optionality or another risk of the interest rate terms, in addition to interest rate and foreign exchange risk.

For other financial liabilities the hedged item is at amortised cost, except for the hedged risk which is in fair value hedge accounting. The credit risk of Municipality Finance is not included in the hedge relationship. The changes in the fair value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit and loss. Separating the fair value of credit risk from the fair value is a requirement for applying hedge accounting to interest rate and foreign exchange risks. During 2015 the company introduced a new technical way of splitting the credit risk from the fair value of the financial liability for floating rate and fixed rate plain-vanilla liabilities. The new calculation method amends the applicable valuation method and allows the splitting of credit risk from the fair value of the liability in a more automated way. The new method does not impact the figures produced in a material way. Interest rate swaps and cross currency interest rate swaps and interest rate options are used a hedging instruments.

The fair values of derivatives included in hedge accounting are presented in Note 12. The change in fair value due to foreign exchange differences of derivatives in hedge accounting and the hedged items are recognised in the income statement under Net income from foreign exchange transactions. Other changes in fair value of the hedged balance sheet items and derivatives hedging them are recognized in the income statement under Net income from hedge accounting. The ineffectiveness of the hedge relationship is also shown on this line in the income statement. The interest received and paid on derivative contracts is recognised as an adjustment to interest expenses of the hedged liability or as an adjustment to interest income on a hedged asset.

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

Leases

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

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

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

Intangible and tangible assets

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

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

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

Impairment of intangible and tangible fixed assets

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

Provisions and contingent liabilities

A provision is booked for an obligation, if the obligation is based on a past event and it is probable the obligation will be realized, yet the timing and exact amount are uncertain. The obligation needs to constructive or legal and involve a third party. A contingent liability is a potential obligation based on past events. The existence of the obligation will be confirmed based on the occurrence or non-occurrence of a future event outside the control of the entity. Contingent liabilities can also be such obligations, that do not require an outflow to settle or of which the amount cannot be reliably estimated.

Appropriations

The difference between the depreciation according to plan and the depreciation of assets in taxation, the depreciation difference, is shown in the parent company statement of financial position on line Total appropriations. In the income statement the depreciation difference is shown on line Appropriations. The voluntary credit loss provision and depreciation difference 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 credit loss provision and depreciation difference are thus released in the consolidated financial statements into equity and deferred tax liability in accordance with IAS 12 Income Tax.

Equity

Equity contains share capital, retained earnings and reserves of equity (reserve fund, fair value reserve and reserve for invested non-restricted equity). Instruments issued by the company can be classified into equity based on their nature. Perpetual instruments with interest payments which are at the discretion of the issuer are classified as equity in the consolidated financial statements.

The AT1 capital loan issued by the company is an equity instrument and contained is consolidated equity. The capital loan is perpetual and the interest payments and redemption are at the discretion of Municipality Finance. The AT1 capital loan is subordinated to other liabilities. It is senior to other items contained in equity. The instrument holders do not bear rights of shareholders, control or voting rights at the annual general meeting. Interest payments are treated as a deduction of equity based on the decisions of the issuer. Transaction expenses are deducted from the capital. They presented in equity decreased by the amount of deferred taxes as a deduction of the capital loan. The deferred tax assets and liabilities are presented in Note 18.

Recognition of income and expenses

Net interest income

Interest income and expense are recognized in net interest income. Commissions and fees received and paid, transaction expenses as well as premium or discount are taken into account when the effective interest rate is calculated. For floating rate financial liabilities premium or discount is amortised from the date of issuance to the next interest payment date. For fixed rate financial liabilities the premium or discount is amortised until maturity. For financial assets Municipality Finance has previously followed the same principle. During 2015 the company amended its principle for amortising the premium or discount of floating rate financial assets. In the current market conditions, the premium or discount on a financial asset is not based on changes in market rates, but credit risk. The market value of a floating rate investment does not reset to the nominal when its interest rate is re-fixed to market interest rates, therefore amortisation to the next interest date is not justifiable. The premium or discount of investments is currently amortised until maturity. The company will evaluate the impact of changes in market conditions on the amortisation principle and applying it regularly.

The interest income and expenses on derivatives hedging liabilities is recognized in interest expense. The interest income and expenses on derivatives hedging assets is recognized in interest income.

Commission income and expenses

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

Net income from hedge accounting

Net income from hedge accounting includes the net result from recognising financial assets and liabilities and the derivative contracts hedging them at fair value for the hedged risk. Foreign exchange gains and losses on foreign on hedged items and hedging instruments are recognized in Net income foreign exchange transactions.

Net income from securities and foreign exchange transactions

Net income from securities includes fair value changes of items valued using the fair value option, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items. Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies. Translation differences related to the hedged items and hedging instruments in hedge accounting are also presented under this item.

Employee benefits

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

Income taxes

Income taxes in the consolidated income statement comprise accrual-based taxes that are determined based on the profits generated by the Group companies, and changes in deferred taxes in accordance with IAS 12 Income Taxes. Taxes are recognised in the income statement, except if they relate to items recognised in other comprehensive income or in equity. In this case, the tax is also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

Deferred taxes may be comprised of temporary differences between accounting book value and taxable value, as well as confirmed tax losses. Deferred taxes in the company consist of the release and transfer to equity of the voluntary credit loss provision and depreciation difference recorded by the parent company and the fair value change of available-for-sale investments. In addition the AT1 capital loan and the different accounting treatment of its transaction costs and interest expenses in the consolidated financial statements and the parent company separate financial statements create deferred taxes. Deferred tax liabilities and assets are calculated based on the tax rate that is anticipated to be in force at the time of the temporary difference being released. If a deferred tax arises from balance sheet items for which changes do not have an impact on the income statement, the change in deferred tax is recognised in other comprehensive income, not in the income statement.

Exceptional items

Transactions that are not part of ordinary business operations and are of exceptional size or nature are recognised as exceptional items. The income statements and cash flow statements for 2015 and the comparison year 2014 do not include any exceptional items.

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

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements. The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates at the financial statement date. These are 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 used in calculating fair values is presented in Note 5. Fair values of financial assets and liabilities. The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss. The risk management principles applied are described as part of the financial statements.

Application of new standards

The consolidated financial statements have been prepared in accordance with the same accounting policies as in 2014, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2015.

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.

Other new or amended standards that entered into effect in 2015 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted

The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. Standards published by IASB that enter into effect after 1 January 2015: Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. The amended standard is not expected to have a significant impact on the company's consolidated financial statements.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception* (the amendments can be applied immediately; mandatory for financial years beginning on or after 1 January 2016): The narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. The amended standard will not have an impact on the company's consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016): The amendments add new guidance to IFRS 11 on how to account for the acquisition of an interest in a joint operation that constitutes a business, i.e. business combination accounting is required to be applied. The amendments will not have an impact on the company's consolidated financial statements.

Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will not have an impact on the company's consolidated financial statements.

Annual Improvements to IFRSs (2012-2014 cycle) (effective for financial years beginning on or after 1 January 2016): The amendments cover in four standards. EU endorsement of the improvements is pending. Their impacts vary standard by standard but are not significant.

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

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

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 principles and the Group's risk position

General principles of 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 (neg.) /AA+ (neg.)) is not compromised.

The company regularly surveys risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results. The company hedges and reduces risks it has identified with collateral, guarantees, derivatives, insurance and active risk management. According to its own analysis, Municipality Finance does not have any liabilities containing wrong-way risk.

A comprehensive stress test is conducted at the company annually by an independent external party in cooperation with the companies risk management function and business areas. The main aims for the test conducted in the autumn of 2015 were to analyse the development of Municipality Finance's equity and its range in 2015–2021. The testing applied to operational market and credit risks and their estimated financial impact under different scenarios. The test also included a so called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. As in the previous years, the results of the test showed that with the current capital requirements, the level of the company's capital is sufficient in the review period even in highly unfavourable circumstances. In the same conditions, the own funds of the company also fulfilled the 3 percent leverage ratio requirement.

There were no material changes in the company's risk position in 2015. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it. The company's risk position is regularly reported to the Board of Directors as a part of monthly reporting, and, in addition, the Chief Risk Officer provides the Risk Committee with a broader overall review of the company's risk position in relation to various risk areas every six months.

Organization of risk and capital adequacy management

Municipality Finance's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The Risk Committee of the Board of Directors assists the board in matters regarding risk strategy and risk taking and in supervision of that the company follows the risk strategy defined by the board. The purpose of risk management is to ensure that the risks associated with lending, funding, investment and other business operations are in line with Municipality Finance's low risk profile. The Board considers the company to have adequate risk management required by the nature of its operations.

Municipality Finance has an extensive risk management organisation which covers the main parts of the company's operations including the tasks and responsibilities of different departments and decision-making bodies.

The Middle Office department, which is independent of the business functions, is responsible for risk management principles and processes led by the Chief Risk Officer. The Capital Markets function is responsible for managing the risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk position and limit usage are reported to the Executive Management Team and Board of Directors on a regular basis. Finance and accounting department is responsible for the principles related to capital adequacy and the structure of own funds, led by the Chief Financial Officer. The Legal and compliance department monitors compliance with regulation. Internal audit regularly audits different parts of the company's operations.

Strategic risks

Strategic risk means that the company would choose the wrong strategy for financially profitable operations or that the company would fail to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of the customers' needs, forecasts of market trends, and changes in the competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2020.

Credit risk

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

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

Balance sheet and binding loan commitment liabilities

31 Dec 2015 (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	12,696,738	9,472,488	-	3,027,928	196,323
Enterprises and housing corporations	11,637,959	10,486,332	-	88,300	1,063,327
Non-profit organisations	393,971	316,742	-	-	77,230
Credit institutions	4,439,926	-	614,294	3,825,632	-
Other	61,458	-	-	61,458	-
Total	**29,230,054**	**20,275,561**	**614,294**	**7,003,318**	**1,336,880**

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

Municipality Finance limits credit risk of the derivative contracts with ISDA Credit Support Annexes in case of major derivative counterparties. The company has 46 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 2015	31 Dec 2014
Finnish municipalities	2,192,748	1,715,694
AAA	-	-
AA	18,619,734	14,664,222
A	40,757,782	40,265,860
BBB	1,993,544	34,371
Total	**63,563,808**	**56,680,147**

Given and received cash collateral based on CSA agreements

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Given collateral	–461,900	–299,100
Received collateral	2,232,310	1,460,140
Net collateral	**1,770,410**	**1,161,040**

Credit risk of the counterparty, which measures expected credit loss, is taken into account when valuing derivative assets. Counterparty credit risk is taken into account in all derivatives. The calculation of the credit valuation adjustment (CVA) is based on a method that accounts for the expected positive exposure to credit risk during each time period. During the term of the derivative, received collateral, thresholds for collateral, netting agreements, loss given default and probability of default are taken into account for each time period. Input data for the calculation is based on CSA agreements, generally excepted assumptions in the markets on loss given default and expected probabilities of default based on historical credit rating matrices.

When valuing derivative liabilities, the credit risk of the company is taken into account as the expected credit loss for the counterparty. Own credit risk is taken into account in all derivatives. The calculation of the debit valuation adjustment (DVA) is based on a method that accounts for the expected negative exposure to credit risk during each time period. During the term of the derivative, given collateral, thresholds for collateral, netting agreements, loss given own default and probability of own default are taken into account for each time period. Input data for the calculation is based on CSA agreements, generally excepted assumptions in the markets on loss given default and expected probabilities of default based on historical credit rating matrices.

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. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. The company does not bear foreign exchange risk. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes.

Domestic and foreign currency denominated funding

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	2,567,304	93,656	2,660,960
Liabilities to the public and public sector entities	685,153	268,873	954,026
Debt securities issued	1,963,064	22,841,427	24,804,490
Total	**5,215,521**	**23,203,956**	**28,419,477**

Distribution of funding by currency based on carrying amounts and hedges

31 Dec 2015 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	11,476,621	3,018,775	2,035,696	1,909,066	3,789,060	22,229,218
Short-term funding	974,738	-	-	-	-	974,738
Currency risk total	**12,451,359**	**3,018,775**	**2,035,696**	**1,909,066**	**3,789,060**	**23,203,956**
Hedging derivatives	−12,451,359	−3,018,775	−2,035,696	−1,909,066	−3,789,060	−23,203,956
Unhedged currency risk	**0**	**0**	**0**	**0**	**0**	**0**

Domestic and foreign currency denominated funding

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

Distribution of funding by currency based on carrying amounts and hedges

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

Financial assets in domestic and foreign currencies

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	1,813,813	-	1,813,813
Loans and advances to credit institutions	613,701	594	614,294
Loans and advances to the public and public sector entities	20,275,561	-	20,275,561
Debt securities	6,796,328	206,990	7,003,318
Shares and participations	9,620	-	9,620
Total	**29,509,022**	**207,584**	**29,716,606**

Distribution of assets by currency based on carrying amounts and hedges

31 Dec 2015 (EUR 1,000)	USD	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	35	159	376	24	594
Debt securities	127,187	47,781	32,022	–	206,990
Currency risk total	**127,223**	**47,940**	**32,398**	**24**	**207,584**
Hedging derivatives	−127,187	−47,781	−32,022	–	−206,990
Unhedged currency risk	**35**	**159**	**376**	**24**	**594**

The company has specified limits for the following market risks:
• Currency position
• Interest rate risk
  - Duration
  - Value-at-Risk
  - Economic Value
• Income risk
• Price risk of pre-funding investments

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

(EUR 1,000)		Currency position
31 Dec 2015	Total	594
31 Dec 2014	Total	-4

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 2015	2.094 years	2.026 years	25 days
31 Dec 2014	1.744 years	1.617 years	46 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
2015	4,900	2,447	770	5,940
2014	1,430	1,093	570	1,470

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 2015	0	0.0%
31 Dec 2014	19,700	3.2%

As a consequence of the issuance of the AT1 capital loan and very low interest rate levels, the company balance sheet did not contain interest rate risk.

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

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2015	−8,594	5.4%
31 Dec 2014	−8,438	6.1%

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 2015	0.43%	−67,540	6.3%
31 Dec 2014	0.23%	−31,300	5.0%

Liquidity risk
Liquidity risk means the risk of the company not being able to perform payment obligations arising from settling funding agreements or other funding activities on their due date. The company manages the liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a minimum level for available liquidity which should be sufficient for at least six months' liquidity needs. The Board of Directors of Municipality Finance has set the following limits on liquidity risks: refinancing gap and sufficiency of liquid assets measured as a minimum time period.

Breakdown of financial liabilities by maturity

31 Dec 2015 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	over 10 years	Total
Liabilities to credit institutions	2,245,597	66,267	358,029	1,220,027	1,849,509	5,739,428
Liabilities to the public and public sector entities	51,359	29,854	539,391	228,030	252,159	1,100,792
Debt securities issued	4,526,157	6,451,011	12,875,274	1,565,845	1,017,883	26,436,170
Subordinated liabilities	-	36,575	-	-	-	36,575
Total	**6,823,113**	**6,583,706**	**13,772,693**	**3,013,902**	**3,119,551**	**33,312,966**

The maturity of financial liabilities is presented based on nominal amounts which have been translated into euro using foreign exchange rates of the reporting date. Financial liabilities containing a call option are shown in the table at the amount at which the liability can be called on the next call date. These liabilities are also shown in the maturity bucket corresponding to the next call date. During the next 12 months EUR 13.4 billion of financial liabilities and interest will fall due. The financial statement line liabilities to credit institutions contains CSA-collateral totaling 2.2 billion. These are presented in the maturity bucket 0-3 months although their outflow date is not known and is dependent on the development of derivative fair values. Part of the financial liabilities presented as maturing during the next 12 months is callable. Based on the current forecast of this amount 40 – 60% is expected to be called. Liquid assets can be used to pay off future maturing liabilities. In addition the company has well diversified funding sources, which allows the company to acquire new funding flexibly on various markets. New funding can be acquired to cover outflows on maturing liabilities. The company has been approved as a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against these collaterals (Note 26 to the consolidated financial statements).

Breakdown of financial liabilities by maturity

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

Breakdown of derivatives by maturity

31 Dec 2015 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	over 10 years	Total
Derivative assets	245,007	750,537	1,918,127	378,925	632,428	3,925,025
Derivative liabilities	−25,966	−130,021	−1,224,992	−220,058	−198,655	−1,799,692
Interest flows related to derivatives assets and liabilities	115,422	316,995	755,563	330,505	140,617	1,659,102
Total	**334,463**	**937,511**	**1,448,699**	**489,372**	**574,390**	**3,784,435**

The company hedges all its funding to floating rate euros. In addition all lending is hedged to floating rates. For evaluating the impact of derivatives, the interest flows of derivative assets and liabilities are shown on one line.

Liquidity management

The company has presented the maturities of financial assets based on their maturity dates in Note 6. Despite the maturities shown in the table, the company has the following assets for managing liquidity. Irrespective of their contractual maturity dates, the assets can be sold in order to manage liquidity.

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Cash and balances with central banks (including deposits at central banks payable on demand)	1,813,813	592,907
Loans and advances to credit institutions		
Loans and advances to credit institutions payable on demand	131,896	196,096
Deposits	11,500	20,000
Repo agreements	-	550,000
Debt securities		
Debt securities classified as available-for-sale	5,322,733	4,596,958
Debt securities using the fair value option	507,716	885,159
Shares in investment funds	9,592	9,762
Total	**7,797,250**	**6,850,882**

Debt securities are shown by issuer in note 10.

Market liquidity risk

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

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

Operational risks

Operational risk means the risk of loss due to insufficient or failed internal processes, insufficient or failed policies, 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 and department. In addition, the company's Middle Office and Legal and Compliance departments support the other functions and 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 policies approved by the board and supplementing internal guidelines approved by the management in order to guide operations. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis, and compliance with them is supervised. The tasks of trading, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and developed through regular development discussions and training plans. Municipality Finance has the insurance policies related to its operations and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure the company continues functioning and to limit its losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process support the company's continuity planning.

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

The company has significant information system projects aimed at improving the efficiency of operations currently ongoing. The extent of these projects creates operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting) and ensuring sufficient resources. The risks related to development projects are surveyed and monitored regularly. In addition the projects have been part of internal audit.

The company has an approval process for new products and services. The process aims to ensure that all material risks and operational requirements are taken into account when developing new products and services. The company does not have material outsourced functions in its operations. The main outsourced items are related to custody of securities, IT support and back up facilities of IT-servers and internal audit.

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operational risk events are reported to the Executive Management Team and the Board of Directors. No material losses were incurred as a result of operational risks in 2015.

Note 3. Capital adequacy management principles

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 the following five years, 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 own funds are determined. The adequacy of own funds is also monitored through monthly business analyses.

The Group calculates its capital adequacy based on the EU Capital Requirements Regulation (EU 575/2013) and Directive (2013/36/EU). The capital adequacy requirement for credit risk is calculated using the standard approach, and the capital adequacy requirement for operative risks using the basic indicator approach. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. In capital adequacy calculations for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Capital adequacy disclosures according to Pillar III are presented in the consolidated notes 43 to 59 and parent company notes 46 to 49.

Notes to the statement of financial position

Note 4. Financial assets and liabilities

Financial assets

31 Dec 2015 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	1,813,813	-	-	-	-	-	1,813,813	1,813,813
Loans and advances to credit institutions	614,294	-	-	-	-	-	614,294	614,306
Loans and advances to the public and public sector entities	20,068,421	-	-	207,141	-	-	20,275,561	21,652,231
Debt securities	-	5,322,733	1,172,869	507,716	-	-	7,003,318	6,999,366
Shares and participations	-	9,620	-	-	-	-	9,620	9,620
Derivative contracts	-	-	-	-	388,485	3,536,539	3,925,025	3,925,025
Total	**22,496,528**	**5,332 353**	**1,172,869**	**714,857**	**388,485**	**3,536,539**	**33,641,630**	**35,014,360**

Loans and advances to the public sector entities includes EUR 187,108 thousand receivables based on leasing agreements.

Fair value hedge accounting is applied to EUR 3,491,854 thousand of debt securities classified as available-for-sale financial assets in 2015. Loans and advances to the public and public sector entities includes EUR 6,453,692 thousand in loans and receivables included in fair value hedge accounting.

Financal liabilities

31 Dec 2015 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	4,893,270	-	-	-	4,893,270	4,981,987
Liabilities to the public and public sector entities	954,026	-	-	-	954,026	958,744
Debt securities issued	23,829,753	974,738	-	-	24,804,490	24,820,262
Derivative contracts	-	-	367,183	1,432,509	1,799,692	1,799,692
Subordinated liabilities	35,542	-	-	-	35,542	35,572
Total	**29,712,591**	**974,738**	**367,183**	**1,432,509**	**32,487,021**	**32,596,258**

Fair value hedge accounting is applied to EUR 23,329,750 thousand of financial liabilities at amortised cost in 2015.

Financial assets

31 Dec 2014 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	592,907	-	-	-	-	-	592,907	592,907
Loans and advances to credit institutions	1,072,099	-	-	-	-	-	1,072,099	1,072,128
Loans and advances to the public and public sector entities	19,099,105	-	-	238,625	-	-	19,337,730	20,714,399
Debt securities	-	4,596,958	934,468	885,159	-	-	6,416,586	6,409,852
Shares and participations	-	9,789	-	-	-	-	9,789	9,789
Derivative contracts	-	-	-	-	276,663	2,045,036	2,321,699	2,321,699
Total	**20,764,111**	**4,606,747**	**934,468**	**1,123,784**	**276,663**	**2,045,036**	**29,750,809**	**31,120,774**

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

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

Financal liabilities

31 Dec 2014 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	3,882,771	-	-	-	3,882,771	3,962,901
Liabilities to the public and public sector entities	963,662	-	-	-	963,662	974,891
Debt securities issued	22,381,769	848,529	-	-	23,230,298	23,252,961
Derivative contracts	-	-	241,632	692,767	934,399	934,399
Subordinated liabilities	37,943	-	-	-	37,943	38,060
Total	**27,266,145**	**848,529**	**241,632**	**692,767**	**29,049,073**	**29,163,212**

Fair value hedge accounting is applied to EUR 24,130,880 thousand of financial liabilities at amortised cost in 2014.

Note 5. Fair values of financial assets and liabilities

		Fair value			
31 Dec 2015 (EUR 1,000)	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available for sale financial assets					
Debt securities	1,830,879	1,826,852	4,026	-	1,830,879
Shares in investment funds	9,620	9,620	-	-	9,620
Fair value option					
Debt securities	507,716	141,642	366,074	-	507,716
Loans and advances to the public and public sector entities	207,141	-	207,141	-	207,141
Held-for-trading					
Derivative assets	388,485	-	266,765	121,720	388,485
Derivatives in hedge accouting	3,536,539	-	3,536,539	-	3,536,539
Total financial assets at fair value	**6,480,379**	**1,978,113**	**4,380,545**	**121,720**	**6,480,379**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,453,692	-	6,792,933	-	6,792,933
Available-for-sale financial assets					
Debt securities	3,491,854	3,428,251	63,604	-	3,491,854
Total in fair value hedge accounting	**9,945,546**	**3,428,251**	**6,856,537**	**-**	**10,284,787**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	1,813,813	1,813,813	-	-	1,813,813
Loans and advances to credit institutions	614,294	614,306	-	-	614,306
Loans and advances to the public and public sector entities	13,614,729	-	14,652,157	-	14,652,157
Held-to-maturity					
Debt securities	1,172,869	-	1,168,918	-	1,168,918
Total financial assets at amortised cost	**17,215,705**	**2,428,119**	**15,821,075**	**-**	**18,249,194**
Total financial assets	**33,641,630**	**7,834,483**	**27,058,157**	**121,720**	**35,014,360**

31 Dec 2015 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	974,738	-	974,738	-	974,738
Held-for-trading					
Derivative liabilities	367,183	-	245,463	121,720	367,183
Derivatives in hedge accounting	1,432,509	-	1,432,509	-	1,432,509
Total financial liabilities at fair value	**2,774,430**	**-**	**2,652,710**	**121,720**	**2,774,430**
In fair value hedge accounting					
Liabilities to credit institutions	2,640,335	-	2,729,043	-	2,729,043
Liabilities to the public and public sector entities	765,158	-	772,128	-	772,128
Debt securities issued	20,888,716	-	20,899,100	-	20,899,100
Subordinated liabilities	35,542	-	35,572	-	35,572
Total in fair value hedge accounting	**24,329,750**	**-**	**24,435,844**	**-**	**24,435,844**
Financial liabilities at amortised cost					
Liabilities to credit institutions	2,252,935	-	2,252,944	-	2,252,944
Liabilities to the public and public sector entities	188,869	-	186,616	-	186,616
Debt securities issued	2,941,037	-	2,946,424	-	2,946,424
Total financial liabilities at amortised cost	**5,382,841**	**-**	**5,385,984**	**-**	**5,385,984**
Total financial liabilities	**32,487,021**	**-**	**32,474,538**	**121,720**	**32,596,258**

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

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

* The rows in question contain items which are in fair value hedge account and are valued at fair value only in terms of the hedged risk. The carrying amounts of these items differ from the fair values shown in the table above. Note 4 shows how the financial statement line items are classified into different financial asset and financial liability categories.

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

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed 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. Valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Level 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market. Level 3 financial instruments primarily comprise OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities.

Transfers in the fair value hierarchy

During financial years 2015 and 2014, no transfers between levels 1 and 2 were made.

In the 2015 financial statements 117 derivatives, which hedge issued bonds, were transfered from level 2 to 3 based on the use of input data, which is not directly observable from the markets. During the financial year 2014 no transfers were made from level 3 into other levels or from other levels into level 3.

2015 (EUR 1,000)	Derivative assets Held-for-trading	Derivative liabilities Held-for-trading	Total
1 Jan 2015			
Change in fair value in the income statement	-	-	-
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	121,720	−121,720	0
Transfers out of level 3	-	-	-
31 Dec 2015	121,720	−121,720	0

The transfer from level 2 to 3 was performed based on fair values on 31 Dec 2015. All transfered derivatives hedge funding, in which the company has identified an embedded derivative. The value transfered into level 3 includes the fair value of the derivative and the value of the bifurcated embedded derivative. Ei-havainnoitavien syöttötietojen herkkyysanalyysi

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2014 and 2015 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives decreases by 46 million and the fair value of the embedded derivative of the debt instrument increases. In the high volatility scenario the fair value of the derivatives increases by 38 million and the fair value of the embedded derivative of the debt instrument decreases by 38 million.

Note 6. Breakdown of the balance sheet by maturity

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Cash and balances with central banks	1,813,813	-	-	-	-	1,813,813
Loans and advances to credit institutions	604,794	9,500	-	-	-	614,294
Loans and advances to the public and public sector entities	370,505	1,524,344	5,809,248	4,196,255	8,375,210	20,275,561
Debt securities	1,580,197	1,222,516	2,892,733	1,280,645	27,227	7,003,318
Shares and participations	-	-	-	-	9,620	9,620
Derivative contracts	245,007	750,537	1,918,127	378,925	632,428	3,925,025
Intangible assets	-	-	-	5,812	-	5,812
Tangible assets	-	-	1,865	-	434	2,298
Other assets	6,277	-	-	-	-	6,277
Accrued income and prepayments	121,371	111,421	-	-	-	232,792
Total	**4,741,964**	**3,618,318**	**10,621,973**	**5,861,638**	**9,044,918**	**33,888,811**

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,232,310	41,660	122,860	820,286	1,676,154	4,893,270
Liabilities to the public and public sector entities	43,597	14,666	499,564	214,029	182,171	954,026
Debt securities issued	4,289,979	5,992,095	12,074,575	1,484,364	963,477	24,804,490
Derivative contracts	25,966	130,021	1,224,992	220,058	198,655	1,799,692
Other liabilities	2,131	-	-	-	-	2,131
Accrued expenses and deferred income	104,185	93,228	19,334	1,020	-	217,768
Subordinated liabilities	-	35,542	-	-	-	35,542
Deferred tax liabilities	138,576	-	-	-	-	138,576
Equity	-	-	-	-	1,043,314	1,043,314
Total	**6,836,745**	**6,307,212**	**13,941,325**	**2,739,758**	**4,063,770**	**33,888,811**

Liabilities that may be called before maturity 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 2016. In 2015, the company called 60% of its callable liabilities.

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

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

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

Note 7. Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to enforceable master netting agreements: Cash given as collateral is included in the balance sheet line item Loans and advances to credit institutions. Cash received as collateral is included in the balance

				Amounts not offset in the statement of financial position		
31 Dec 2015 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Received cash collateral	Given cash collateral	Net
Financial assets						
Derivative contracts	3,925,025	-	3,925,025	−2,232,310	-	1,692,715
Total	**3,925,025**	**-**	**3,925,025**	**−2,232,310**	**-**	**1,692,715**
Financial liabilities						
Derivative contracts	1,799,692	-	1,799,692	-	−461,900	1,337,792
Total	**1,799,692**	**-**	**1,799,692**	**-**	**−461,900**	**1,337,792**

The company has not offset any financial assets or liabilities in its statement of financial position in 2015.

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

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

Note 8. Cash and cash equivalents

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Cash	6	3
Central bank deposits payable on demand	1,813,807	592,904
Cash and balances with central banks	**1,813,813**	**592,907**
Loans and advances to credit institutions payable on demand	131,896	196,096
Total cash and cash equivalents	**1,945,709**	**789,003**

Note 9. Loans and advances to credit institutions

31 Dec 2015 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	196,673	131,175	65,498
Foreign credit institutions	417,622	722	416,900
Total	**614,294**	**131,896**	**482,398**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2015.

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

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

Note 10. Debt securities

Debt securities issued by public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**1,027,138**	**1,027,138**
Municipal commercial papers	-	1,027,138	1,027,138
Available-for-sale	**1,871,751**	**22,809**	**1,894,560**
Government bonds	439,602	-	439,602
Bonds issued by other public sector entities	1,432,149	22,809	1,454,958
Fair value option	**20,216**	**86,014**	**106,230**
Government treasury bills	-	15,000	15,000
Bonds issued by other public sector entities	20,216	-	20,216
Commercial paper issued by other public sector entities	-	71,014	71,014
Total	**1,891,967**	**1,135,961**	**3,027,928**
Eligible for central bank refinancing	1,805,483	86,014	1,891,497
Non-interest bearing	-	-	-

Debt securities issued by other than public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**145,732**	**145,732**
Commercial papers	-	88,300	88,300
Other debt securities	-	57,432	57,432
Available-for-sale	**3,383,352**	**44,821**	**3,428,173**
Bank bonds	3,383,352	40,794	3,424,146
Other debt securities	-	4,026	4,026
Fair value option	**121,426**	**280,060**	**401,486**
Bank bonds	121,426	-	121,426
Bank commercial paper	-	280,060	280,060
Total	**3,504,778**	**470,613**	**3,975,390**
Eligible for central bank refinancing	3,121,021	66,155	3,187,176
Non-interest bearing	-	-	-

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2015.

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

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

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

Reclassification (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
Total		**206,902**

(EUR 1,000)	Impact on fair value reserve, if not reclassified	Valuation difference released from fair value reserve
2015	2,018	84
2014	7,001	92
2013	1,139	167
2012	2,182	272
2011	5,238	652
2010	3,903	765
2009	−3,487	953
2008	−22,319	852
	−4,325	**3,837**

Note 11. Shares and participations

31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,592	27	9,620	-
Total	**9,592**	**27**	**9,620**	**-**

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

Note 12. Derivative contracts

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 Dec 2015 (EUR 1,000)	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,309,588	16,054,679	13,072,232	**33,436,498**	553,489	−402,602
Interest rate options	4,582	6,006	-	**10,588**	-	−99
Currency derivatives						
Cross currency interest rate swaps	4,989,570	13,231,613	2,129,328	**20,350,511**	2,983,050	−1,029,808
Total	**9,303,739**	**29,292,298**	**15,201,560**	**53,797,597**	**3,536,539**	**−1,432,509**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	383,861	2,784,303	2,987,696	**6,155,860**	149,993	−153,949
Interest rate options	10,071	315	42,000	**52,386**	512	−518
Currency derivatives						
Cross currency interest rate swaps	5,169	10,577	-	**15,746**	1,241	−1,240
Forward exchange contracts	975,475	-	-	**975,475**	25,263	-
Equity derivatives	269,715	2,222,471	5,500	**2,497,686**	202,551	−202,551
Other derivatives	49,058	20,000	-	**69,058**	8,925	−8,925
Total	**1,693,349**	**5,037,666**	**3,035,196**	**9,766,211**	**388,485**	**−367,183**
Grand total	**10,997,088**	**34,329,964**	**18,236,756**	**63,563,808**	**3,925,025**	**−1,799,692**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 Dec 2014 (EUR 1,000)	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	1,489,587	13,719,451	13,587,885	**28,787,923**	599,447	−441,699
Interest rate options	51,654	16,390	–	**68,044**	–	−588
Currency derivatives						
Cross currency interest rate swaps	4,013,847	13,481,441	2,272,183	**19,767,470**	1,445,589	−250,480
Total	**5,555,087**	**27,217,281**	**15,851,068**	**48,632,437**	**2,045,036**	**−692,767**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	1,351,910	1,343,475	2,638,204	**5,333,590**	143,914	−151,784
Interest rate options	133	62,527	–	**62,661**	2,752	−2,948
Currency derivatives						
Cross currency interest rate swaps	3,380	24,457	–	**27,838**	33	−33
Forward exchange contracts	898,665	–	–	**898,665**	42,978	−1
Equity derivatives	194,381	1,348,482	25,000	**1,567,862**	64,723	−64,723
Other derivatives	140,596	20,000	5,500	**166,096**	22,263	−22,143
Total	**2,589,065**	**2,798,941**	**2,668,704**	**8,056,710**	**276,663**	**−241,632**
Grand total	**8,144,153**	**30,016,222**	**18,519,772**	**56,680,147**	**2,321,699**	**−934,399**

Note 13. Intangible assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
IT systems	5,812	4,757
Total	**5,812**	**4,757**

Note 14. Tangible assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Real estate	793	833
Office renovation expenses	153	377
Other tangible assets	1,352	1,255
Total	**2,298**	**2,465**

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

31 Dec 2015 (EUR 1,000)	Intangible assets Total	Tangible assets Real estate	Tangible assets Other tangible assets	Tangible assets Total
Acquisition cost 1 Jan	8,547	1,207	4,271	5,477
+ Additions	1,955	-	533	533
– Disposals	–11	-	–291	–291
Acquisition cost 31 Dec	10,491	1,207	4,513	5,719
Accumulated depreciation 1 Jan	3,790	373	2,639	3,012
– Accumulated depreciation on disposals	–11	-	–289	–289
+ Depreciation for the financial year	900	40	658	698
Accumulated depreciation 31 Dec	4,679	413	3,008	3,421
Carrying amount 31 Dec	**5,812**	**793**	**1,505**	**2,298**

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

Note 16. Other assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Leasing receivables	4,592	3,879
Other	1,685	–1,682
Total	**6,277**	**2,196**

Note 17. Accrued income and prepayments

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Interest	226,796	245,217
Other	5,996	3,815
Total	**232,792**	**249,032**

Note 18. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2015
Other temporary differences					
On fair value reserve	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2015
Other temporary differences					
On fair value reserve	7,728	-	−4,890	-	2,838
On change in depreciation difference	-	172	-	-	172
On change in voluntary provisions	106,396	29,000	-	-	135,396
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	-	783	-	-	783
On reversing the amortisation of of the AT1 capital loan transaction expenses booked in the separate financial statements of the parent company	-	24	-	−637	−613
Total	**114,124**	**29,979**	**−4,890**	**−637**	**138,576**

The different treatment of the AT1 capital loan in the consolidated and separate financial statements creates deferred taxes.

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

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

Note 19. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Notes to credit institutions	2,660,960	2,325,227
Repo agreements	-	97,084
Received collateral on derivatives	2,232,310	1,460,140
Received collateral on repo agreements	-	320
Total	**4,893,270**	**3,882,771**

Note 20. Debt securities issued

(EUR 1,000)	31 Dec 2015 Carrying amount	31 Dec 2015 Nominal value	31 Dec 2014 Carrying amount	31 Dec 2014 Nominal value
Bonds	23,574,719	27,838,525	21,971,768	24,793,923
Other	1,229,771	1,230,475	1,258,530	1,259,271
Total	**24,804,490**	**29,069,000**	**23,230,298**	**26,053,194**

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

Note 21. Other liabilities

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Payment transfer	-	-
Other	2,131	2,056
Total	**2,131**	**2,056**

Note 22. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Interest	208,581	241,189
Other	9,187	8,713
Total	**217,768**	**249,902**

Note 23. Subordinated liabilities

31 Dec 2015 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,542	Fixed	9th May 2016
2) Capital investments	EUR	-	-	Euribor 12 Mths	
Total		**35,000**	**35,542**		

31 Dec 2014 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	36,934	Fixed	9th May 2016
2) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		**36,009**	**37,943**		

Loan terms and conditions:

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

2) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are sufficient, and the Board of Directors of the credit institution approves. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2014.

Note 24. Equity

(EUR 1,000)	Number of shares	Share capital
1 Jan 2014	39,063 798	42,583
31 Dec 2014	39,063 798	42,583
31 Dec 2015	39,063 798	42,583

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

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.

Reserves in equity
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.

Other issued equity instruments
The item includes an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements or so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The company has the right but not the obligation to buy back the loan on 1 April 2022 or, after that, annually on the interest date, as long as the buy-back is approved in advance by the regulatory authority. Based on the aforementioned terms, the AT1 capital loan is included under equity in the consolidated financial statements.

The terms of Tier 1 instruments are explained in note 57.

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	11,354	30,914
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	601,065	479,686
Total equity attributable to parent company equity holders	**695,645**	**593,825**
Non-controlling interest	**216**	**279**
Other equity instruments issued	350,000	-
Transaction costs deducted from other equity instruments issued	−2,546	-
Total other equity instruments issued	**347,454**	**-**
Total equity	**1,043,314**	**594,104**

Note 25. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totaling 3.1 million as per year end 2015. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. The group did not have any contingent liabilities in the comparison year 2014. The group does not have any contingent assets in 2015 or 2014.

Note 26. Pledged assets

Liabilities and collateral (EUR 1,000)	31 Dec 2015	31 Dec 2014
Loans pledged to the central bank	2,456,918	2,507,064
Loans pledged to the Municipal Guarantee Board	17,385,787	16,379,076
Debt securities pledged to the Municipal Guarantee Board	5,455,469	5,097,299
Total	**25,298,174**	**23,983,439**

Pledged assets:

1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a suffcient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) Municipality Finance has pledged amount of loans at the amount shown in the table to the Municipal Guarantee Board. The Municipal Gurantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

3) Municipality Finance acquires funding in advance in order to serve its customers under all market conditions. Acquired funding is invested in liquid debt securities before their realisation or maturity, at which point the funds in question are used for lending as defined in the Act on the Municipal Guarantee Board. Similarly, as Municipality Finance's lending receivables, Municipality Finance's liquidity portfolio debt securities have also been pledged to the Municipal Guarantee Board as collateral as defined in the Act on the Municipal Guarantee Board.

Off-balance-sheet commitments (EUR 1,000)	31 Dec 2015	31 Dec 2014
Binding loan commitments	1,336,880	959,776
Total	**1,336,880**	**959,776**

Note 27. Lease and other rental commitments

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Maturing within one year	1,273	1,370
Maturing in one to five years	2,979	760
Maturing in more than five years	-	-
Total	**4,251**	**2,130**

Note 28. Related-party transactions

Municipality Finance's related parties are shareholders whose ownership and corresponding voting in the company exceed 20%, the CEO, the Deputy to the CEO, members of the Executive Management Team and members of the Board of Directors, the spouses and minor children of the persons and corporations controlled by them. Municipality Finance's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stripulated 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 the subsidiary

(EUR 1,000)	2015	2014
Sales	38	38
Purchases	-	–144

Intercompany receivables and liabilities

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Receivables	-	-
Liabilities	-	28

Note 29. Salaries and remuneration

Employee benefits for management
Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Executive Management Team subject to withholding tax:

Salaries and remuneration (EUR 1,000)	2015	2014
President and CEO	489	455
Deputy to the CEO	387	361
Other members of the Executive Management Team in total	1019	921
Total	**1,895**	**1,737**

The salaries and remuneration shown in the table include both the fixed remuneration and paid variable remuneration. According to regulation on credit institutions, the payment of remuneration earned for each year is delayed and paid over the three following years after the year decision made if the person's remuneration exceeds EUR 50,000. More information on the salary and remuneration principles is available on the company's website.

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

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

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

The company has paid the following statutory pension contributions related to the CEO, the Deputy to the CEO and other Executive Management Team members.

Statutory pension contributions (EUR 1,000)	2015	2014
President and CEO	35	32
Deputy to the CEO	22	20
Other members of the Executive Management Team (total)	60	51
Total	**117**	**103**

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	2015	2014
Eva Liljeblom, Chairman	41	40
Tapani Hellstén, Vice Chairman, member from 26 March 2014	25	12
Fredrik Forssell	22	24
Teppo Koivisto	22	22
Sirpa Louhevirta	21	20
Tuula Saxholm	21	21
Asta Tolonen	22	20
Juha Yli-Rajala	23	22
Total	**197**	**181**

Salaries and remuneration

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

Notes to the income statement

Note 30. Interest income and expense

Interest income (EUR 1,000)	2015	2014
Loans and advances to credit institutions and central banks	–3,356	182
Loans and advances to the public and public sector entities	232,722	265,070
Debt securities	82,654	94,711
Derivative contracts	–157,190	–153,568
Leasing operations	2,239	1,630
Other interest income	1,393	4,326
Total	**158,462**	**212,351**

Interest expense (EUR 1,000)	2015	2014
Liabilities to credit institutions and central banks	46,265	45,632
Liabilities to the public and public sector entities	20,276	20,858
Debt securities issued	652,673	596,251
Derivative contracts	–734,891	–612,980
Subordinated liabilities	1,572	1,648
Other interest expense	322	934
Total	**–13,782**	**52,343**

Note 31. Commission income

EUR 1,000	2015	2014
Financial advisory services	2,311	2,398
Other operations	2,846	2,650
Total	**5,157**	**5,047**

Note 32. Commission expenses

EUR 1,000	2015	2014
Commission fees paid	183	172
Other	3,592	3,662
Total	**3,776**	**3,834**

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

Note 33. Net income from securities and foreign exchange transactions

2015 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	−125	−125
Debt securities	446	−1,455	−8,581	−9,590
ECPs	3	-	35	38
Issued ECPs	-	-	100	100
Total items valued with the fair value option	**449**	**−1,455**	**−8,571**	**−9,577**
Derivative contracts held-for-trading	9,638	−9,277	5,319	5,680
Total net income from securities transactions	**10,086**	**−10,732**	**−3,252**	**−3,897**
Net income from foreign exchange transactions	**-**	**−29**	**62**	**33**
Total	**10,086**	**−10,761**	**−3,190**	**−3,865**

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

Note 34. Financial assets designated using fair value option

2015 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	207,141	−125	0	−125
Debt securities	141,642	−8,581	−1,232	−7,348
ECPs	366,074	35	0	35
Total financial assets	**714,857**	**−8,671**	**−1,232**	**−7,438**

2015 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	974,738	100	0	100
Total financial liabilities	**974,738**	**100**	**0**	**100**

2014 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	238,625	103	0	103
Debt securities	475,179	−12,254	−859	−11,395
ECPs	409,980	49	0	49
Total financial assets	**1,123,784**	**−12,102**	**−859**	**−11,243**

2014 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	848,529	175	0	175
Total financial liabilities	**848,529**	**175**	**0**	**175**

The amount of debt securities and ECPs which is subject to credit risk is equal to the carrying amounts of those items in 2015 and 2014. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee.

Note 35. Net income from available-for-sale financial assets

(EUR 1,000)	2015	2014
Income from shares in investment funds	206	242
Capital gains from financial assets	79	3,028
Capital losses from financial assets	−511	−410
Unrealised gains transferred from the fair value reserve	6,566	3,846
Unrealised losses transferred from the fair value reserve	−4	−77
Total	**6,336**	**6,629**

Note 36. Net income from hedge accounting

(EUR 1,000)	2015	2014
Unrealized gains from hedging instruments	85,759	832,895
Unrealized losses from hedging instruments	−373,591	−270,297
Net income from hedging instruments	**−287,833**	**562,598**
Unrealized gains from hedged items	372,099	275,052
Unrealized losses from hedged items	−83,683	−833,957
Net income from hedged items	**288,416**	**−558,905**
Net income from hedge accounting	**583**	**3,693**

Unrealized gains and losses include risks to which fair value hedge accounting is applied, with the exception of the foreign exchange difference of hedging instruments and hedged items. The foreign exchange difference of both items is shown on line item Net income from foreign exchange transactions in Note 33.

Note 37. Other operating income

(EUR 1,000)	2015	2014
Other income from credit institution operations	21	11
Total	**21**	**11**

Note 38. Administrative expenses

(EUR 1,000)	2015	2014
Personnel expenses		
Wages and salaries	8,745	7,476
Pension costs	1,728	1,479
Other personnel-related costs	417	393
Total	**10,891**	**9,348**
Other administrative expenses	5,762	5,373
Total	**16,653**	**14,721**

	2015		2014	
Personnel	**Average**	**End of year**	**Average**	**End of year**
Permanent full-time	88	90	78	81
Permanent part-time	3	2	4	5
Fixed term	3	3	4	4
Total	**94**	**95**	**86**	**90**

Note 39. Other operating expenses

(EUR 1,000)	2015	2014
Fees paid to the Financial Stability Authority		
Contributions to the resolution fund	**1,053**	**-**
Administrative costs	155	-
Total	**1,208**	**-**
Rental expenses	2,009	2,011
Other expenses from credit institution operations	3,430	3,510
Total	**6,646**	**5,521**

Note 40. Impairment losses on other financial assets

MuniFin has not made any impairment losses or reversed impairment losses in 2015 or 2014.

Note 41. Income tax expense

(EUR 1,000)	2015	2014
Tax based on the profit for the financial year	408	2,908
Deferred tax	29,979	26,000
Total	**30,307**	**28,908**
Profit before tax	151,801	144,160
Taxes at domestic tax rate	30,360	28,832
Non-taxable income	–2	-
Other deductibles	–6	–8
Non-deductible expenses	34	84
Change in corporate tax rate	–80	-
Total	**30,307**	**28,908**

Note 42. Events after the reporting period

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

Pillar III disclosures

Diclosures on capital adequacy according to EU Capital requirements regulation N:o 575/2013 (CRR) are presented in Notes 43–59.

Note 43. Minimum own funds requirements and capital buffers

Minimum own funds requirements, (% of total risk exposure)	31 Dec 2015	31 Dec 2014
Common Equity Tier (CET1) capital ratio	4.5%	4.5%
Tier 1 Capital (Tier 1) capital ratio	6.0%	6.0%
Total Capital ratio	8.0%	8.0%

Capital buffers (% of total risk exposure)	31 Dec 2015	31 Dec 2014
Capital conservation buffer 1)	2.5%	0.0%
Countercyclical buffer 2)	0.0%	0.0%
Other systemically important institution (O-SII) 3)	0.0%	0.0%

1) Act on Credit Institutions (610/2014) Sect 10:3 § and Capital Requirements Regulation and Directive (CRR/CRD4). Valid from January 2015 onwards.
2) Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation and Directive (CRR/CRD4). On 21st December 2015, the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement.
3) Act on Credit Institutions (610/2014) Sect 10:8 § and Capital Requirements Regulation and Directive (CRR/CRD4). Additional capital requirement (O-SII) for Municipality Finance Plc is 0.5%. The decision of the Board of FIN-FSA on 6th July 2015, valid from 7th January 2016 onwards.

Note 44. Own Funds

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	601,065	479,686
Fair value reserve, transitional provision	11,354	-
Other reserves	277	277
Minority interest, transitional provision	129	223
Forseeable dividend to minorty interest	−68	−158
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	−3,133	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**692,573**	**562,977**
Intangible assets	−5,812	−4,757
Deductions due to prudential filters on Common Equity Tier 1	−432	−1,865
Common Equity Tier 1 (CET1) capital	**686,329**	**556,354**
Instruments included in Additional Tier 1 capital	347,454	-
Capital loans to which transitional provision is applied	-	807
Additional Tier 1 (AT1) capital	**347,454**	**807**
Tier 1 (T1) capital	**1,033,782**	**557,162**
Debenture loans	35,000	35,000
Fair value reserve	-	30,914
Tier 2 (T2) capital	**35,000**	**65,914**
Total own funds	**1,068,782**	**623,075**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015–31 December 2017). In the figures of the comparative year, the fair value reserve is included in Tier 2 capital. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA).

At year end 2015 the additional tier 1 capital contains MuniFin's AT1 capital loan which was issued on October 1st 2015. At year end 2014, additional tier 1 capital contained EUR 1 million of capital investments. According to transitional provisions, in 2014 80% of the capital investments could be included own funds. The capital investments were paid off on April 24th 2015.

Accoding to transitional provisions 60% of minority interest can be included in Common Equity Tier 1 capital in 2015. In 2014 80% of minority interest was included in Common Equity Tier 1 capital. The divided distributable to minority interest has been deducted from ownd funds.

Tier 2 capital includes a EUR 35 million debenture loan.
Detailed descriptions of capital loans and debenture loans included in own funds can be found in Note 28.

Note 45. Consolidated key figures for capital adequacy

Consolidated key figures for capital adequacy	**31 Dec 2015**	**31 Dec 2014**
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	41.49	29.94
Ratio of Tier 1 (T1) capital to risk-weighted assets, %	62.49	29.98
Ratio of total own funds to risk-weighted assets, %	64.61	33.53

Note 46. Consolidated minimum requirement for own funds

The capital requirement for credit risk is calculated using the standard method. In calculating the capital requirements for market risk, only foreign exhange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic method.

	31 Dec 2015		31 Dec 2014	
(EUR 1,000)	**Total exposure**	**Risk-weighted assets**	**Total exposure**	**Risk-weighted assets**
Credit and counterparty risk, standard method	**107,434**	**1,342,928**	**127,077**	**1,588,468**
Exposures to regional governments or local authorities	368	4,598	-	-
Exposures to multilateral development banks	1,367	17,089	-	-
Exposures to institutions	69,645	870,561	77,840	972,994
Exposures to public sector entities	3,320	41,501	1,367	17,089
Exposures in the form of covered bonds	16,283	203,542	15,258	190,731
Items representing securitisation positions	15,743	196,792	27,028	337,851
Exposures in the form of shares in CIUs	108	1,354	101	1,258
Other items	599	7,490	5,484	68,545
Market risk	**47**	**594**	**6**	**73**
Credit valuation adjustment risk (CVA VaR), standard method	**1,009**	**12,613**	**1,586**	**19,829**
Operational risk, basic method	**23,851**	**298,143**	**19,994**	**249,928**
Total	**132,342**	**1,654,278**	**148,664**	**1,858,298**

The capital requirement for counterparty risk is EUR 3,001 thousand (2014: EUR 6,700 thousand)

Note 47. Consolidated exposure by class

31 Dec 2015 (EUR 1,000) Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	2,268,410	-	-	2,268,410	-
Exposures to regional governments or local authorities	10,198,342	156,156	141,441	10,495,939	4,598
Exposures to international organisations	195,593	-	-	195,593	-
Exposures to multilateral development banks	310,064	-	-	310,064	17,089
Exposures to institutions	3,466,241	-	937,401	4,403,642	870,561
Exposures to public sector entities	207,504	-	-	207,504	41,501
Exposures to corporates	4,465,042	331,705	-	4,796,747	-
Exposures secured by mortgages on immovable property	6,727,614	849,019	-	7,576,633	-
Exposures in the form of covered bonds	1,806,712	-	-	1,806,712	203,542
Items representing securitisation positions	61,458	-	-	61,458	196,792
Exposures in the form of shares in CIUs	9,592	-	-	9,592	1,354
Other items	98,785	-	-	98,785	7,490
Total	**29,815,359**	**1,336,880**	**1,078,843**	**32,231,081**	**1,342,928**

31 Dec 2014 (EUR 1,000) Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	1,136,655	-	-	1,136,655	-
Exposures to regional governments or local authorities	9,732,289	43,241	172,822	9,948,352	-
Exposures to international organisations	253,326	-	-	253,326	-
Exposures to multilateral development banks	215,418	-	-	215,418	-
Exposures to public sector entities	3,736,479	-	1,034,465	4,770,944	973,780
Exposures to institutions	81,516	-	-	81,516	16,303
Exposures to corporates	4,370,988	154,378	-	4,525,365	-
Exposures secured by mortgages on immovable property	6,079,832	762,157	-	6,841,989	-
Exposures in the form of covered bonds	1,708,802	-	-	1,708,802	190,731
Items representing securitisation positions	104,014	-	-	104,014	337,851
Exposures in the form of shares in CIUs	9,761	-	-	9,761	1,258
Other items	253,724	-	-	253,724	68,545
Total	**27,682,803**	**959,776**	**1,207,287**	**29,849,866**	**1,588,468**

Note 48. Exposure by geographic region and exposure class

31 Dec 2015 (EUR 1,000)	Finland	Other Nordic countries	Other EU countries	Other countries
Exposures to central governments or central banks	1,947,597	-	320,813	-
Exposures to regional governments or local authorities	10,339,783	-	-	-
Exposures to international organisations	-	-	195,593	-
Exposures to multilateral development banks	-	24,947	199,669	85,447
Exposures to institutions	343,966	547,256	2,574,407	938,013
Exposure to public sector entities	34,177	-	150,518	22,809
Exposures to corporates	4,465,042	-	-	-
Exposures secured by mortgages on immovable property	6,727,614	-	-	-
Exposures in the form of covered bonds	268,938	725,666	583,396	228,712
Items representing securitisation positions	-	-	61,458	-
Exposures in the form of shares in CIUs	-	-	9,592	-
Other items	61,545	9,618	20,876	6,746
Off-balance-sheet items	1,336,880	-	-	-
Total	**25,525,544**	**1,307,487**	**4,116,322**	**1,281,728**

31 Dec 2014 (EUR 1,000)	Finland	Other Nordic countries	Other EU countries	Other countries
Exposures to central governments or central banks	776,274	-	360,381	-
Exposures to regional governments or local authorities	9,905,111	-	-	-
Exposures to international organisations	-	-	253,326	-
Exposures to multilateral development banks			162,486	52,932
Exposures to institutions	350,131	616,396	3,151,533	652,883
Exposure to public sector entities	-	-	81,516	-
Exposures to corporates	4,370,988	-	-	-
Exposures secured by mortgages on immovable property	6,079,832	-	-	-
Exposures in the form of covered bonds	270,532	691,582	548,183	198,505
Items representing securitisation positions	-	-	104,014	-
Exposures in the form of shares in CIUs	-	-	9,761	-
Other items	77,213	13,781	151,627	11,103
Off-balance-sheet items	959,776	-	-	-
Total	**22,789,857**	**1,321,759**	**4,822,827**	**915,423**

Note 49. Remaining maturity of exposures by category

31 Dec 2015 (EUR 1,000) Exposure category	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Exposures to central governments or central banks	1,828,807	-	216,163	223,439	-	2,268,410
Exposures to regional governments or local authorities	1,246,176	1,253,732	3,960,925	3,295,749	583,201	10,339,783
Exposures to international organisations	14,000	47,576	78,262	55,755	-	195,593
Exposures to multilateral development banks	10,056	30,448	121,394	148,165	-	310,064
Exposures to institutions	999,421	802,409	2,119,894	286,740	195,178	4,403,642
Exposure to public sector entities	-	-	127,974	79,530	-	207,504
Exposures to corporates	62,993	233,299	1,176,521	1,242,229	1,750,001	4,465,042
Exposures secured by mortgages on immovable property	98,052	117,184	686,389	508,447	5,317,542	6,727,614
Exposures in the form of covered bonds	113,307	347,536	821,383	524,487	-	1,806,712
Items representing securitisation positions	-	-	-	34,231	27,227	61,458
Exposures in the form of shares in CIUs	-	-	-	-	9,592	9,592
Other items	55,939	40,548	1,865	-	434	98,785
Off-balance-sheet items	1,336,880	-	-	-	-	1,336,880
Total	**5,765,631**	**2,872,732**	**9,310,770**	**6,398,773**	**7,883,175**	**32,231,081**

31 Dec 2014 (EUR 1,000) Exposure category	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Exposures to central governments or central banks	642,942	-	219,984	225,144	48,585	1,136,655
Exposures to regional governments or local authorities	981,757	968,115	4,165,609	2,518,627	1,271,003	9,905,111
Exposures to international organisations	50,069	15,343	109,198	78,716	-	253,326
Exposures to multilateral development banks	20,009	-	81,560	113,849	-	215,418
Exposures to institutions	1,631,437	467,440	2,197,792	160,166	314,108	4,770,944
Exposure to public sector entities	-	8,113	61,636	11,767	-	81,516
Exposures to corporates	170,082	210,680	1,170,888	1,114,325	1,705,012	4,370,988
Exposures secured by mortgages on immovable property	41,372	94,069	663,498	600,589	4,680,305	6,079,832
Exposures in the form of covered bonds	98,299	306,537	916,705	387,260	-	1,708,802
Items representing securitisation positions	-	9,987	-	49,508	44,519	104,014
Exposures in the form of shares in CIUs	-	-	-	-	9,761	9,761
Other items	144,859	106,399	2,465	-	-	253,723
Off-balance-sheet items	959,776	-	-	-	-	959,776
Total	**4,740,602**	**2,186,684**	**9,589,337**	**5,259,949**	**8,073,294**	**29,849,866**

Note 50. Exposures by main lines of business

Not disclosed due to MuniFin's limited customer base.

Note 51. Exposures by risk weight before and after credit risk mitigation

31 Dec 2015 (EUR 1,000) Risk weight, %	Exposure before credit risk mitigation	Exposure after credit risk mitigation	Risk-weighted assets
0	13,252,785	27,298,583	-
10	1,596,490	1,596,490	159,649
20	3,204,705	2,209,629	441,926
50	1,775,926	1,098,586	549,293
100	12,376,583	3,202	3,202
Other risk weights	24,593	24,593	188,858
Total	**32,231,081**	**32,231,081**	**1,342,928**

31 Dec 2014 (EUR 1,000) Risk weight, %	Exposure before credit risk mitigation	Exposure after credit risk mitigation	Risk-weighted assets
0	11,624,745	24,815,038	-
10	1,534,000	1,534,000	153,400
20	3,866,916	2,043,977	408,795
50	1,418,676	1,418,676	709,338
100	11,370,788	3,434	3,434
Other risk weights	34,741	34,741	313,500
Total	**29,849,866**	**29,849,866**	**1,588,468**

Note 52. Collateral utilised in the capital adequacy calculation

31 Dec 2015 (EUR 1,000) Exposure category	Exposure	Guarantees	Financial collateral	Other	Exposure after utilised collateral
Exposures to regional governments or local authorities	10,198,342	−164,353	-	-	10,033,989
Exposures to institutions	3,466,241	−833,026	-	-	2,633,215
Exposures to corporates*	4,465,042	−4,465,042	-	-	-
Exposures secured by mortgages on immovable property*	6,727,614	−6,727,614	-	-	-
Total	**24,857,240**	**−12,190,036**	**-**	**-**	**12,667,204**

* In addition to guarantees, the exposures to corporates and exposures secured by mortgages on immovable property include other collateral.

31 Dec 2014 (EUR 1,000) Exposure category	Exposure	Guarantees	Financial collateral	Other	Exposure after utilised collateral
Exposures to regional governments or local authorities	9,732,289	−152,010	-	-	9,580,279
Exposures to institutions	3,736,479	−1,011,351	-	-	2,725,128
Exposures to corporates	4,370,988	−4,370,988	-	-	-
Exposures secured by mortgages on immovable property	6,079,832	−6,079,832	-	-	-
Total	**23,919,587**	**−11,614,180**	**-**	**-**	**12,305,408**

* In addition to guarantees, the exposures to corporates and exposures secured by mortgages on immovable property include other collateral.

Note 53. Derivatives and counterparty risk

31 Dec 2015 (EUR 1,000)	Gross exposure	Benefits from netting	Exposure after netting	Received collateral	Exposure
Derivatives	5,014,088	−1,707,831	3,306,257	−2,227,414	1,078,843
Total	**5,014,088**	**−1,707,831**	**3,306,257**	**−2,227,414**	**1,078,843**

Note 54. Items representing securitisation positions

	31 Dec 2015		31 Dec 2014	
(EUR 1,000)	Exposure	Risk-weighted assets	Exposure	Risk-weighted assets
Non-trading book positions				
Aaa	6,656	1,331	17,096	3,419
Aa1–Aa3	39,802	7,960	26,636	5,327
A1–A3	-	-	35,336	17,266
Baa1–Baa3	-	-	-	-
Ba1–Ba3	-	-	-	-
B1 or lower	15,000	187,500	24,947	311,838
Total	**61,458**	**196,792**	**104,014**	**337,851**

The classification has been done using Moody's ratings.

Risk-weight 1250% has been applied to EUR 15 million of items representing securitisation positions. (25 million in 2014.) Items representing securitisation positions do not contain any assets which are past due or impaired in 2015 or 2014.

Note 55. Past due or impaired exposures by exposure class

No exposures past due or impaired.

Note 56. Transitional own funds

31 Dec 2015 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1. Capital instruments and the related share premium accounts	42,583	26 81), 27, 28, 29, EBA list 26 (3)	-
2. Retained earnings	479,686	26 (1) c	-
3. Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	51,997	26 (1)	-
5. Minority interest (amount allowed in consolidated CET1)	129	84, 479, 480	0
5a. Independently reviewed interim profits net of any foreseeable charge or dividends	118,178	26 (2)	-
6. Common Equity Tier 1 (CET1) capital before regulatory adjustments	**692,573**		**0**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8. Intangible assets (net of related tax liability) (negative amount)	−5,812	36 (1) (b), 37, 472 (4)	-
14. Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	−432	33 (b)	-
28. Total regulatory adjustments to Common Equity Tier 1 (CET1)	**−6,244**		
29. Common Equity Tier 1 (CET1) capital	**686,329**		
Additional Tier 1 (AT1) capital: instruments			
30. Capital instruments and the related share premium	347,454	51, 52	-
31. of which: classified as equity under applicable accounting standards	347,454		-
36. Additional Tier 1 (AT1) capital before regulatory adjustments	**347,454**		
Additional Tier 1 (AT1): regulatory adjustments	**-**		
43. Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		**-**
44. Additional Tier 1 (AT1) capital	**347,454**		
45. Tier 1 capital (T1 = CET1 + AT1)	**1,033,782**		
Tier 2 (T2) capital: instruments and provisions			
46. Capital instruments and the related share premium accounts	35,000	62, 63	-
51. Tier 2 (T2) capital before regulatory adjustments	**35,000**		
Tier 2 (T2) capital: regulatory adjustments	**-**		
57. Total regulatory adjustments to Tier 2 (T2) capital	**-**		**-**
58. Tier 2 (T2) capital	**35,000**		
59. Total capital (TC = T1 + T2)	**1,068,782**		
60. Total risk weighted assets	**1,654,278**		
Capital ratios and buffers			
61. Common Equity Tier 1 (as percentage of risk exposure amount)	41.49 %	92 (2) (a), 465	
62. Tier 1 (as percentage of risk exposure amount)	62.49 %	92 (2) (b), 465	

63. Total capital (as percentage of risk exposure amount)	64.61 %	92 (2) ('c)
64. Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemis risk risk buffer, plus the systemically important instution buffer (G-SII or O-SII), expressed as a percentage of risk exposure amount)	2.50 %	CRD 129, 129, 130
65. of which: capital conservation buffer requirement	2.50 %	
66. of which: countercyclical buffer requirement	0.00 %	
67. of which: systemic risk buffer requirement	0.00 %	
67a. of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00 %	CRD 131
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.03 %	CRD 128

Note 57. Main features of capital instruments

(EUR 1,000)	**Common equity Tier 1 capital** **Shares A and B of share capital, reserve for invested non-restricted equity, retained earnings and reserve fund**	**Addional Tier 1 instrument** **EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities**	**Tier 2 instruments** **Debenture loan**
1. Issuer	Municipality Finance Plc	Municipality Finance Plc	Municipality Finance Plc
2. Unique identifier	N/A	ISIN: XS1299724911	ISIN: FI00002002403
3. Governing law(s) of the instrument	Finnish Law	English law, except for the provisions of Status and Subordination (section 3) and Enforcement Events (section 10) which are governed by Finnish law.	Finnish Law
Regulatory treatment			
4. Transitional CRR rules	CET1	AT1	Tiier 2
5. Post-transitional CRR rules	CET1	AT1	Tiier 2
6. Eligible at solo/consolidated / solo&consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7. Instrument type (types to be specified by each jurisdiction)	Share capital as defined in Regulation No (EU) 757/2013 Article 28	Additional Tier 1 as defined in Regulation No (EU) 757/2013 Article 52	Tier 2 as defined in Regulation No (EU) 757/2013 Article 63
8. Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	681,090	347,454	35,000
9. Nominal amount of instrument	N/A	350,000	35,000
9a. Issue price	N/A	100 %	100.452%
9b. Redemption price	Redemption price according to the Articles of Association debending of the redemption situation	100 %	100 %
10. Accounting classification	Shareholders' equity	Liability, amortized cost	Liability, amortized cost
11. Original date of issuance	N/A	Oct 1, 2015	May 9, 2006
12. Perpetual or dated	Perpetual	Perpetual	Dated

13. Original maturity date	No maturity	No maturity	May 9, 2021
14. Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15. Optional call date, contingent call dates and redemption amount	N/A	1) Right to redeem on April 1, 2022 and subsequently on each annual coupoun pament date; 2) Right to redeem subsequent to a Capital or Tax Event as defined in the terms. Redemption price 100 %	The issuer may prepay the loan in whole on each coupon payment date after 10 years.
16. Subsequent call dates, if applicable	N/A	Annually April 1 after the first call date.	Since August 9, 2016, always on August 9, November 11, February 9 and May 9
Coupons/Dividends			
17. Fixed or floating dividend/coupon	N/A	Fixed coupon until April 1 2022, thereafter floating	Fixed coupon until May 9 2015, thereafter floating
18. Coupon rate and any related index	N/A	4.5 % to but excluding the first call date 1.4.2022. After 1.4.2022 the rate is the 5 year swap rate plus a margin of 3.960 % and reset each fifth anniversary.	Fixed coupon of 4.5% p.a for the first 10 years, then floating 3m Euribor +25bp
19. Existence of a dividend stopper	No	No	No
20a. Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
20b. Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
21. Existence of step up or other incentive to redeem	N/A	No	No
22. Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23. Convertible or non-convertible	N/A	Non-convertible	Non-convertible
24. If convertible, conversion trigger(s)	N/A	N/A	N/A
25. If convertible, fully or partially	N/A	N/A	N/A
26. If convertible, conversion rate	N/A	N/A	N/A
27. If convertible, mandatory or optional conversion	N/A	N/A	N/A
28. If convertible, specify instrument type convertible into	N/A	N/A	N/A
29. If convertible, specify issuer or instrument it converts to	N/A	N/A	N/A
30. Write-down features	N/A	Yes	No
31. If write-down, write-down trigger(s)	N/A	CET1 of the Issuer and/or the Group less than 5.125 %	N/A
32. If write-down, full or partial	N/A	Full or partially	N/A
33. If write-down, permanent or temporary	N/A	Temporary	N/A
34. If temporary write-down, description of write-up mechanism	N/A	Fully discretionary	N/A
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1	Tier 2	Senior debt
36. Non-compliant transitioned features	No	No	No
37. If yes, specify non-compliant features	N/A	N/A	N/A

Note 58. Asset encumberance

The tables below provide information on asset encumbrance and liabilities related to encumbered assets. Encumbered assets mainly relate to pledged lending, collateral pertaining to derivatives and collateral related to repo agreements. Presented figures for year 2015 are based on median values of quarterly data on a rolling basis over the previous twelve months and for year 2014 presented figures based on 31 Dec 2014.

Assets 2015 (EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	9,789	9,783
Debt securities	-	-	7,622,103	7,827,311
Other assets	19,632,830	-	6,530,724	-
Total	**19,632,830**	**-**	**14,162,616**	**7,837,094**

Assets 31 Dec 2014 (EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	9,789	9,789
Debt securities	96,598	96,598	6,367,551	6,360,818
Other assets	19,185,240	-	4,446,678	-
Total	**19,281,838**	**96,598**	**10,824,018**	**6,370,607**

	2015		31 Dec 2014	
Collateral received (EUR 1,000)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Equity instruments	-	-	-	-
Debt securities	-	-	96,598	96,598
Other assets	389,200	-	299,100	-
Total	**389,200**	**-**	**395,698**	**96,598**

	2015		31 Dec 2014	
Encumbered assets/collateral received and associated liabilities (EUR 1,000)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Repo agreements	-	-	97,084	96,598
Derivative liabilities	1,517,577	389,200	934,399	299,100

Note 59. Leverage ratio

Exposures (EUR 1,000)	31 Dec 2015	31 Dec 2014
On-balance sheet exposures (excl. Derivatives and intangible assets)	29,815,359	27,687,560
Derivatives exposure	1,239,463	2,662,871
Off-balance sheet exposure	1,715,877	1,098,859
Total	**32,770,698**	**31,449,290**

Exposures (EUR 1,000)	31 Dec 2015	31 Dec 2014
Tier 1 capital (T1)	1,033,782	557,162
Total exposure	32,770,698	31,449,290
Leverage ratio, %	3,15	1,8

Breakdown of on-balance sheet exposure (EUR 1,000)	31 Dec 2015 Leverage ratio exposure value	31 Dec 2014 Leverage ratio exposure value
Covered bonds	1,806,712	1,708,802
Exposures treated as sovereigns	9,482,614	8,210,301
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	15,722,982	14,589,557
Institutions	2,642,807	-24,503,903
Other exposures	160,244	27,682,803
Total	**29,815,359**	**27,687,560**

Municipality Finance Plc parent company

Financial Statements

Balance Sheet

(EUR 1,000)	Note	31 Dec 2015	31 Dec 2014
ASSETS			
Cash and balances with central banks		1,813,813	592,907
Cash		6	3
Central bank receivables payable on demand		1,813,807	592,903
Debt securities eligible for central bank refinancing	(4)	5,078,673	4,764,450
Loans and advances to credit institutions	(2, 20)	613,799	1,071,448
Payable on demand		131,401	195,445
Other		482,398	876,003
Loans and advances to the public and public sector entities	(3)	20,088,453	19,204,778
Leasing assets	(5)	187,108	132,951
Debt securities	(4)	1,924,645	1,652,136
From public sector entities		1,027,138	760,583
From others		897,507	891,553
Shares and participations	(6)	9,620	9,789
Shares and participations in Group companies	(6)	112	100
Derivative contracts	(7)	3,925,025	2,321,699
Intangible assets	(8, 10)	5,965	5,131
Tangible assets	(9, 10)	2,145	2,088
Other tangible assets		2,145	2,088
Other assets	(11)	6,029	1,823
Accrued income and prepayments	(12)	232,700	249,020
TOTAL ASSETS	**(18, 19, 21)**	**33,888,086**	**30,008,320**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(20)	4,893,270	3,882,771
To credit institutions		4,893,270	3,882,771
Other		4,893,270	3,882,771
Liabilities to the public and public sector entities		954,026	963,662
Other liabilities		954,026	963,662
Debt securities issued	(14)	24,804,490	23,230,298
Bonds		23,574,719	21,971,768
Other		1,229,771	1,258,530
Derivative contracts	(7)	1,799,692	934,399
Other liabilities	(15)	2,008	1,881
Accrued expenses and deferred income	(16)	221,375	249,559
Subordinated liabilities	(17)	382,477	37,943
Deferred tax liabilities	(13)	2,838	7,728
TOTAL LIABILITIES	**(18, 19, 21)**	**33,060,177**	**29,308,240**
APPROPRIATIONS			
Depreciation difference		859	-
Voluntary provisions		676,980	531,980
TOTAL APPROPRIATIONS		**677,839**	**531,980**
EQUITY	**(23, 24, 25)**		
Share capital		43,008	43,008
Other restricted reserves		11,630	31,190
Reserve fund		277	277
Fair value reserve		11,354	30,914
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		53,158	42,233
Profit for the financial period		1,530	10,926
TOTAL EQUITY		**150,070**	**168,100**
TOTAL LIABILITIES AND EQUITY	**(18, 19)**	**33,888,086**	**30,008,320**
OFF-BALANCE SHEET COMMITMENTS	**(40)**		
Irrevocable commitments given in favour of customer		1,336,880	959,776

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
Interest income	(26)	156,223	210,721
Net income from leasing operations	(27)	2,239	1,630
Interest expense	(26)	9,749	−52,343
NET INTEREST INCOME		**168,211**	**160,008**
Income from equity investments		129	–
In Group companies	(28)	129	–
Commission income	(29)	2,847	2,651
Commission expense	(29)	−3,773	−3,831
Net income from securities and foreign exchange transactions	(30)	−3,865	−5,711
Net income from securities		−3,897	−5,751
Net income from foreign exchange transactions		33	40
Net income from available-for-sale financial assets	(31)	6,336	6,629
Net income from hedge accounting	(32)	583	3,693
Other operating income	(33)	59	49
Administrative expenses		−15,066	−13,258
Personnel expenses		−9,532	−8,099
Salaries and fees	(42)	−7,657	−6,453
Personnel-related costs		−1,875	−1,646
Pension costs		−1,512	−1,288
Other personnel-related costs		−363	−359
Other administrative expenses		−5,534	−5,159
Depreciation and impairment on tangible and intangible assets	(35)	−1,598	−1,440
Other operating expenses	(34)	−6,192	−5,039
OPERATING PROFIT		**147,672**	**143,751**
Appropriations		−145,859	−130,000
Income taxes		−283	−2,825
PROFIT FOR THE PERIOD		**1,530**	**10,926**

Statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
CASH FLOW FROM OPERATING ACTIVITIES	**812,996**	**–1,085,233**
Net change in long-term funding	1,139,992	1,502,695
Net change in short-term funding	–11,297	–402,107
Net change in long-term loans	–1,021,891	–1,293,531
Net change in short-term loans	–270,112	–141,407
Net change in investments	204,767	–2,264,245
Net change in collaterals	609,050	1,359,670
Interest paid	–18,290	–59,423
Interest received	187,169	210,535
Other income	36,716	30,403
Payments of operating expenses	–40,500	–22,381
Taxes paid	–2,609	–5,440
CASH FLOW FROM INVESTING ACTIVITIES	**–2,500**	**–1,348**
Acquisition of tangible assets	–533	–523
Acquisition of intangible assets	–1,955	–825
Change in shares and participations	–12	–
CASH FLOW FROM FINANCING ACTIVITIES	**346,366**	**–10,000**
Change in subordinated liabilities	346,366	–10,000
CHANGE IN CASH AND CASH EQUIVALENTS	**1,156,862**	**–1,096,580**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**788,352**	**1,884,932**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**1,945,214**	**788,352**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Cash and balances with central banks	1,813,813	592,907
Loans and advances to credit institutions	131,401	1,071,448
Debt securities maturing within three months	-	1,516,653
Impact of amending the definition of cash and cash equivalents	-	–2,392,656
TOTAL CASH AND CASH EQUIVALENTS	**1,945,214**	**788,352**

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

Pillar III disclosures

Notes to the parent company financial statements

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

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

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

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

Notes to the balance sheet

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

Note 2. Loans and advances to credit institutions

31 Dec 2015 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	196,177	130,679	65,498
Foreign credit institutions	417,622	722	416,900
Total	**613,799**	**131,401**	**482,398**

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

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

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Enterprises and housing corporations	10,482,100	9,818,925
Public sector entities	9,289,611	9,099,166
Non-profit organisations	316,742	286,687
Total	**20,088,453**	**19,204,778**

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

Note 4. Debt securities

Debt securities issued by public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	1,027,138	1,027,138
Municipal commercial papers	-	1,027,138	1,027,138
Available-for-sale	1,871,751	22,809	1,894,560
Government bonds	439,602	-	439,602
Bonds issued by other public sector entities	1,432,149	22,809	1,454,958
Fair value option	20,216	86,014	106,230
Government treasury bills	-	15,000	15,000
Bonds issued by other public sector entities	20,216	-	20,216
Commercial paper issued by other public sector entities	-	71,014	71,014
Total	**1,891,967**	**1,135,961**	**3,027,928**
Eligible for central bank refinancing	1,805,483	86,014	1,891,497
Non-interest bearing		-	-

Debt securities issued by other than public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	-	145,732	145,732
Bank bonds	-	-	-
Commercial papers	-	88,300	88,300
Other debt securities	-	57,432	57,432
Available-for-sale	3,382,352	44,821	3,427,173
Bank bonds	3,382,352	40,794	3,423,146
Other debt securities	-	4,026	4,026
Fair value option	121,426	280,060	401,486
Bank bonds	121,426	-	121,426
Bank commercial paper	-	280,060	280,060
Total	**3,503,778**	**470,613**	**3,974,390**
Eligible for central bank refinancing	3,121,021	66,155	3,187,176
Non-interest bearing	-	-	-

Reclassification (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
Total		**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR 2,018 thousand on the fair value reserve in 2015. In 2015 EUR 84 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

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

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

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

Note 5. Assets leased under financial leasing

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Prepayments	43,762	25,095
Machinery and equipment	121,008	105,518
Fixed assets and buildings	18,899	-
Other assets	3,439	2,338
Total	**187,108**	**132,951**

Note 6. Shares and participations

31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,593	27	9,620	-
Shares and participations in group companies	-	112	112	-
Total	**9,593**	**139**	**9,732**	**-**
of which at acquisition cost	-	139	139	-

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

Note 7. Derivative contracts

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 Dec 2015 (EUR 1,000)	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,309,588	16,054,679	13,072,232	**33,436,498**	553,489	−402,602
Interest rate options	4,582	6,006	–	**10,588**	–	−99
Currency derivatives						
Cross currency interest rate swaps	4,989,570	13,231,613	2,129,328	**20,350,511**	2,983,050	−1,029,808
Total	**9,303,739**	**29,292,298**	**15,201,560**	**53,797,597**	**3,536,539**	**−1,432,509**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	383,861	2,784,303	2,987,696	**6,155,860**	149,993	−153,949
Interest rate options	10,071	315	42,000	**52,386**	512	−518
Currency derivatives						
Cross currency interest rate swaps	5,169	10,577	–	**15,746**	1,241	−1,240
Forward exchange contracts	975,475	–	–	**975,475**	25,263	–
Equity derivatives	269,715	2,222,471	5,500	**2,497,686**	202,551	−202,551
Other derivatives	49,058	20,000	–	**69,058**	8,925	−8,925
Total	**1,693,349**	**5,037,666**	**3,035,196**	**9,766,211**	**388,485**	**−367,183**
Grand total	**10,997,088**	**34,329,964**	**18,236,756**	**63,563,808**	**3,925,025**	**−1,799,692**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 Dec 2014 (EUR 1,000)	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	1,489,587	13,719,451	13,587,885	**28,796,923**	599,447	−441,699
Interest rate options	51,654	16,390	–	**68,044**	–	−588
Currency derivatives						
Cross currency interest rate swaps	4,013,847	13,481,441	2,272,183	**19,767,470**	1,445,589	−250,480
Total	**5,555,088**	**27,217,281**	**15,860,068**	**48,632,437**	**2,045,036**	**−692,767**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	1,351,910	1,343,475	2,638,204	**5,333,589**	143,914	−151,784
Interest rate options	133	62,527	–	**62,660**	2,752	−2,948
Currency derivatives						
Cross currency interest rate swaps	3,380	24,457	–	**27,837**	33	−33
Forward exchange contracts	898,665	–	–	**898,665**	42,978	−1
Equity derivatives	194,381	1,348,482	25,000	**1,567,863**	64,723	−64,723
Other derivatives	140,596	20,000	5,500	**166,096**	22,263	−22,143
Total	**2,589,065**	**2,798,941**	**2,668,704**	**8,056,710**	**276,663**	**−241,632**
Grand total	**8,144,153**	**30,016,222**	**18,528,772**	**56,689,147**	**2,321,699**	**−934,399**

Note 8. Intangible assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
IT systems	5,812	4,757
Other intangible assets	152	374
Total	**5,965**	**5,131**

Note 9. Tangible assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Real estate		
Buildings	359	400
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	1,352	1,255
Total	**2,145**	**2,088**

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

	Intangible assets	Tangible assets		
31 Dec 2015 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	9,874	1,207	2,936	4,142
+ Additions	1,961	-	528	528
– Disposals	−11	-	−291	−291
Acquisition cost 31 Dec	11,824	1,207	3,173	4,379
Accumulated depreciation 1 Jan	4,743	373	1,680	2,053
– Accumulated depreciation on disposals	−11	-	−289	−289
+ Depreciation for the financial year	1,127	40	430	470
Accumulated depreciation 31 Dec	5,859	413	1,821	2,234
Book value 31 Dec	**5,965**	**793**	**1,351**	**2,145**

	Intangible assets	Tangible assets		
31 Dec 2014 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	9,127	1,207	2,652	3,858
+ Additions	825	-	669	669
– Disposals	−78	-	−385	−385
Acquisition cost 31 Dec	9,874	1,207	2,936	4,142
Accumulated depreciation 1 Jan	3,789	333	1,603	1,936
– Accumulated depreciation on disposals	−78	-	−291	−291
+ Depreciation for the financial year	1,032	40	368	408
Accumulated depreciation 31 Dec	4,743	373	1,680	2,053
Book value 31 Dec	**5,131**	**833**	**1,255**	**2,089**

Note 11. Other assets

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Other	6,029	1,823
Total	**6,029**	**1,823**

Note 12. Accrued income and prepayments

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Interest	226,796	245,217
Other	5,904	3,803
Total	**232,700**	**249,020**

Note 13. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in equity	31 Dec 2015
On other temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in equity	31 Dec 2015
On other temporary differences				
On fair value reserve	7,728	-	−4,890	2,838
Total	**7,728**	**-**	**−4,890**	**2,838**

Voluntary provisions and depreciation difference include EUR 135,568 thousand in non-recognised deferred tax liabilities.

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

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

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

Note 14. Debt securities issued

	31 Dec 2015		31 Dec 2014	
(EUR 1,000)	Book value	Nominal value	Book value	Nominal value
Bonds	23,574,719	27,838,525	21,971,768	24,793,923
Other	1,229,771	1,230,475	1,258,530	1,259,271
Total	**24,804,490**	**29,069,000**	**23,230,298**	**26,053,194**

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

Note 15. Other liabilities

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Payment transfer	-	-
Other	2,008	1,881
Total	**2,008**	**1,881**

Note 16. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Interest	212,497	241,189
Other	8,878	8,370
Total	**221,375**	**249,559**

Note 17. Subordinated liabilities

31 Dec 2015 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,542	Fixed	9th May 2016
2) Capital investments	EUR	-	-	Euribor 6 Mths	
3) AT1 capital loan	EUR	350,000	346,935	Euribor 12 Mths	1st April 2022
Total		**385,000**	**382,477**		

31 Dec 2014 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	36,934	Fixed	9th May 2016
2) Capital investments	EUR	1,009	1,009	Euribor 12 Mths	
Total		**36,009**	**37,943**		

Loan terms and conditions:

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

2) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are sufficient, and the Board of Directors of the credit institution approves. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2014.

3) The loan is an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The loan capital will be written off if the proportion of the company's Common Equity Tier 1 (CET1) capital to risk-weighted receivables falls below 5.125%. The company may decide to re-book the loan capital partially or entirely if the Capital Requirements Regulation permits this based on an improvement in the company's finances. The company has the right but not the obligation to buy back the loan on 1 April 2022 or, after that, annually on the interest date, as long as the buy-back is approved in advance by the regulatory authority. The regulatory authority may authorise the repayment of the loan also for particular reasons, for example if legislation or regulatory practice should change in such a way that the company loses the right to deduct the interest in full, or if the company should be forced to make the additional payments mentioned in the loan terms. The authorities may also permit repayment of the loan if the loan's official classification changes in such a way that the loan would be likely to be excluded from the company's own funds, or if it is reclassified as lower-value funds. The loan capital, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's liquidation or bankruptcy.

Note 18. Breakdown of financial assets and liabilities by maturity

31 Dec 2015 (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	366,582	966,021	2,525,326	1,219,599	1,146	5,078,673
Loans and advances to credit institutions	604,299	9,500	-	-	-	613,799
Loans and advances to the public and public sector entities	370,505	1,518,249	5,789,905	4,106,845	8,302,950	20,088,453
Debt securities	1,213,615	256,496	367,408	61,047	26,080	1,924,645
Total	**2,555,001**	**2,750,265**	**8,682,639**	**5,387,490**	**8,330,176**	**27,705,571**

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,232,310	41,660	122,860	820,286	1,676,154	4,893,270
Liabilities to the public and public sector entities	43,597	14,666	499,564	214,029	182,171	954,026
Debt securities issued	4,289,979	5,992,095	12,074,575	1,484,364	963,477	24,804,490
Subordinated liabilities	-	35,542	-	346,935	-	382,477
Total	**6,565,886**	**6,083,962**	**12,696,999**	**2,865,614**	**2,821,802**	**31,034,263**

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 2016. In 2015, the company called 60% of its callable liabilities.

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

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

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

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

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	5,030,893	47,781	5,078,673
Loans and advances to credit institutions	613,206	594	613,799
Loans and advances to the public and public sector entities	20,088,453	-	20,088,453
Debt securities	1,765,435	159,209	1,924,645
Derivative contracts	3,925,025	-	3,925,025
Other assets incl. cash and balances in central banks	2,257,491	-	2,257,491
Total	**33,680,503**	**207,584**	**33,888,086**

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	4,799,614	93,656	4,893,270
Liabilities to the public and public sector entities	685,153	268,873	954,026
Debt securities issued	1,963,064	22,841,427	24,804,490
Derivative contracts	1,799,692	-	1,799,692
Subordinated liabilities	382,477	-	382,477
Other liabilities	1,054,131	-	1,054,131
Total	**10,684,130**	**23,203,956**	**33,888,086**

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

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

Note 20. Repurchase agreements

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Reverse repo agreements		
Loans and advances to credit institutions	-	550,000
Loans and advances to others	-	-
Total	**-**	**550,000**

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Repo agreements		
Liabilities to credit institutions	-	97,084
Liabilities to others	-	-
Total	**-**	**97,084**

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

Financial assets (EUR 1,000)	31 Dec 2015 Book value	31 Dec 2015 Fair value	31 Dec 2014 Book value	31 Dec 2014 Fair value
Cash and balances with central banks	1,813,813	1,813,813	592,907	592,907
Debt securities eligible for central bank refinancing	5,078,673	5,078,673	4,764,450	4,764,450
Loans and advances to credit institutions	613,799	613,811	1,071,448	1,071,477
Loans and advances to the public and public sector entities	20,088,453	21,462,659	19,204,778	20,578,984
Debt securities	1,924,645	1,920,693	1,652,136	1,645,402
Shares and participations	9,620	9,620	9,789	9,789
Shares and participations in group companies	112	112	100	100
Derivative contracts	3,925,025	3,925,025	2,321,699	2,321,699
Total	**33,454,140**	**34,824,406**	**29,617,307**	**30,984,808**

Financial liabilities (EUR 1,000)	31 Dec 2015 Book value	31 Dec 2015 Fair value	31 Dec 2014 Book value	31 Dec 2014 Fair value
Liabilities to credit institutions	4,893,270	4,981,987	3,882,771	3,962,901
Liabilities to the public and public sector entities	954,026	958,744	963,662	974,891
Debt securities issued	24,804,490	24,820,262	23,230,298	23,252,961
Derivative contracts	1,799,692	1,799,692	934,399	934,399
Subordinated liabilities	382,477	385,572	37,943	38,060
Total	**32,833,956**	**32,946,257**	**29,049,073**	**29,163,212**

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

31 Dec 2015 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	141,642	366,074	-	507,716
Loans and advances to the public and public sector entities*	-	7,000,074	-	7,000,074
Derivative contracts	-	266,765	121,720	388,485
Hedging derivatives	-	3,536,539	-	3,536,539
Available-for-sale assets				
Debt securities	5,255,103	67,630	-	5,322,733
Shares in investment funds	9,620	-	-	9,620
Total	**5,406,364**	**11,237,082**	**121,720**	**16,765,166**

31 Dec 2015 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions*	-	2,729,043	-	2,729,043
Liabilities to the public and public sector entities*	-	772,128	-	772,128
Debt securities issued*	-	21,873,838	-	21,873,838
Subordinated liabilities*	-	382,507	-	382,507
Derivative contacts	-	245,463	121,720	367,183
Hedging derivatives	-	1,432,509	-	1,432,509
Total		**27,435,488**	**121,720**	**27,557,208**

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

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

* The rows in question contain items which are in fair value hedge account and are valued at fair value only in terms of the hedged risk. The carrying amounts of these items differ from the fair values shown in the table above. Note 4 shows how the financial statement line items are classified into different financial asset and financial liability categories.

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

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed 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. Valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Level 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market. Level 3 financial instruments primarily comprise OTC-derivatives and embedded derivatives

Transfers in the fair value hierarchy

During financial years 2015 and 2014, no transfers between levels 1 and 2 were made.

In the 2015 financial statements 117 derivatives, which hedge issued bonds, were transfered from level 2 to 3 based on the use of input data, which is not directly observable from the markets. During the financial year 2014 no transfers were made from level 3 into other levels or from other levels into level 3.

2015 (EUR 1,000)	Derivative assets Held-for-trading	Derivative liabilities Held-for-trading	Total
1 Jan 2015			
Change in fair value in the income statement	-	-	-
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	121 720	–121 720	0
Transfers out of level 3	-	-	-
31 Dec 2015	**121 720**	**–121 720**	**0**

The transfer from level 2 to 3 was performed based on fair values on 31 Dec 2015. All transfered derivatives hedge funding, in which the company has identified an embedded derivative. The value transfered into level 3 includes the fair value of the derivative and the value of the bifurcated embedded derivative.

Sensitivity analysis of unobservable inputs
Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2014 and 2015 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives decreases by 46 million and the fair value of the embedded derivative of the debt instrument increases. In the high volatility scenario the fair value of the derivatives increases by 38 million and the fair value of the embedded derivative of the debt instrument decreases by 38 million.

Note 23. Equity

31 Dec 2015 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2015	43,008	277	30,914	40,743	53,158	168,100
+ increase	-	-	-	-	1,530	1,530
– decrease	-	-	–19,560	-	-	–19,560
Book value 31 Dec 2015	**43,008**	**277**	**11,354**	**40,743**	**54,688**	**150,070**

31 Dec 2014 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2014	43,008	277	22,285	40,743	42,233	148,545
+ increase	-	-	8,628	-	10,926	19,554
– decrease	-	-	-	-	-	-
Book value 31 Dec 2014	**43,008**	**277**	**30,914**	**40,743**	**53,158**	**168,100**

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 2015, 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 2015	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	573,350	1.47%
10. City of Lahti	502,220	1.29%

The total number of shareholders is 281.

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)	2015	2014
Loans and advances to credit institutions and central banks	–3,356	182
Loans and advances to the public and public sector entities	232,722	265,070
Debt securities	82,654	94,711
Derivative contracts	–157,190	–153,568
Other interest income	1,393	4,326
Total	**156,223**	**210,721**

Interest expense (EUR 1,000)	2015	2014
Liabilities to credit institutions and central banks	46,265	45,632
Liabilities to the public and public sector entities	20,276	20,858
Debt securities issued	652,673	596,251
Derivative contracts	−734,891	−612,980
Subordinated liabilities	5,606	1,648
Other interest expense	322	934
Total	**−9,749**	**52,342**

Note 27. Net income from leasing operations

(EUR 1,000)	2015	2014
Leasing income	24,000	18,972
Depreciation on leased assets according to plan	−21,951	−17,342
Capital gains and losses on leased assets	190	-
Total	**2,239**	**1,630**

Note 28. Income from equity investments

(EUR 1,000)	2015	2014
Dividend income from group companies	129	-
Total	**129**	**-**

Note 29. Commission income and expense

Commission income (EUR 1,000)	2015	2014
From other operations	2,847	2,651
Total	**2,847**	**2,651**

Commission expense (EUR 1,000)	2015	2014
Commission fees paid	180	169
Other	3,593	3,662
Total	**3,773**	**3,831**

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

Note 30. Net income from securities and foreign exchange transactions

2015 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	361	5,319	5,680
Items valued with the fair value option	−1,006	−8,571	−9,577
Total net income from securities transactions	**−645**	**−3,252**	**−3,897**
Net income from foreign exchange transactions	**−29**	**62**	**33**
Total	**−674**	**−3,190**	**−3,865**

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

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

(EUR 1,000)	2015	2014
Income from shares in investment funds	206	242
Disposal of financial assets	−432	2,618
Transfers from the fair value reserve	6,562	3,769
Total	**6,336**	**6,629**

Note 32. Net income from hedge accounting

(EUR 1,000)	2015	2014
Net income from hedging instruments	−287,833	562,598
Net income from hedged items	288,416	−558,905
Total	**583**	**3,693**

Note 33. Other operating income

(EUR 1,000)	2015	2014
Other income from credit institution operations	59	49
Total	**59**	**49**

Note 34. Other operating expenses

(EUR 1,000)	2015	2014
Fees paid to the Financial Stability Authority		
Contributions to the resolution fund	1,053	-
Administrative costs	155	-
Total	**1,208**	**-**
Rental expenses	1,860	1,859
Other expenses from credit institution operations	3,124	3,180
Total	**6,192**	**5,039**

Note 35. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

Note 36. Impairment losses on other financial assets

MuniFin has not made any impairment losses or reversed impairment losses in 2015 or 2014.

Note 37. Information on business areas and geographical market

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

Notes on collateral and contingent liabilities

Note 38. Collateral given

Pledges for own debt (EUR 1,000)	31 Dec 2015	31 Dec 2014
Liabilities to credit institutions	4,893,270	3,882,771
Liabilities to the public and public sector entities	954,026	963,662
Debt securities issued	24,804,490	23,230,298
Total	**30,651,787**	**28,076,731**

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

Liabilities and collateral (EUR 1,000)	31 Dec 2015	31 Dec 2014
Loans pledged to the central bank	2,456,918	2,507,064
Loans pledged to the Municipal Guarantee Board	17,385,787	16,379,076
Debt securities pledged to the Municipal Guarantee Board	5,455,469	5,097,299
Total	**25,298,174**	**23,983,439**

Pledged assets:

1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) Municipality Finance has pledged amount of loans at the amount shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

3) Municipality Finance acquires funding in advance in order to serve its customers under all market conditions. Acquired funding is invested in liquid debt securities before their realisation or maturity, at which point the funds in question are used for lending as defined in the Act on the Municipal Guarantee Board. Similarly, as Municipality Finance's lending receivables, Municipality Finance's liquidity portfolio debt securities have also been pledged to the Municipal Guarantee Board as collateral as defined in the Act on the Municipal Guarantee Board.

Note 39. Pension liabilities

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

Note 40. Leasing and other rental liabilities

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Maturing within one year	1,134	1,189
Maturing in one to five years	2,759	680
Maturing in more than five years	-	-
Total	**3,893**	**1,869**

Note 41. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Binding loan commitments	1,336,880	959,776
Total	**1,336,880**	**959,776**

Notes on personnel and management

Note 42. Personnel

	2015		2014	
	Average	End of year	Average	End of year
Permanent full-time	75	78	66	69
Permanent part-time	3	2	4	5
Fixed term	3	3	4	4
Total	**81**	**83**	**74**	**78**

Employee benefits for management

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

Salaries and remuneration (EUR 1,000)	2015	2014
President and CEO	489	455
Deputy to the CEO	387	361
Other members of the Executive Management Team (Total)	1,019	921
Total	**1,895**	**1,737**

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	2015	2014
Eva Liljeblom, Chairman	41	40
Tapani Hellstén, Vice Chairman, member from 26 March 2014	25	12
Fredrik Forssell	22	24
Teppo Koivisto	22	22
Sirpa Louhevirta	21	20
Tuula Saxholm	21	21
Asta Tolonen	22	20
Juha Yli-Rajala	23	22
Total	**197**	**181**

Related party transactions

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

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

Holdings in other companies

Note 44. Holdings in other companies

(EUR 1,000)	2015 Proportion of all shares (%)	2015 Book value	2014 Proportion of all shares (%)	2014 Book value
Subsidiaries				
Financial Advisory Services Inspira Ltd	64.4	112	66.7	100
Total	**64.4**	**112**	**66.7**	**100**

Other notes

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

(EUR 1,000)	2015	2014
Audit	268	95
Tax advisory services	14	-
Other services	243	193
Total	**525**	**288**

Pillar III disclosures

Notes 46-49 disclose a summary of information on the capital adequacy of Municipality Finance Plc as specified in the EU Capital Requirements Regulation (EU No 575/2013) (CRR). Complete Pillar III disclosures can be found in Municipality Finance Group's financial statements.

Note 46. Own funds

(EUR 1,000)	31 Dec 2015	31 Dec 2014
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	54,688	53,158
Fair value reserve, transitional provision	11,354	-
Other reserves	542,548	425,861
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**692,341**	**562,770**
Intangible assets	-5,965	−5,131
Deductions due to prudential filters on Common Equity Tier 1	-432	−1,865
Common Equity Tier 1 (CET1) capital	**685,945**	**555,773**
Instruments included in Additional Tier 1 capital	346,935	-
Capital loans to which transitional provision is applied	-	807
Additional Tier 1 (AT1) capital	**346,935**	**807**
Tier 1 (T1) capital	**1,032,879**	**556,581**
Debenture loans	35,000	35,000
Fair value reserve	-	30,914
Tier 2 (T2) capital	**35,000**	**65,914**
Total own funds	**1,067,879**	**622,494**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015 - 31 December 2017). In the figures of the comparative year, the fair value reserve is included in Tier 2 capital. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA).

At year end 2015 the additional tier 1 capital contains MuniFin's AT1 capital loan which was issued on October 1st 2015. At year end 2014, additional tier 1 capital contained EUR 1 million of capital investments. According to transitional provisions, in 2014 80% of the capital investments could be included own funds. The capital investments were paid off on April 24th 2015.

Tier 2 capital includes a EUR 35 million debenture loan.

Detailed descriptions of capital loans and debenture loans included in own funds can be found in Note 17.

Note 47. Key figures for capital adequacy

Key figures for capital adequacy	31 Dec 2015	31 Dec 2014
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	41.56	29.97
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	62.58	30.01
Ratio of total own funds to risk-weighted assets, %	64.70	33.57

Note 48. Minimum requirement for own funds

The capital requirement for credit risk is calculated using the standard method. In calculating the capital requirements for market risk, only foreign exhange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic method.

	31 Dec 2015		31 Dec 2014	
(EUR 1,000)	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**107,416**	**1,342,696**	**127,044**	**1,588,049**
Exposures to regional governments or local authorities	368	4,598	-	-
Exposures to multilateral development banks	1,367	17,089	-	-
Exposures to institutions	69,637	870,462	77,829	972,864
Exposures to public sector entities	3,320	41,501	1,367	17,089
Exposures in the form of covered bonds	16,283	203,542	15,258	190,731
Items representing securitisation positions	15,743	196,792	27,028	337,851
Exposures in the form of shares in CIUs	108	1,354	101	1,258
Other items	589	7,356	5,460	68,256
Market risk	**47**	**594**	**6**	**73**
Credit valuation adjustment risk (CVA VaR), standard method	**1,009**	**12,613**	**1,586**	**19,829**
Operational risk, basic method	**23,569**	**294,618**	**19,721**	**246,516**
Total	**132,042**	**1,650,520**	**148,357**	**1,854,467**

The capital requirement for counterparty risk is EUR 3,001 thousand (2014: EUR 6,700 thousand).

Note 49. Exposure by class

Exposure classes 31 Dec 2015 (EUR 1,000)	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	2,268,410	-	-	2,268,410	-
Exposures to regional governments or local authorities	10,198,342	156,156	141,441	10,495,939	4,598
Exposures to international organisations	195,593	-	-	195,593	-
Exposures to multilateral development banks	310,064	-	-	310,064	17,089
Exposures to public sector entities	3,465,746	-	937,401	4,403,147	870,462
Exposures to institutions	207,504	-	-	207,504	41,501
Exposures to corporates	4,465,042	331,705	-	4,796,747	-
Exposures secured by mortgages on immovable property	6,727,614	849,019	-	7,576,633	-
Exposures in the form of covered bonds	1,806,712	-	-	1,806,712	203,542
Items representing securitisation positions	61,458	-	-	61,458	196,792
Exposures in the form of shares in CIUs	9,592	-	-	9,592	1,354
Other items	98,404	-	-	98,404	7,356
Total	**29,814,482**	**1,336,880**	**1,078,843**	**32,230,205**	**1,342,696**

Exposure classes 31 Dec 2014 (EUR 1,000)	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	1,136,655	-	-	1,136,655	-
Exposures to regional governments or local authorities	9,732,289	43,241	172,822	9,948,352	-
Exposures to international organisations	253,326	-	-	253,326	-
Exposures to multilateral development banks	215,418	-	-	215,418	-
Exposures to public sector entities	3,735,828	-	1,034,465	4,770,293	973,650
Exposures to institutions	81,516	-	-	81,516	16,303
Exposures to corporates	4,370,988	154,378	-	4,525,365	-
Exposures secured by mortgages on immovable property	6,079,832	762,157	-	6,841,989	-
Exposures in the form of covered bonds	1,708,802	-	-	1,708,802	190,731
Items representing securitisation positions	104,014	-	-	104,014	337,851
Exposures in the form of shares in CIUs	9,761	-	-	9,761	1,258
Other items	253,062	-	-	253,062	68,256
Total	**27,681,490**	**959,776**	**1,207,287**	**29,848,553**	**1,588,049**

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

Helsinki, 9 February 2016

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Tapani Hellstén
Vice Chairman of the Board

Fredrik Forssell
Member of the Board

Teppo Koivisto
Member of the Board

Sirpa Louhevirta
Member of the Board

Tuula Saxholm
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
President and CEO

Auditor’s note

A report on the audit performed has been issued today.
Helsinki, 9 February 2016
KPMG Oy Ab

Marcus Tötterman
Authorized Public Accountant

Auditor's Report

To the Annual General Meeting of Municipality Finance Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Municipality Finance Plc for the year ended 31 December, 2015. 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, 9 February 2016
KPMG OY AB

Marcus Tötterman
Authorized Public Accountant

Jaakonkatu 3 A, PO Box 744
00101 Helsinki, Finland
Tel. +358 9 6803 5666
www.munifin.fi
firstname.lastname@munifin.fi