9 February 2016 at 2 p.m.

Municipality Finance Plc Financial Statements Bulletin

1 January–31 December 2015

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- The lending portfolio increased to EUR 20,088 million (2014: EUR 19,205 million) and the total of new loans withdrawn amounted to EUR 2,687 million (2014: EUR 2,775 million).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 acquisition 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 year, 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

Comment on the Financial Year by President and CEO Pekka Averio:

2015 will go down in Municipality Finance's history as a year of success amid great pressure for change. The year was characterised by economic uncertainty, major structural reforms initiated in Finland, and the designation of the company as a nationally significant credit institution.

Despite these momentous changes, the company managed to grow in relation to all the main performance indicators. The consolidated operating profit reached a new record high of EUR 151.8 million. The balance sheet total rose to EUR 33.9 billion, and the ratio of own funds to risk-weighted assets to 64.61%.

Municipality Finance specialises in financing the Finnish municipal sector and government-subsidised housing production. The company is unquestionably the most important provider of financing in its customer group, and therefore it plays a central role as a building block of the Finnish society.

Demand for loans from Municipality Finance's customers remained stable in 2015. Demand for leasing financing continued to grow significantly, with the growth in popularity particularly of leasing solutions for real estate.

Municipality Finance was able to obtain funding from international capital markets at very competitive prices, despite market volatility. During the year, the company issued two benchmark bonds, worth USD 1 billion each. Overall, 315 funding transactions were carried out by the company in 2015.

In September, Municipality Finance issued an AT1 capital loan worth EUR 350 million, under Additional Tier 1 capital. This historic transaction was the first of its kind in Finland, and it helped the company prepare for the coming leverage ratio requirement related to banking regulation.

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. 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 government-subsidised housing production. During the year, there were no significant changes in the financing needs of the Finnish municipal sector, and the demand for loans continued to grow at a conservative rate. Municipality Finance was once again the single most important financier for its customers.

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 Municipality Finance'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 Municipality Finance 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. The liquidity was kept at a high level at the end of 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 was 64.61% (2014: 33.53%). The ratio of Common Equity Tier 1 (CET1) to risk-weighted assets was 41.49% (2014: 29.94%).

Customer Financing

The total volume of tender requests received by Municipality Finance during the year was EUR 4,834 million (2014: EUR 4,387 million), of which it won EUR 3,181 million (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 remained low, customers hedged their loans against future 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).

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).

Capital Markets Operations

During the year, EUR 7,297 million was acquired in long-term funding (2014: EUR 7,440 million). A total of EUR 4,819 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.

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).

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 its requirements.

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 Municipality Finance's operating environment.

Tightening financial regulation is evident in the form of changes in the demand and supply of various investment products. Demand for Municipality Finance'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

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.

The Annual Report for 2015 can be found on the company's website (www.munifin.fi) from 1 March 2016.

Municipality Finance Plc

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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.

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MUNICIPALITY FINANCE

Municipality Finance Group

Consolidated statement of financial position

(EUR 1,000)	31 Dec 2015	31 Dec 2014
ASSETS		
Cash and balances with central banks	1,813,813	592,907
Loans and advances to credit institutions	614,294	1,072,099
Loans and advances to the public and public sector entities	20,275,561	19,337,730
Debt securities	7,003,318	6,416,586
Shares and participations	9,620	9,789
Derivative contracts	3,925,025	2,321,699
Intangible assets	5,812	4,757
Tangible assets	2,298	2,465
Other assets	6,277	2,196
Accrued income and prepayments	232,792	249,032
TOTAL ASSETS	**33,888,811**	**30,009,259**

LIABILITIES AND EQUITY		
LIABILITIES		
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
Derivative contracts	1,799,692	934,399
Other liabilities	2,131	2,056
Accrued expenses and deferred income	217,768	249,902
Subordinated liabilities	35,542	37,943
Deferred tax liabilities	138,576	114,124
TOTAL LIABILITIES	**32,845,497**	**29,415,155**

EQUITY AND NON-CONTROLLING INTEREST		
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	**347,454**	**-**
TOTAL EQUITY	**1,043,314**	**594,104**
TOTAL LIABILITIES AND EQUITY	**33,888,811**	**30,009,259**

MUNICIPALITY FINANCE

Municipality Finance Group

Consolidated income statement

(EUR 1,000)	1 Jan– 31 Dec 2015	1 Jan– 31 Dec 2014
Interest income	158,462	212,351
Interest expense	13,782	−52,343
NET INTEREST INCOME	**172,245**	**160,008**
Commission income	5,157	5,047
Commission expense	−3,776	−3,834
Net income from securities and foreign exchange transactions	−3,865	−5,711
Net income from available-for-sale financial assets	6,336	6,629
Net income from hedge accounting	583	3,693
Other operating income	21	11
Admistrative expenses	−16,653	−14,721
Depreciation and impairment on tangible and intangible assets	−1,600	−1,442
Other operating expenses	−6,646	−5,521
NET OPERATING PROFIT	**151,801**	**144,160**
Income tax expense	−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)	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	−6,562	−3,769
IAS 39 reclassification adjustment	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

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Municipality Finance Group

Capital adequacy

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 minimum 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**

Measured by the Group's balance sheet, MuniFin (Municipality Finance Plc) is Finland's third largest credit institution. The company is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland. MuniFin is an integral part of the Finnish public economy.

MuniFin's balance sheet totals nearly EUR 34 billion. Funding for the company is primarily obtained through the international capital markets. MuniFin's funding is guaranteed by the Municipal Guarantee Board.

MuniFin's mission is to ensure competitive funding for its customers in all market conditions. The company's customers are Finnish municipalities, municipal federations, municipally controlled companies and non-profit housing corporations. A significant portion of lending is used for socially responsible projects such as building hospitals, healthcare centers, schools, day care centres and homes for the elderly.

The Municipality Finance Group also includes the subsidiary company, Financial Advisory Services Inspira Ltd.

Read more: www.munifin.fi

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