

MUNICIPALITY FINANCE

Remuneration Report

2015

1 March 2016

1 BACKGROUND AND OBJECTIVES

This annual Remuneration Report provides information on the remuneration policies and earned or paid remuneration in Municipality Finance Plc, in accordance with the regulations concerning credit institutions (Chapter 8, section 15 of the Act on Credit Institutions, and Article 450 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council). This Remuneration Report also takes into account the requirements of the Finnish Corporate Governance Code regarding remuneration reports. To view the complete Code, please visit www.cgfinland.fi.

2 REMUNERATION PAID TO THE BOARD OF DIRECTORS

According to the Municipality Finance's Articles of Association, the fees paid to the Board of Directors are determined by the Annual General Meeting (AGM).

In accordance with the AGM's decision of 26 March 2015, the members of the Board of Directors will be paid an annual fee and a fee for each meeting for the 2015–2016 term of office (as of the AGM of 2015 until the end of the next AGM). The annual fees paid to the Board members are as follows: Chairman of the Board EUR 30,000, Vice-Chairman of the Board EUR 18,000, and Member of the Board EUR 15,000. The Chairmen of the Board and its Committees are paid a fee of EUR 800 for each meeting. The Members of the Board and its Committees are paid a fee of EUR 500 per meeting. The Members of the Board are entitled to be compensated for their travel expenses and are paid a per diem in accordance with the company's travel policy.

Board remuneration 2015	
Member of the Board of Directors	Remuneration 2015 (1 000 €)
Eva Liljebloom, Chairman of the Board	41
Tapani Hellstén, Vice-Chairman of the Board	25
Fredrik Forssell	22
Teppo Koivisto	22
Sirpa Louhevirta	21
Tuula Saxholm	21
Asta Tolonen	22
Juha Yli-Rajala	23
Total	197

In 2015, the Board convened nine times. Two of the meetings were conducted by email or telephone. During the financial year, the Audit Committee convened four times, the Risk Committee three times and the Remuneration Committee five times.

The Members of the Board are not employed by the company and are not covered by the company's Remuneration Policy.

The Shareholders' Nomination Committee is a body established by the AGM. No remuneration is paid to the members of the Committee.

3 REMUNERATION PAID TO THE EXECUTIVE MANAGEMENT AND EMPLOYEES

3.1 General information

Remuneration paid to the executive management and to the employees comprises fixed remuneration (salary in money and benefits in kind) and variable remuneration, in accordance with the terms of the Remuneration Policy. Possible accommodation and car benefits are part of an individual's fixed total salary. Municipality Finance does not offer any unusual benefits in kind that would diverge from the normal practice. A fixed total salary forms the largest share of the total annual remuneration paid to the executive management and to other employees.

In accordance with a strategy approved by the Board of Directors, Municipality Finance follows the development of salaries and remuneration in the finance sector and the operating environment. A job evaluation has been carried out for each position in order to establish sufficient comparability with market data. The following external bodies have been used for market comparisons: Hay Group Oy and Alexander Incentives Oy

The pensionable age and pensions of the executive management and the employees are determined in accordance with the Employees' Pensions Act.

The CEO's period of notice from the company is six months. The CEO's benefits in kind (car and accommodation benefit) are cancelled at the end of the period of notice. Should the company give notice to the CEO for reasons beyond him or her, the company shall pay the CEO's salary for the period of notice and severance pay corresponding to the CEO's total salary for six months.

3.2 Role of the Board of Directors and the Remuneration Committee

The Board of Directors determines the remuneration paid to the CEO and to his or her deputy, and the terms of their employment. Furthermore, the Board of Directors determines the remuneration paid to the employees who report directly to the CEO, based on a proposal made by the CEO. The members of the Executive Management Team include the key employees responsible for internal control (CFO, CRO, and Head of Compliance). In accordance with the current regulations, their remuneration is dependent on supervision carried out by the Board of Directors.

In line with the corporate governance principles, approved by the Board of Directors, the Board's Remuneration Committee prepares all remuneration items before such matters are discussed by the Board, including changes to the remuneration policy, assessment of the achievement of company-level objectives and subsequent performance pay, variable remuneration paid to the CEO and the members of the Executive Management Team, changes to fixed remuneration, and an overview of employee remuneration as a whole. At the end of 2015, the members of the Remuneration Committee were Eva Liljebloom (Chairman of the Board), Teppo Koivisto and Juha Yli-Rajala.

Under any circumstances, the Board of Directors is entitled to make the final decision on not paying variable remuneration. With regard to remuneration payments, all known factors that could prevent payment (such as capital adequacy or liquidity requirements) are to be considered. The Board of Directors can also decide not to pay earned or deferred remuneration to an individual on the grounds of a risk-based assessment.

Internal audit provides the Remuneration Committee and the Board of Directors with an annual statement on whether or not the remuneration policy determined by the Board has been complied with.

3.3 Variable remuneration

The purpose of variable remuneration is to ensure the availability and retention of skilled employees, to promote the achievement of challenging objectives, to increase work efficiency, and subsequently increase shareholder value.

The company does not have a separate remuneration policy for the management. A single Remuneration Policy, approved by the Board of Directors, applies to all employees.

The objectives related to the Remuneration Policy are set out for each calendar year (earnings year). Across all pay grades, the remuneration is based on both company-level and individual performance appraisals. Departmental and individual objectives are set out so as to support company strategy, its short-term objectives, and efficient risk management. Such targets may not encourage employees to take risks that can exceed the approved risk bearing capacity. In the Remuneration Policy, the weighting of company-level, departmental and individual objectives varies across the pay grades. While the CEO and the members of the Executive Management Team are given company-level targets, their individual performance is always taken into account in appraisal. The company-level performance appraisal is approved by the Board of Directors. The Executive Management Team group approves departmental performance appraisals, and personal performance appraisals are approved by the individual's supervisor. In risk control, the remuneration of employees is not based on the results of controlled operations. The CEO approves the amount of remunerations paid to employees other than the CEO and his or her immediate subordinates.

In accordance with the regulations governing credit institutions, if an individual's remuneration for the earnings year exceeds EUR 50,000, 60% of the remuneration shall be paid over the following year, and 40% of the remuneration shall be deferred and paid in instalments of equal amounts over the three years following the payment year. According to the deferral requirements laid down in the regulations, Municipality Finance maintains a list of individuals whose professional activities materially influence the company's risk profile. However, the aforementioned limit of EUR 50,000 applies to all individuals, independent of their position in the company.

Variable remuneration is invariably paid in money, and the company does not have any share- or option-based remuneration policies. Variable remuneration is based on actual performance, and the company does not commit to paying variable remuneration in advance. Half of the variable remuneration is tied to the development of Municipality Finance's core capital (a class of instrument used in remuneration in compliance with the regulations). According to the terms and conditions, the value of variable remuneration can be temporarily reduced if the company's Common Equity Tier 1 capital falls below 7%. Variable remuneration is subject to a waiting period, referring to the time between the making of the remuneration decision and the payment of remuneration. Variable remuneration is paid annually, after the financial statements have been adopted for the earnings year. The recipients of remuneration may not use the funding instruments to protect themselves against personal risk related to variable remuneration. Variable remuneration can only be paid to an individual who is employed by the company at the time of payment.

3.4 Remuneration in 2015

The variable remuneration paid in 2015 is based on Municipal Finance's Remuneration Policy, approved by the Board of Directors, and the 2014 performance targets set out in the remuneration policy. Remuneration deferred from the earlier years to 2015 has also been paid.

With regard to variable remuneration earned in 2014, the target remuneration level for the CEO and the members of the Executive Management Team, set out in the remuneration policy, corresponded to six months' salary, with a maximum remuneration amount corresponding to nine months' salary. For the remaining employee grades, the target remuneration levels varied between amounts corresponding to 1.5 months' and four months' salary, with maximum remuneration levels of three to eight months' salary. A maximum remuneration amount can only be considered in cases of exceptional performance.

Despite the excellent results the company posted in 2014, the maximum remuneration amount laid down in the Remuneration Policy was not paid in 2015 to any employee grades based on the 2014 performance. In 2015, the company did not employ any individuals whose remuneration exceeded a million euros during the financial year.

See the following table for further information on the remuneration paid in 2015 to individuals whose activities materially influenced the company's risk profile in a manner described in the regulations (the CEO and other members of the Executive Management Team, and departmental heads of business, key functions of internal control, IT and business development).

	2015
Number of individuals in the group	14
Fixed remuneration of the group (EUR 1,000)	2,440
Variable remuneration of the group approved as earned during the financial year (EUR 1,000)	1,193
Remuneration of the group decided and deferred to future years during the financial year (EUR 1,000)	443
Remuneration deferred in earlier years and paid during the financial year (EUR 1,000)	289
Total variable remuneration paid during the financial year (earned and deferred) (EUR 1,000)	1,039

All figures in the above tables are exclusive of the employer's social contributions.

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

Remuneration (€1,000)	2015
President and CEO	489
Executive Vice President	387
Other Members of the Executive Management Team (total)	1,019
Total	1,895

The remuneration figures in the table are inclusive of fixed remuneration and paid variable remuneration.

3.5 Changes to remuneration

At the beginning of 2015, the Board of Directors decided on changes concerning the amounts of variable remuneration. According to this decision, the maximum annual remuneration paid to the CEO and the members of the Executive Management Team will correspond to six months' salary, while the target remuneration will correspond to three months' salary. For the remaining pay grades, the maximum remuneration will vary between two months' and four months' salary, with a target remuneration of 1.5 to 2.5 months' salary. These new levels will be applied to remuneration earned in 2015 and paid in 2016.