

MUNICIPALITY FINANCE

Remuneration Report

2016

2 March 2017

1 BACKGROUND AND OBJECTIVES

This annual Remuneration Report provides information on the remuneration policies and earned or paid remuneration in Municipality Finance Plc (hereinafter "Municipality Finance"), 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 22 March 2016, the members of the Board of Directors will be paid an annual fee and a fee for each meeting for the 2016–2017 term of office (as of the AGM of 2016 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.

Remuneration paid to the Board in 2016	
Member of the Board of Directors	Remuneration 2016 (1 000 €)
Eva Liljebloom, Chair of the Board until 22 March 2016	24
Helena Walldén, Chair of the Board as from 22 March 2016	22.2
Tapani Hellstén, Vice-Chair of the Board	22.5
Fredrik Forssell	26.5
Teppo Koivisto	26
Sirpa Louhevirta	24.5
Vivi Marttila, Member of the Board as from 22 March 2016	12.5
Tuula Saxholm	25.7
Asta Tolonen, Member of the Board until 22 March 2016	12
Juha Yli-Rajala	25.5
Total	221.4

In 2016, the Board convened 13 times. Two of the meetings were conducted by email or telephone. During the financial year, the Audit Committee convened five times, the Risk Committee six times and the Remuneration Committee six 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 members of the Executive Management Team have a contribution-based group pension insurance taken out by the company. Pension can be paid from the insurance to members who have turned 63. In 2016, the CEO and the members of the Executive Management Team were paid a total of EUR 126,640 in pension insurance.

The CEO's period of notice from the company is six months. The CEO's benefits in kind (car, accommodation, meal and telephone 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.

The business activities of Municipality Finance are very narrow and do not comprise extensive products or services. The company has a simple organisational structure and legal form. That being so, the company has been able to comply with requirements in principles concerning remuneration taking into account the principle of proportionality contained in the regulations.

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.

The Board of Directors decides all remuneration matters prepared by the Remuneration Committee, including the Remuneration Policy and changes thereto, 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 and any changes to fixed remuneration. The Board of Directors follows

the remuneration of the entire personnel assisted by the Remuneration Committee. In addition, the Board assesses the Remuneration Policy annually and determines the payment of deferred remuneration in accordance with the regulations. At the end of 2016, the members of the Remuneration Committee were Helena Walldén (Chair of the Board), Teppo Koivisto and Juha Yli-Rajala.

The Board's Risk Committee likewise follows the setting of objectives and remuneration so that remuneration is in line with the company's risk appetite. The executives responsible for risk management and compliance also provide the Board of Directors and its Committees with statements on whether the objectives and remuneration are consistent with the company's risk appetite and regulations.

Under any circumstances, the Board of Directors is entitled to make the final decision on changing or terminating the Remuneration Policy, or on not paying variable remuneration. With regard to remuneration payments, all known factors that could prevent payment (such as capital adequacy or liquidity requirements, or other factors affecting a risk-based assessment) 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. In addition, as from 2017, internal audit will assess more comprehensively the Remuneration Policy and related documentation and processes in the manner required by the regulations.

The Board of Directors of Municipality Finance and the Remuneration Committee also follow the remuneration of Municipality Finance's subsidiary Financial Advisory Services Inspira Ltd ("Inspira"). Inspira's Remuneration Policy and remuneration is determined by Inspira's Board of Directors. Inspira is not a supervised entity nor does it issue financial instruments on the regulated markets. For this reason, this report does not contain an account of the remuneration paid by Inspira, but only information concerning Municipality Finance.

3.3 Principles concerning variable remuneration in 2016

The purpose of variable remuneration is to promote the achievement of challenging objectives, to ensure the availability and retention of skilled employees, 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 objectives. 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 remuneration categories. 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 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 and the Board of Directors approves the remuneration of the CEO and employees reporting to the CEO.

In 2015, company-level objectives and those affecting the remuneration of all employees for which remunerations were paid in 2016 were targeted at the company's operating profit, leverage ratio and, in respect of supervisors, to the satisfaction of other personnel. The economic objectives set out were in line with the company's risk appetite and were based on the economic forecasts for the company taking into account the limits set out and the limitations of activities.

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 Municipal Finance's core capital CET1 (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 financial 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 2016

The variable remuneration paid in 2016 is based on Municipal Finance's Remuneration Policy, approved by the Board of Directors, and the 2015 performance targets set out in the remuneration policy. Remuneration deferred from the earlier years to 2016 has also been paid.

With regard to variable remuneration earned in 2015, the target remuneration level for the CEO and the members of the Executive Management Team, set out in the Remuneration Policy, corresponded to three months' salary, with a maximum remuneration amount corresponding to six months' salary. For the remaining employee grades, the target remuneration levels varied between amounts corresponding to 1.5 months' and 2.5 months' salary, with maximum remuneration levels of two to four months' salary. A maximum remuneration amount can only be considered in cases of exceptional performance. In 2016, the maximum remuneration in accordance with the Remuneration Policy was paid to five individuals out of all individuals covered by the Remuneration Policy. In 2016, 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 2016 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). The same individuals as last year were included in this group.

	2016
Number of individuals in the group	14
Fixed remuneration of the group (EUR 1,000)	2,481
Variable remuneration of the group approved as earned during the financial year (EUR 1,000)	809
Remuneration of the group decided and deferred to future years during the financial year (EUR 1,000)	244
Remuneration deferred in earlier years and paid during the financial year (EUR 1,000)	436
Total variable remuneration paid during the financial year (earned and deferred) (EUR 1,000)	1,002

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

Remuneration of the CEO and other Executive Management Team in 2016:

Remuneration of the CEO and members of the Executive Management Team (€1,000)	2016
Fixed remuneration paid to the CEO in 2016	339
Variable remuneration paid to the CEO in 2016 (includes payment of remuneration deferred in earlier years)	150
Fixed remunerations paid to other members of the Executive Management Team in 2016	1,016
Variable remunerations paid to other members of the Executive Management Team in 2016 (includes payment of remuneration deferred in earlier years)	414

3.5 Changes to remuneration

At the end of 2016, the Board of Directors approved a new Remuneration Policy for the company and updated the Terms and Conditions for Variable Remuneration. The approved policies and guidelines are based on the Guidelines on sound remuneration policies of the European Banking Authority (EBA), which entered into force at the beginning of 2017. Drafting of the company's revised Remuneration Policy takes into account the principle of proportionality in accordance with which the applicability of official instructions for the company has been appraised. According to the guidelines of the EBA, Municipality Finance will comply with a five-year deferral period and a waiting period of 12 months in respect of remunerations to be determined if the remuneration is EUR 50,000 or more. The waiting period shall always apply with respect to half of the instalment to be paid at any given time. Extension of the deferral period and the waiting period compared to that in 2016 (see section 3.3) is due to the fact that, according to the EBA's guideline, longer deferral and waiting periods must be applied to major credit institutions. The Finnish Supervisory Authority has defined Municipality Finance as a significant credit institution.

In addition to implementation of the EBA's guidelines, the Board of Directors decided on a number of changes to the company's Remuneration Policy in 2017. These amendments consisted of the following: that the target remuneration in all remuneration groups should be 50% of the maximum remuneration and the minimum remuneration should be 0. Consequently, the target remunerations in some remuneration groups correspond to two weeks' remuneration, and in all remuneration groups the minimum remuneration is 0 instead of the previous one month's remuneration. Furthermore, the Board of Directors decided with regard to the CEO and the Executive Management Team to increase the weight of targets pursuant to personal areas of responsibility in the system. These changes will apply to remunerations earned in 2017.