

MUNICIPALITY FINANCE PLC

Remuneration Report

2017

7 March 2018

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 OF 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 23 March 2017, the members of the Board of Directors will be paid an annual fee and a fee for each meeting for the 2017–2018 term of office (as of the AGM of 2017 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. Meeting related fees apply also to obligatory meetings with supervisory authorities. Fees to the members of the Board of Directors will be paid quarterly.

Remuneration paid to the Board in 2017	
Member of the Board of Directors	Remuneration 2017 (1 000 €)
Helena Walldén, Chair of the Board	65
Tapani Hellstén, Vice-Chair of the Board	37
Fredrik Forssell	36
Minna Helppi, Member of the Board as from 23 March 2017	21
Teppo Koivisto	38
Jari Koskinen, Member of the Board as from 23 March 2017	20
Sirpa Louhevirta, Member of the Board until 23 March 2017	13
Vivi Marttila,	32
Tuula Saxholm	35
Juha Yli-Rajala, Member of the Board until 23 March 2017	13
Total	319

In 2017, the Board convened 17 times. Four of the meetings were conducted by email or telephone. During the financial year, the Audit Committee convened six times, the Risk Committee seven times and the Remuneration Committee eleven times. Compared to 2016 the number of Board and Remuneration Committee meetings increased especially related to the changes of the CEO.

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 OF 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: Korn Ferry 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 2017, the CEO and the members of the Executive Management Team were paid a total of EUR 125 634 in pension insurance.

The CEO's period of notice from the company is six months. The CEO's benefits in kind (car, 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 (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, set of the company level targets, assessment of the achievement of company-level targets and subsequent performance pay, variable remuneration paid to the CEO and persons reporting to the CEO (including 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 2017, the members of the Remuneration Committee were Helena Walldén (Chair of the Board), Teppo Koivisto and Tapani Hellstén.

The Board's Risk Committee likewise follows the setting of targets 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 targets 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"). Remuneration related performance targets and any variable remuneration based on the performance targets are determined by Inspira's Board of Directors. Inspira is not a supervised entity nor does it issue financial instruments on the regulated markets.

3.3 Principles concerning variable remuneration in 2017

The purpose of variable remuneration is to promote the achievement of challenging targets, 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. Consequently, the remuneration system applies to whole personnel, unless otherwise decided based on the nature of employment (e.g. temporary employments). Within the single Remuneration Policy variable remuneration related maximum and target levels vary depending on the position.

The targets 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 targets. Departmental and individual targets are set out so as to support company strategy, its short-term targets, 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 targets varies across the remuneration categories. While the CEO and the members of the Executive Management Team are given company-level targets, additionally they have their individual performance targets, related to each individual's responsibility areas, set by the Board.

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 2016, company-level targets and those affecting the remuneration of all employees for which remunerations were paid in 2017 were targeted at the company's operating profit, leverage ratio and, in respect of supervisors, to the job satisfaction of other personnel. The economic targets 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. As for any other target, there is a maximum target set for the company's operating profit, and if exceeded, the variable remuneration cannot exceed the maximum remuneration. Similarly, there is a minimum target, and if not exceeded no variable remuneration will be paid.

In accordance with the regulations governing credit institutions, if an individual's remuneration for the earnings is EUR 50,000 or more, 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. However, the deferral period for the CEO and other members of the EMT is five years. 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. The Board of Directors is always entitled to decide non-payment of variable remuneration based on the risk based approach, if payment would endanger company's capital adequacy, liquidity or otherwise would be against sound business practices. Also actions of individual persons shall be taken into account in the risk based approach of variable remuneration (including deferred amounts).

For those who the deferral rules apply to, 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%. Finally, for those who the deferral rules apply to, variable remuneration is subject to a 12-months' 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.

3.4 Remuneration in 2017

The variable remuneration paid in 2017 is based on Municipal Finance's Remuneration Policy, approved by the Board of Directors, and the 2016 performance targets set out in the remuneration policy. Remuneration deferred from the earlier years to 2017 has also been paid. Additionally, in 2017 MuniFin has paid

remuneration that has been deferred from previous years to be paid in 2017. In 2017, a total amount of 1.5 million euro was determined by the variable remuneration earned by personnel and executive management (total 90 persons) from the performance year 2016. In 2017, a total amount of 1.4 million euro variable remuneration (including amounts deferred from previous years) was paid to personnel and executive management. In 2017, a total amount of 1.2 million euro was paid to personnel and executive management based on the approved remuneration concerning performance targets for 2016. The remuneration amounts of executive management is presented in the table below. The total amount of fixed salaries of personnel and executive managers paid in 2017 was 8.5 million euro.

With regard to variable remuneration earned in 2016, the target and maximum remuneration level varied by remuneration category. For the CEO and the members of the Executive Management Team, the target variable remuneration corresponded to three months' fixed salary, with a maximum remuneration amount corresponding to six months' salary. For the remaining remuneration categories, 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. Ratio of maximum remuneration to fixed annual salary, taking into account holiday compensation, is for the CEO and other members of the Executive Management Team 48% and for other remuneration categories between 16% and 32%.

A maximum remuneration amount can only be considered in cases of exceptional performance. In 2017, the maximum remuneration in accordance with the Remuneration Policy was paid to two individuals out of all individuals covered by the Remuneration Policy. In 2017, 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 2017 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 group consists of individuals who have been at the end of the variable remuneration performance period (2016) in the qualified positions. The CEO of MuniFin was Pekka Averio until 22 August 2017. The Board of Directors agreed with CEO Pekka Averio that Averio will resign from his role as the CEO on 22 August 2017. The Board of Directors appointed Executive Vice President Esa Kallio as interim President and CEO from 22 August 2017 until the Board of Directors has appointed a new CEO. Above described terms related to the remuneration of the CEO apply to the position of the CEO and to the position of the interim CEO and both are included in the information of tables below.

Members of executive management and material risk takers	2017
Number of individuals in the group	13
Fixed remuneration of the group in 2017 (EUR 1,000)	2,347
Variable remuneration of the group approved in 2017 from the previous performance period (EUR 1,000)	715
Remuneration approved in 2017 but determined to be deferred to future years (EUR 1,000)	228
Remuneration approved in 2017 but determined to be paid after 12 months' waiting period (EUR 1,000)	171
Remuneration deferred in earlier years and paid in 2017 (EUR 1,000)	353
Total variable remuneration paid in 2017 (including amounts deferred from previous years) (EUR 1,000)	669

Amount of deferred to be paid in future years (including deferrals approved in 2017) (EUR 1,000)	530
Amount of decrease of variable remuneration in 2017 based on the risk based approach (EUR 1,000)	0
Highest variable remuneration earned by an individual in 2017 from the performance period (EUR 1,000)	116

Remuneration of the CEO and members of the Executive Management Team (€1,000)	2017
Fixed remuneration paid to the CEO in 2017	338
Fixed remuneration paid to the interim CEO in 2017	290
Variable remuneration paid to the CEO in 2017 (includes payment of remuneration deferred in earlier years)	88
Variable remuneration paid to the interim CEO in 2017 (includes payment of remuneration deferred in earlier years)	70
Fixed remunerations paid to other members of the Executive Management Team in 2017	751
Variable remunerations paid to other members of the Executive Management Team in 2017 (includes payment of remuneration deferred in earlier years)	185

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

In 2017, the agreement based determined severance payments was 159 thousand euro (1 piece). The company did not approve or pay any sign-on payments in 2017. The company did not pay any severance payments in 2017.

3.5 Changes to remuneration

The Board of Directors has updated the company's Remuneration Policy in early 2018 to better meet the Guidelines on sound remuneration policies of the European Banking Authority (EBA). The Remuneration Policy takes into account the principle of proportionality in accordance with which the applicability of official instructions for the company has been appraised. Changes were related to more datelined description of the risk based approach in use, roles and responsibilities of the Board of Directors, Remuneration Committee and other bodies. The CET1 trigger level related to the other financial instrument was increased and the impairment of the instruments as required by the regulation is triggered if MuniFin's CET1 level decreases the total minimum level set by regulation and supervisory authorities. Additionally, the subsidiary company Inspira, was included to be part of the Remuneration Policy from 2018 which makes the Remuneration Policy to be a group policy. Terms of fixed and variable remuneration for Inspira do not differ materially from the terms of MuniFin.