

MUNICIPALITY FINANCE PLC

Remuneration Report

2018

7 March 2019

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).

The members of the Board of Directors will be paid an annual fee for the period of term that starts from the end of AGM and ends at the end of the next AGM. The fee consists of the annual fee and fees paid for each meeting.

In 2018 the fees paid for the Board of Directors are paid based on the decision of AGM 2017 until the AGM 2018. From the AGM 2018 onwards, the payments have been made based on the decision of the AGM 2018.

At term 2017 – 2018 (the AGM 2017 to the AGM 2018) the fees paid to the Board members are as follows:

- Annual fee for the Chairman of the Board EUR 30,000
- Annual fee for the Vice-Chairman of the Board EUR 18,000
- Annual fee for the Member of the Board EUR 15,000
- The fee paid for the Chairs of the Board and its Committees EUR 800 per meeting and for the members of the Board and its Committees EUR 500 per meeting.

At term 2018 – 2019 (from the AGM 2018 to the AGM 2019) the fees paid to the Board members are as follows:

- Annual fee for the Chairman of the Board EUR 35,000
- Annual fee for the Vice-Chairman of the Board EUR 23,000
- Annual fee for the Member of the Board EUR 20,000
- The fee paid for the Chairs of the Board and its Committees EUR 800 per meeting and for the members of the Board and its Committees 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 are paid quarterly.

Remuneration paid to the board 2018	Remuneration 2018
Member of the board of directors	(1 000 €)
Helena Walldén, Chair of the Board	53
Tuula Saxholm, Vice-Chair of the Board from 28 March 2018 (previously ordinary Member of the Board)	32
Tapani Hellstén, Vice-Chair of the Board until 28 March 2018	9
Fredrik Forssell	33
Minna Helppi	29
Teppo Koivisto, until 28 March 2018	9
Markku Koponen, from 28 March 2018	28
Jari Koskinen	29
Kari Laukkanen, from 28 March 2018	27
Vivi Marttila	31
Total	278

In 2018, the Board convened 15 times. Four of the meetings were conducted by email or telephone. During 2018, the Audit Committee convened nine times, the Risk Committee eight 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 OF THE EXECUTIVE MANAGEMENT AND EMPLOYEES

3.1 General information

Remuneration paid to the executive management and to the employees comprises of 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. An evaluation has been carried out for each position in order to establish sufficient comparability with market data. In 2018 the help of KornFerry Hay Group Oy has been used for market comparisons that have been based on evaluation of each position and related classification of positions. In 2017 the company has used Alexander Incentives Oy to support the development of the Remuneration Policy, since that the company has developed the remuneration system independently. The Purpose of the external support is to ensure that the remuneration system meets the market practise within finance sector.

The pensionable age and pensions of the executive management and the employees are determined in accordance with the Employees' Pensions Act. Part of the members of the Executive Management Team (starting in the position before 21 December 2017) 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 2018, the CEO and the members of the Executive Management Team were paid a total of EUR 84 865.15 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 employee responsible for internal control (senior vice president, risk management and compliance) whose remuneration is, in accordance with the current regulations, dependent on supervision carried out by the Board of Directors.

The Board of Directors decide 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 2018, the members of the Remuneration Committee were Helena Walldén (Chair of the Board), Markku Koponen, Tuula Saxholm and Jari Koskinen.

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 executive responsible for risk management and compliance also provides 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, 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, thus the information of the amount of remuneration in this report does not include information of Inspira.

3.3 Principles concerning variable remuneration in 2018

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/or department/individual performance targets. Departmental and individual targets are set out to support company strategy and operational 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 targets of other personnel are based on company and department level targets. In addition, individual performance targets are set for all employees and based on the achievement of the individual performance targets it is possible to either raise or lower the performance assessment of the of department level target on an individual level.

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 2017, company-level targets and those affecting the remuneration of all employees for which remunerations were paid in 2018 were targeted at the company's operating profit, customer satisfaction 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 13,25%. 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 2018

The variable remuneration paid in 2018 is based on Municipal Finance's Remuneration Policy, approved by the Board of Directors, and the 2017 performance targets set out in the remuneration policy.. Additionally, in 2018 MuniFin has paid remuneration that has been deferred from previous years to be paid in 2018. In the table below there is the information of the remuneration paid for the whole personnel of MuniFin and especially remuneration paid to Customer Finance division. Customer Finance is the only core business line of MuniFin and remuneration for Customer Finance is shown separately in the table below. All figures in the below tables are exclusive of the employer's social contributions.

Paid salaries and variable remuneration 2018 (1 000 €)	Whole personnel of (incl. senior management)	Customer Finance division
Number of individuals in the group	119	25
Fixed remuneration of the group in 2018	9 475	2 018
Variable remuneration of the group approved in 2018 from the previous performance period)	1 039	198
Total variable remuneration of the group paid in 2018 (including amounts deferred from previous years)	1 402	273

With regard to variable remuneration earned in 2017, 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 2,5 months' fixed salary, with a maximum remuneration amount corresponding to 5 months' salary. For the remaining remuneration categories, the target remuneration levels varied between amounts corresponding to 1 months' and 2 months' salary, with maximum remuneration levels of 2 to 4 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 39% and for other remuneration categories between 16% and 32%.

A maximum remuneration amount can only be considered in cases of exceptional performance. In 2018, the maximum remuneration in accordance with the Remuneration Policy was not paid to any individuals out of all individuals covered by the Remuneration Policy. In 2018, the company did not employ any individuals whose remuneration exceeded a million euros during the financial year.

See the following tables for further information on the remuneration paid in 2018 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, employees of Customer Finance division whose activities materially influenced the company's risk profile, and employees working in other divisions (Capital markets, Risk management, Finance, Business information solutions, HR, Legal and Governance) whose activities materially influenced the company's risk profile in a manner described in regulation. Relevant positions in these divisions are mainly managerial positions.

Groups, in the tables below, include employees that have been employed in these positions on 10 April 2018, when the variable remuneration earned in 2017 has been paid. The payment requires a valid employment without given notice. All figures in the below tables are exclusive of the employer's social contributions. All variable remuneration is paid in cash as the company does not have any equity or equity linked instruments to pay variable remuneration. With executive management, the numbers include salaries and variable remuneration of the members of executive management team that have been appointed on 1 March 2018.

Remuneration of the CEO and members of the executive management team (1 000 €)	2018
Fixed remuneration paid to the CEO	336
Fixed remuneration paid to the deputy to the CEO	186
Variable remuneration paid to the CEO (includes payment of remuneration deferred from previous years)	101
Variable remuneration paid to deputy to the CEO (includes payment of remuneration deferred from previous years)	87
Fixed remuneration paid to other members of the executive management team	946
Variable remuneration paid to other members of the executive management team (includes payment of remuneration deferred from previous years)	364

Members of executive management and material risk takers (1000 €)		2018
Number of individuals in group		32
Fixed remuneration of the group in 2018		3 856
Variable remuneration of the group approved in 2018 from the previous performance period 2017		562
Remuneration approved in 2018 but determined to be deferred to future years		60
Remuneration approved in 2018 but determined to be paid after 12 months' waiting period		26
Remuneration deferred from previous years and paid in 2018		320
Total variable remuneration paid in 2018 (including amounts deferred from previous years)		821
Amount of deferred to be paid in future years (including deferrals approved in 2018)		275
Amount of decrease of variable remuneration in 2018 based on the risk based approach		0
Highest variable remuneration earned by an individual in performance period 2017 (approved in 2018)		86

In 2018 the company did not grant any agreement based severance payments. The amount of agreement based determined severance payments was 159 thousand euro (1 piece), which was granted in 2017 and is thus reported in the 2017 Remuneration report. The company did not approve or pay any sign-on payments in 2018.

3.5 Changes to remuneration

The Board of Directors has updated the company's Remuneration Policy in the end of 2018 to better meet the Guidelines on sound remuneration policies of the European Banking Authority (EBA). These changes will have an effect to the remuneration system in year 2019. The changes have been mostly technical changes and thus they do not have an effect to the main principles of remuneration in MuniFin as described in this Remuneration report.