

MUNICIPALITY FINANCE

Remuneration Report

2014

5 March 2015

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 Chapter 7 (Remuneration) of the Finnish Corporate Governance Code. 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 2014, the members of the Board of Directors will be paid an annual fee and a fee for each meeting for the 2014–2015 financial year. 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 Chairman and the Vice-Chairman are paid a fee of EUR 800 for each Board meeting and committee meeting. The Members of the Board 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 (€1,000) Members of the Board	2014
Eva Liljebloom, Chairman of the Board	40
Tapani Hellstén, Vice-Chairman of the Board, Member of the Board from 26/3/2014	12
Fredrik Forssell, Vice-Chairman of the Board until 26/3/2014	24
Teppo Koivisto	22
Sirpa Louhevirta	20
Tuula Saxholm, Member of the Board from 26/3/2013	21
Asta Tolonen	20
Juha Yli-Rajala	22
Total	181

In 2014, the Board convened eight times. During the financial year, the Audit Committee and the Remuneration Committee each convened four times.

The Members of the Board are not employed by the company and are not covered by the company's remuneration policy.

3 REMUNERATION PAID TO THE OPERATIVE MANAGEMENT AND EMPLOYEES

3.1 General information

Remuneration paid to the operative management team 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. Accommodation and car benefits are part of an individual's remuneration package. 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 operative 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 other 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 the development of the remuneration policy and for market comparisons: Hay Group Oy, Alexander Corporate Finance Oy, KPMG Oy.

The pensionable age and pensions of the operative 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 management group include the key employees responsible for internal audit (CFO, Risk Management Director, and Compliance Director). In accordance with the current regulations, their remuneration is dependent on supervision carried out by the Board of Directors.

In line with the principles of company management, 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, achievement of company-specific targets and subsequent performance pay, variable remuneration paid to the CEO and the management group, changes to fixed remuneration, and an overview of employee remuneration.

ation as a whole. The members of the Remuneration Committee are Eva Liljeblom (Chairman of the Board), Teppo Koivisto, Asta Tolonen 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 solvency 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 followed.

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 targets, 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 targets related to the remuneration policy are set out for each calendar year (earnings year). Across all pay grades, the remuneration policy is based on both company-specific and individual performance appraisals. Departmental and individual targets 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-specific, departmental and individual targets varies across the pay grades. While the CEO and the management group are given company-specific targets, their individual performance is always taken into account in appraisal. The company-specific performance appraisal is approved by the Board of Directors. The management 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.

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 Municipal Finance's core capital (another remuneration funding instrument in compliance with the regulations). The value of variable remuneration can be temporarily reduced if the company's core 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 2014

The variable remuneration paid in 2014 is based on Municipal Finance's remuneration policy, approved by the Board of Directors, and the 2013 performance targets set out in the remuneration policy. Remuneration deferred from the earlier years to 2014 has also been paid.

With regard to variable remuneration earned in 2013, the target remuneration level for the CEO and the management group, set out in the remuneration policy, corresponded to six months' salary, with a maximum remuneration amount corresponding to 12 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 2013, the maximum remuneration amount laid down in the 2014 remuneration policy was not paid in any employee grades based on the 2013 performance. In 2014, 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 2014 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 management group, and departmental managers responsible for business, key functions of internal audit and information management).

(€1,000)	2014
Number of individuals in the grade	14
Paid fixed remuneration (incl. benefits in kind)	2,337
Variable remuneration decided during the financial year (earned during 2013)	1,120
Of which variable remuneration deferred to 2015–2017	417

Remuneration decided and deferred in 2012–2013 and paid during the financial year	150
Total variable remuneration paid during the financial year (earned and deferred)	853

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

Remuneration subject to withholding tax paid to the CEO, Executive Vice President and members of the management group:

Remuneration (€1,000)	2014
President and CEO	455
Executive Vice President	361
Other Members of the Board (total)	921
Total	1 737

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

3.5 Changes to remuneration

In 2014, the Board of Directors decided on a remuneration policy reform in order to reduce the maximum potential remuneration paid to the CEO and the managing group by 25% from the potential remuneration in 2014. This means that the maximum potential remuneration was reduced from a salary of twelve months to one of nine months. The target remuneration corresponds to approximately six months' salary. This change came into force at the beginning of 2014 and will be applied to remuneration earned in 2014 and paid in 2015.

At the beginning of 2015, the Board of Directors decided on further changes concerning the amounts of variable remuneration. According to this decision, the maximum annual remuneration paid to the CEO and the members of the management group 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.