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The following applies to the prospectus (the "**Prospectus**") following this page. You are advised to read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications made to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that delivery of this electronic transmission and the Prospectus are confidential and intended for you only and you agree you will not forward, reproduce or publish this electronic transmission and/or the Prospectus in any manner whatsoever to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION AND/OR THE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THIS ELECTRONIC TRANSMISSION AND THE PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND PERMITTED BY, REGULATION S UNDER THE US SECURITIES ACT OF 1933 ("**REGULATION S**"), AS AMENDED (THE "**US SECURITIES ACT**") OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE US SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS ELECTRONIC TRANSMISSION AND/OR THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE US SECURITIES ACT AND/OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NEITHER THE SECURITIES NOR THE SECURITIES REFERRED TO HEREIN (TOGETHER, THE "**SECURITIES**") HAVE BEEN NOR WILL THEY BE REGISTERED UNDER THE US SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

This electronic transmission and the Prospectus are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC as amended, including by Directive 2010/73/EC) ("**Qualified Investors**"). In addition, in the United Kingdom, this electronic transmission and the Prospectus are addressed to and directed only at, Qualified Investors who (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) are other persons to whom they may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This electronic transmission and the Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this electronic transmission and the Prospectus relate is available only to relevant persons in the United Kingdom and Qualified Investors in any member state of the EEA other than the United Kingdom, and will be engaged in only with such persons.

Confirmation of Your Representation: This electronic transmission and the Prospectus are delivered to you on the basis that you are deemed to have represented to Municipality Finance Plc (the "**Issuer**") and each of Barclays Bank PLC, BNP Paribas, Goldman Sachs International and Nordea Bank Danmark A/S (collectively, the "**Joint Lead Managers**") that you have understood and agree to the terms set out herein, and (i) you are a person that is outside the United States for the purpose of Regulation S, and (ii) either (a) you are a person in a member state of the EEA, other than the United Kingdom, and you are a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent that you are acting on behalf of persons or entities in the EEA or the United Kingdom, or (b) you are a person in the United Kingdom and you are a relevant person and/or a relevant person acting on behalf of relevant persons or Qualified Investors, to the extent that you are acting on behalf of persons or entities in the United Kingdom or in the EEA, or (c) you are an institutional investor that is otherwise eligible to receive this electronic transmission and the Prospectus. You shall also be deemed to have

represented to the Issuer and each of the Joint Lead Managers that you consent to delivery by electronic transmission.

You are reminded that you have received this electronic transmission and the Prospectus on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver the Prospectus, electronically or otherwise, to any other person. If you receive the Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive the Prospectus in electronic format by e-mail, your use of such Prospectus in electronic format and e-mail is at your own risk and it is your responsibility to take precautions to ensure that each is free from viruses and other items of a destructive nature.

If a jurisdiction requires that the offering to which this electronic transmission and the Prospectus relates be made by a licensed broker or dealer and any Joint Lead Manager or any affiliate of a Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or affiliate on the behalf of the Issuer in such jurisdiction.

You are reminded that documents transmitted electronically may be altered or changed during the process of transmission and consequently neither the Issuer nor the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus delivered by electronic transmission and the hard copy version.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this electronic transmission or the Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer or the Securities or the offering referred to herein. The Joint Lead Managers and each of their affiliates disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the electronic transmission, the Prospectus or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in this electronic transmission or the Prospectus.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors.

In particular, in August 2014, the UK Financial Conduct Authority published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the "**TMR**") which took effect on 1 October 2014, and, in June 2015, published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which will replace the TMR from 1 October 2015 (the "**PI**").

Under the rules set out in the TMR (as amended or replaced from time to time, the "**TMR Rules**") and in the PI (as amended or replaced from time to time, the "**PI Rules**" and, together with the TMR Rules, the "**MR Rules**") certain contingent write-down or convertible securities, such as the Securities, must not be sold to retail clients in the European Economic Area (the "**EEA**") and, until 1 October 2015, nothing may be done that would or might result in the buying of such securities (or the holding of a beneficial interest in such securities) by a retail client in the EEA (in each case within the meaning of the TMR Rules) and, from 1 October 2015, there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the applicable MR Rules.

The Joint Lead Managers are required to comply with the MR Rules. By purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Joint Lead Managers, each prospective investor will be deemed to represent, warrant, agree with, and undertake to, the Issuer and the Joint Lead Managers that:

1. it is not a retail client in the EEA (as defined in the MR Rules);
2. whether or not it is subject to the MR Rules, it will not:
 - 2.1 sell or offer the Securities (or any beneficial interest therein) to retail clients in the EEA; or
 - 2.2 either:
 - (a) until 1 October 2015, do anything (including the distribution of this Prospectus) that would or might result in the buying of the Securities or the holding of a beneficial interest in the Securities by a retail client in the EEA (in each case within the meaning of the TMR Rules); or
 - (b) from 1 October 2015, communicate (including the distribution of this Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA,

(in each case within the meaning of the PI Rules) and in any such case other than (i) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the applicable MR Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Securities (or such beneficial interests therein) and (y) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the

Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.



MUNICIPALITY FINANCE PLC

(Kuntarahoitus Oyj)

(Public limited liability company incorporated in the Republic of Finland)

EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities

The issue price of the EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities (the "**Securities**") is 100 per cent. of their principal amount. Subject as provided in the Conditions, the Securities constitute direct, unsecured and subordinated obligations of the Issuer ranking pari passu among themselves and as described in Condition 3 (*Status and Subordination*). The Securities shall not benefit from any guarantee or support undertaking.

Subject to the right of the Issuer to cancel any payment of interest in respect of the Securities in accordance with Condition 5 (*Interest Cancellation*), the Securities will initially bear interest on their Prevailing Outstanding Amount at the rate of 4.500 per cent. per annum from and including 1 October 2015 (the "**Issue Date**") to but excluding 1 April 2022 (the "**First Call Date**"), payable annually in arrear on 1 April in each year (each an "**Interest Payment Date**"), and thereafter at a fixed rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date (each such anniversary, a "**Reset Date**") at a rate of 3.960 per annum above the then applicable 5 Year Swap Rate.

The Securities are perpetual securities and have no fixed date for redemption and Holders do not have the right to call for their redemption. Subject as provided herein and to the prior approval of the Finnish Financial Supervisory Authority (*Finanssivalvonta*) (the "**FIN-FSA**"), the Securities may be redeemed at the option of the Issuer in whole (but not in part) at (i) their Original Principal Amount, together with any accrued interest thereon, on the First Call Date or on any Interest Payment Date thereafter, and (ii) at their Prevailing Outstanding Amount, together with any accrued interest thereon, upon the occurrence of a Tax Event or a Capital Event.

The Issuer may elect, in its sole discretion, to cancel in whole or in part any payment of interest in respect of the Securities which is otherwise scheduled to be paid on an Interest Payment Date and payments of interest in respect of the Securities will also not be in made in certain other circumstances as provided in Condition 5 (*Interest Cancellation*). Interest payments in respect of the Securities will be non-cumulative. Accordingly, any interest not paid on any Interest Payment Date shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an Enforcement Event (as described in Condition 10 (*Enforcement Events*)) for any purpose, and the holders shall have no right thereto. The Issuer may use amounts relating to any such cancelled payments without restriction to meet its other obligations as they fall due.

In the event that the CET1 ratio of the Issuer on a solo basis and/or the Issuer and its subsidiaries (the "**Group**") on a consolidated basis is less than 5.125 per cent. (a "**Trigger Event**"), the Issuer will reduce the Prevailing Outstanding Amount of each Security (such reduction, a "**Write-Down**" and "**Written-Down**" shall be construed accordingly) by the relevant Write-Down Amount. Following such Write-Down, the Issuer may in certain circumstances, in its sole discretion, reinstate some or all of the principal amount of the Securities, subject to compliance with the Relevant Rules and the Reinstatement Limit on a *pro-rata* basis with the reinstatement of all other Equal Trigger Instruments (if any). See Condition 6 (*Loss Absorption and Discretionary Reinstatement*).

The Securities are also subject to Finnish statutory provisions as applicable from time to time that could lead to the write down and/or conversion of the Prevailing Outstanding Amount (and any accrued interest thereon insofar as it has not been cancelled) of the Securities to common equity tier 1 instruments of the Issuer. See "Risk Factors – Loss absorption at the point of non-viability of the Issuer".

An investment in the Securities involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on pages 11 to 27.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Securities which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application has also been made to the Irish Stock Exchange for the Securities to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC.

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Securities are being offered outside the United States by the Joint Lead Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Securities are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the MR Rules (as defined herein) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on page v of this Prospectus for further information.

The Securities will be issued in registered form in the denominations of EUR200,000 and integral multiples of EUR1,000 in excess thereof. The Securities will initially be represented by a certificate (the "**Global Certificate**") which will be deposited on or about the Issue Date with a common depository and registered in the name of a nominee for Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*.

The Securities are expected to be rated "BBB+" by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"). Standard & Poor's is a credit rating agency established in the European Union and registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Structuring Adviser

BNP PARIBAS

Joint Lead Managers

BARCLAYS

BNP PARIBAS

GOLDMAN SACHS INTERNATIONAL

NORDEA

29 September 2015

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive.

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and does not omit anything likely to affect its import.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

The Issuer has confirmed to the Joint Lead Managers that this Prospectus contains all information regarding the Issuer and the Securities which is (in the context of the issue, offering and sale of the Securities) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Securities.

The distribution of this Prospectus and the offering, sale and delivery of Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of this Prospectus and other offering material relating to the Securities, see "*Subscription and Sale*".

In particular, the Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to U.S. persons.

The Securities are complex financial instruments and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make an informed assessment of (i) the Conditions and (ii) the benefits and risks of investing in the Securities, based upon the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- (b) has access to, and knowledge of, appropriate analytical tools to properly evaluate, in the context of the investor's particular financial situation, an investment in the Securities and the impact such an investment would have on the investor's investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (d) understands thoroughly the Conditions and is familiar with the behaviour of any relevant markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the associated risks.

A potential investor should not invest in the securities unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of such Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Securities are legal investments for it, (ii) the Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Securities under any applicable risk-based capital or similar rules.

In this Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**Euro**", "**EUR**", "**Euro**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "**£**", "**Pounds Sterling**" and "**British Pounds Sterling**" are to the currency of the United Kingdom, references to "**U.S.\$**" and "**United States Dollars**" are to the currency of the United States of America. All references to "**Government**" are to the government of the Republic of Finland.

In this Prospectus, references to websites or uniform resource locators (URLs) are inactive textual references and are included for information purposes only. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Prospectus.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of the Securities, BNP Paribas (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors.

In particular, in August 2014, the UK Financial Conduct Authority published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the "**TMR**") which took effect on 1 October 2014, and, in June 2015, published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which will replace the TMR from 1 October 2015 (the "**PI**").

Under the rules set out in the TMR (as amended or replaced from time to time, the "**TMR Rules**") and in the PI (as amended or replaced from time to time, the "**PI Rules**" and, together with the TMR Rules, the "**MR Rules**") certain contingent write-down or convertible securities, such as the Securities, must not be sold to retail clients in the European Economic Area (the "**EEA**") and, until 1 October 2015, nothing may be done that would or might result in the buying of such securities (or the holding of a beneficial interest in such securities) by a retail client in the EEA (in each case within the meaning of the TMR Rules) and, from 1 October 2015, there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the applicable MR Rules.

The Joint Lead Managers are required to comply with the MR Rules. By purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Joint Lead Managers, each prospective investor will be deemed to represent, warrant, agree with, and undertake to, the Issuer and the Joint Lead Managers that:

1. it is not a retail client in the EEA (as defined in the MR Rules);
2. whether or not it is subject to the MR Rules, it will not:
 - 2.1 sell or offer the Securities (or any beneficial interest therein) to retail clients in the EEA; or
 - 2.2 either:
 - (a) until 1 October 2015, do anything (including the distribution of this Prospectus) that would or might result in the buying of the Securities or the holding of a beneficial interest in the Securities by a retail client in the EEA (in each case within the meaning of the TMR Rules); or
 - (b) from 1 October 2015, communicate (including the distribution of this Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA,

(in each case within the meaning of the PI Rules) and in any such case other than (i) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the applicable MR Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Securities (or such beneficial interests therein) and (y) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities from the Issuer and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

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OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the Conditions or elsewhere in this Prospectus have the same meanings in this overview.

Issuer: Municipality Finance Plc (Kuntarahoyitus Oyj) (the "**Issuer**") was established on 1 May 2001, is domiciled in Helsinki and was entered in the (Finnish) Trade Register on 1 May 2001 under the corporate code 1701683 4. The documents mentioned in this Prospectus may be viewed at the Issuer's head office at (Jaakonkatu 3A, 5th Floor), FI 00101 Helsinki.

The Issuer's fully paid up capital was approximately EUR 42.6 million and its own funds amounted to approximately EUR 682.5 million at 30 June 2015. The Issuer's total assets on 30 June 2015 were approximately EUR 33.7 billion and its lending portfolio approximately EUR 19.4 billion.

The Issuer's objective is to provide municipalities, municipality controlled entities and non profit entities (designated by the state and engaging in the renting or production and maintenance of housing on social grounds) with market funding by obtaining funds on capital markets at competitive rates.

The Issuer's five largest shareholders at 30 June 2015 were Keva (formerly named "The Local Government Pensions Institution") (30.66 per cent.), the Republic of Finland (16.00 per cent.), City of Helsinki (10.41 per cent.), City of Espoo (3.96 per cent.) and VAV Asunnot Oy (City of Vantaa) (2.47 per cent.).

Structuring Adviser: BNP Paribas

Joint Lead Managers: Barclays Bank PLC

BNP Paribas

Goldman Sachs International

Nordea Bank Danmark A/S

Fiscal Agent: Citibank, N.A. London Branch

Principal Paying Agent: Citigroup Global Markets Deutschland AG

Registrar: Citigroup Global Markets Deutschland AG

The Securities: EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities

Issue Price: 100 per cent. of the principal amount of the Securities

Issue Date: 1 October 2015

Status and Subordination: *Status*

The Securities constitute direct, unsecured and subordinated obligations of the Issuer ranking *pari passu* among themselves and shall not benefit from any guarantee or support undertaking.

Subordination

In the event of the voluntary or involuntary liquidation (*selvitysila*) or bankruptcy (*konkurssi*) of the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Securities will rank:

- (i) *pari passu* without any preference among the Securities and at least *pari passu* with Parity Securities;
- (ii) in priority to the payments to holders of ordinary shares of the Issuer and, to the extent permitted by Finnish Law relating to creditors' rights, any obligations or capital instruments of the Issuer that rank or are expressed to rank junior to the Securities (together, "**Junior Securities**");
- (iii) junior in right of payment to present or future claims of (a) all subordinated indebtedness of the Issuer (other than Parity Securities and Junior Securities) including, for the avoidance of doubt, securities of the Issuer recognised as Tier 2 Capital, and (b) all unsubordinated obligations of the Issuer.

Subject to applicable law, no Holder may, in the event of liquidation (*selvitystila*) or bankruptcy (*konkurssi*), exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities and each Holder shall, by virtue of being the Holder of any of the Securities, be deemed to have waived all such rights of set-off.

In liquidation (*selvitystila*) of the Issuer, for the purposes of determining whether the liabilities of the Issuer exceed the market value of its assets under Chapter 20, Section 7(2) of the Finnish Companies Act (624/2006, as amended (*osakeyhtiölaki*), the Securities shall not be regarded as liabilities of the Issuer.

"**Relevant Regulator**" means initially the Finnish Financial Supervisory Authority ("**FIN-FSA**") or any successor or substituted authority thereto, or other authority responsible for the prudential regulation and oversight of the Issuer and/or the Group.

Write -Down:

If a Trigger Event occurs at any time, the Issuer will:

- (i) immediately notify the Relevant Regulator;
- (ii) cancel any accrued and unpaid interest in respect of the Securities to (but excluding) the Write-Down Date in accordance with Condition 5 (*Interest Cancellation*) (including if payable on the Write-Down Date); and
- (iii) on the Write-Down Date (without any requirement for the consent or approval of Holders), reduce the then Prevailing Outstanding Amount of each Security by the relevant Write-Down Amount (such reduction, a "**Write-Down**" and "**Written-Down**" shall be construed accordingly).

"**Write-Down Amount**" is the amount of the write down of the Prevailing Outstanding Amount of the Securities on the Write-Down Date and will be equal to the lower of:

- (i) the amount necessary to restore the CET1 Ratio of the Issuer and/or the Group, as applicable, to at least the Trigger Level in

respect of which any Trigger Event has occurred taking into account the *pro-rata* write down or, as the case may be, conversion into equity, of the prevailing principal amount of all Loss Absorbing Instruments (if any) to be written down or converted concurrently (or substantially concurrently) with the Securities, provided that with respect to each Loss Absorbing Instrument (if any) such *pro-rata* write down or conversion of such Loss Absorbing Instrument shall only be taken into account to the extent required to restore the CET1 Ratio of the Issuer and/or the Group (as applicable) to the lower of (a) such Loss Absorbing Instrument's relevant trigger level and (b) the Trigger Level in respect of which a Trigger Event has occurred; and

- (ii) the amount that would reduce the Prevailing Outstanding Amount to EUR 0.01,

provided, however, that to the extent the write down, or, as the case may be, conversion of the principal amount of any Loss Absorbing Instrument is not, or by the relevant Write-Down Date will not be, effective for any reason the ineffectiveness of any such write down or, as the case may be, conversion shall not prejudice the requirement to effect a write down of the Prevailing Outstanding Amount and shall not be taken into account in determining the amount of the reduction of the Prevailing Outstanding Amount;

A Write-Down may occur on more than one occasion and the Securities may be written down on more than one occasion. The write-down of the Securities following a Trigger Event shall not constitute an Enforcement Event or a breach of the Issuer's obligations or duties or a failure to perform by the Issuer in any manner whatsoever, and shall not entitle Holders to petition for the insolvency or dissolution of the Issuer.

Following a write-down of all or part of the Prevailing Outstanding Amount, Holders will have no rights to receive, and no longer have any rights against the Issuer with respect to, the repayment of any principal to the extent so written down or payment of interest on any principal that has been written down or cancelled (but without prejudice to their rights in respect of any reinstated principal following a Reinstatement).

As used herein:

A "**Trigger Event**" shall occur if, at any time, the CET1 Ratio of the Issuer on an unconsolidated basis and/or the Group on a consolidated basis is less than the Trigger Level;

"**Loss Absorbing Instrument**" means, at any time, any Additional Tier 1 Capital instrument (other than the Securities) issued directly or indirectly by the Issuer or any member of the Group which has terms pursuant to which all or some of its principal amount may be written-down (whether on a permanent or temporary basis) or may otherwise absorb losses (in each case in accordance with its terms) on the occurrence, or as a result, of a trigger event set by reference to either the Issuer's or Group's CET1 Ratio.

**Discretionary
Reinstatement:**

Following a Write-Down the Issuer may, at its discretion, reinstate some or all of the Original Principal Amount of the Securities (a "**Reinstatement**"), subject to compliance with the Relevant Rules and the Reinstatement Limit (as defined below) on a *pro-rata* basis with the reinstatement of all other Equal Trigger Instruments (if any) which have been written down and with terms permitting a principal write-up to

occur on a basis similar to the Reinstatement of the Securities.

Any Reinstatement of the Original Principal Amount may not at any time exceed the reinstatement limit and shall be subject to the Maximum Distributable Amount Restriction.

"Reinstatement Limit" means the lower of the Available Reinstatement Amounts for each of the Issuer and the Group where **"Available Reinstatement Amount"** means:

the amount equal to the profits of (in the case of the calculation of the Issuer's Available Reinstatement Amount) the Issuer or (in the case of the Group's Available Reinstatement Amount) the Group, in each case after the Issuer or the Group, as the case may be, has taken a formal decision confirming its final profits, multiplied by the sum of the Original Principal Amount of all Securities and the aggregate initial principal amount of all written-down Additional Tier 1 Capital instruments of the Issuer or the Group (as the case may be), divided by the total Tier 1 Capital of the Issuer or the Group (as the case may be) in each case at the date of the relevant Reinstatement, less:

- (A) the sum of any principal amount (if any) of the Securities that has already been reinstated during the period to which such profits relate;
- (B) the sum of any amounts of interest in respect of the Securities which were paid or have been calculated (but disregarding any such interest which has been cancelled) during the period to which such profits relate on the basis of a Prevailing Outstanding Amount which is lower than the Original Principal Amount of the Securities;
- (C) the sum of any principal amounts (if any) of Additional Tier 1 Capital instruments that have already been reinstated during the period to which such profits relate; and
- (D) the sum of any amounts of interest or, as the case may be, other periodic distributions in respect of Additional Tier 1 Capital instruments which were paid or have been calculated (but disregarding any such interest or periodic distribution which has been cancelled) during the period to which such profits relate on the basis of an outstanding principal amount which is lower than the principal amount they were issued with; and

As used herein:

"Equal Trigger Instrument" means, at any time, any instrument issued directly or indirectly by the Issuer or the Group, which qualifies as Additional Tier 1 Capital of the Issuer and/or the Group, and which contains provisions relating to a write-down of the principal amount of such instrument or conversion of the instrument into the ordinary shares on the occurrence, or as a result, of the relevant Trigger Event; and

"Maximum Distributable Amount Restriction" means that no Reinstatement as described above shall be effected in circumstances which (when aggregated together with distributions of the kind referred to in Article 141(2) of CRD IV Directive or, as the case may be, any provision of Finnish law transposing or implementing Article 141(2) of the CRD IV Directive, or any successor thereto) would cause any Maximum Distributable Amount to be exceeded.

Non-Viability:

The Securities are also subject to Finnish statutory provisions as

applicable from time to time that could lead to the write down and/or conversion of the Prevailing Outstanding Amount (and any accrued interest thereon insofar as it has not been cancelled) of the Securities to common equity tier 1 instruments of the Issuer, as further described in "*Risk Factors – Loss absorption at the point of non-viability of the Issuer*".

Interest Accrual:

Subject as described below, interest shall be payable annually in arrear on 1 April (each an "**Interest Payment Date**"). There will be a short first interest period to the first Interest Payment Date on 1 April 2016.

The Securities shall bear interest on the Prevailing Outstanding Amount:

- (i) from and including 1 October 2015 (the "**Interest Commencement Date**") to and excluding the First Call Date, at a fixed rate of 4.500 per cent per annum; and
- (ii) for each Reset Period thereafter, at the applicable 5 Year Swap Rate (as defined in the Conditions) plus the Margin.

As used herein:

"**First Call Date**" means 1 April 2022.

"**Reset Date**" means the First Call Date and each date falling on the fifth anniversary thereafter.

"**Reset Period**" means each period from and including the First Call Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

Optional Cancellation of Interest:

Subject as described below under "*Mandatory Interest Cancellation*", the Issuer may elect, in its sole discretion, to cancel in whole or in part any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date.

Mandatory Interest Cancellation:

No payment of interest will be made in respect of the Securities if and to the extent that:

- (i) the relevant Interest Amount, when aggregated together with any interest payment or distributions which have been paid or made or which are required to be paid or made on other own funds items in the then current financial year (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), exceeds the amount of Distributable Items (if any) on such Interest Payment Date;
- (ii) when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of Finnish law transposing or implementing such article) made in the same Interest Period payment of an Interest Amount would cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the Group to be exceeded; or
- (iii) such cancellation is required by the CRD IV Directive, including the applicable criteria for Additional Tier 1 Capital

instruments.

As used herein:

"**Distributable Items**" shall have the meaning assigned to such term in CRR as interpreted in accordance with the Relevant Rules.

"**Interest Amount**" means the amount of interest payable on each Security for any interest period.

"**Maximum Distributable Amount**" means any maximum distributable amount determined pursuant to Article 141(2) of the CRD IV Directive (or, if different, any provision of Finnish law transposing or implementing Article 141(2) of the CRD IV Directive), or any successor provision thereto, that may be applicable to the Issuer and/or the Group from time to time.

Non-cumulative Interest:

If any payment of interest (or part thereof) is cancelled in accordance with Condition 5 (*Interest Cancellation*), then the right of the Holders to receive the relevant interest payment (or part thereof) in respect of that Interest Period will be extinguished (and shall not accumulate) and the Issuer will have no obligation to pay such interest (or part thereof) or to pay any interest thereon, whether or not interest on the Securities is paid in respect of any future Interest Period.

Redemption:

The Securities are perpetual and have no final maturity.

The Issuer may, subject to the Conditions to Redemption (as set out below), in its sole discretion, elect to redeem the Securities in whole but not in part in the following circumstances:

Optional Early Redemption

On the First Call Date or any Interest Payment Date thereafter (an "**Optional Redemption Date**") at their Original Principal Amount together with interest accrued (if any) to but excluding the date of redemption (excluding any interest cancelled).

For the avoidance of doubt, if at any time the Securities have been Written Down pursuant to Condition 6(a) (*Write-Down*), the Issuer may only exercise its option under this Condition 7(b) at such time as the Securities are reinstated to their Original Principal Amount pursuant to Condition 6(e) (*Discretionary Reinstatement*)).

Special Event

Upon the occurrence of a Capital Event or Tax Event (a "**Special Event**"), but subject to the Conditions to Redemption, the Issuer may having given not less than 30 days' nor more than 60 days' notice to the Holders of Securities redeem all (but not some only) of the Securities at any time at the Prevailing Outstanding Amount together with interest accrued (if any) to (but excluding) the date of redemption (excluding any interest cancelled).

As used herein:

A "**Capital Event**", at any time, on or after the date of issue of the Securities, there is a change in the regulatory classification of the Securities that results or will result in:

- (i) their exclusion, in whole or in part, from the regulatory capital

of the Issuer and/or the Group; or

- (ii) reclassification, in whole in part, as a lower quality form of regulatory capital of the Issuer and/or the Group.

A "**Tax Event**" occur if, as a result of any change in the laws, regulations or rulings of Finland or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings which become effective on or after the Issue Date, the Issuer receives an opinion of external counsel in Finland that:

- (i) it would be required to pay additional amounts as provided in Condition 9 (*Taxation*); or
- (ii) it will no longer be able to obtain a full tax deduction for the purposes of Finnish tax for any payment of interest under the Securities.

Conditions to Redemption and Purchase

No redemption or purchase of the Securities may be made without the prior approval of the Relevant Regulator, and:

- (i) on or before such redemption or purchase (as applicable) of the Securities, the Issuer replaces the Securities with capital instruments of an equal or higher quality on terms that are sustainable for its income capacity; or
- (ii) the Issuer has demonstrated to the satisfaction of the Relevant Regulator that its Tier 1 Capital and Tier 2 Capital would, following such redemption or purchase (as applicable), exceed the capital ratios required under CRD IV by a margin that the Relevant Regulator may consider necessary on the basis set out in CRD IV for it to determine the appropriate level of capital of an institution; and

in the case of redemption before the fifth anniversary of the Issue Date:

- (a) the conditions listed in paragraphs (i) or (ii) above are met; and
- (b) in the case of redemption due to the occurrence of a Capital Event, (x) the Relevant Regulator considers such change to be sufficiently certain and (y) the Issuer demonstrates to the satisfaction of the Relevant Regulator that the Capital Event was not reasonably foreseeable at the time of the issuance of the Securities; or
- (c) in the case of redemption due to the occurrence of a Tax Event, the Issuer demonstrates to the satisfaction of the Relevant Regulator that such Tax Event is material and was not reasonably foreseeable at the time of issuance of the Securities.

Purchase:

Subject to the Conditions for Redemption, the Issuer may at any time purchase Securities in the open market or otherwise and at any price in the open market or otherwise.

Substitution and variation:

Following the occurrence of a Special Event, the Issuer may, subject to

giving any notice required to, and receiving any consent required from, the Relevant Regulator, (and without any requirement for the consent or approval of the Holders but having given not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at any time either substitute all (but not some only) of the Securities for, or vary the terms of the Securities so that they remain or, as appropriate, become, Compliant Securities (as defined in the Conditions) provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities that are inconsistent with the redemption provisions of the Securities.

Determination of Trigger Event Following Notice of Substitution or Variation

If the Issuer has given a notice of substitution or variation of the Securities, and, after giving such notice but prior to the date of such substitution or variation, as applicable, the Issuer determines that a Trigger Event has occurred, the Issuer shall, in consultation with the Relevant Regulator determine whether or not the proposed substitution or variation, as applicable, will proceed and, if so, whether any amendments to the substance and/or timing of such substitution or variation, as applicable, will be made.

Enforcement Events:

If:

- (i) the Issuer shall in respect of any Security, default for a period of 7 days in the payment of any amount that has become due and payable in accordance with the Conditions; or
- (ii) an order is made or an effective resolution is passed for the liquidation (*selvitystila*) of the Issuer (except for the purpose of a merger, reconstruction or amalgamation under which the continuing entity effectively assumes the entire obligations of the Issuer under the Securities) or the Issuer is otherwise declared bankrupt (*konkurssi*) or put into liquidation (*selvitystila*), in each case, by a court or agency or supervisory authority in Finland or elsewhere having jurisdiction in respect of the same,

the Holder may, to the extent permitted by applicable law:

- (x) (in the case of (i) above) institute proceedings for the Issuer to be declared bankrupt (*konkurssi*) or put into liquidation (*selvitystila*) in each case, in Finland and not elsewhere, and prove or claim in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer; and/or
- (y) (in the case of (ii) above) prove or claim in the liquidation (*selvitystila*) or as the case may be, bankruptcy (*konkurssi*) of the Issuer, whether in Finland or elsewhere and instituted by the Issuer itself or by a third party,

but (in either case) the Holder may claim payment in respect of the Security only in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) or as the case may be, bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer.

In any of the events or circumstances described in (ii) above, the Holder of any Security may, by notice to the Issuer, declare such Security to be due and payable, and such Security shall accordingly become due and payable at its Prevailing Outstanding Amount, but subject to such

Holder only being able to claim payment in respect of the Security in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer and provided that where any such event occurs after the date on which a Trigger Event occurs but before the relevant Write-Down Date, the Holder of any such Security may only declare such Security to be due and payable to the extent of its Prevailing Outstanding Amount (if any) as reduced by the relevant Write-Down Amount in respect of such Trigger Event.

The Holder of any Security may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Securities (other than, without prejudice to the above, any obligation for the payment of any principal or interest in respect of the Securities) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it, except with the prior approval of the Relevant Regulator.

No remedy against the Issuer, other than as provided above shall be available to the Holders of Securities, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Securities.

Form and Denomination: The Securities will be issued in registered form in the denominations of EUR200,000 and integral multiples of EUR1,000 in excess thereof.

Clearing: The Securities will be cleared through Euroclear and Clearstream, Luxembourg.

Taxation: All payments of principal and interest in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes or duties of whatever nature imposed or levied by, or on behalf of, the Republic of Finland unless such withholding or deduction is required by law.

In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amount of interest (but not principal) which would otherwise have been receivable in respect of the Securities in the absence of such withholding or deduction, subject to certain customary exceptions.

Governing Law: The Securities will be governed by and construed in accordance with English law, except for the provisions of Condition 3 (*Status and Subordination*) and Condition 10 (*Enforcement Events*) which will be governed by Finnish law.

Listing and trading: Application has been made to the Irish Stock Exchange for the Securities to be admitted to the Official List of the Irish Stock Exchange to trading on the Main Securities Market.

Selling Restrictions: United States (Regulation S), the United Kingdom and Finland.

The Securities are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the MR other than in circumstances that do not and will not give rise to a contravention of those rules by any person.

See the section headed "*Restrictions on marketing and sales to retail*"

investors" on page v of this Prospectus for further information.

Ratings:

The Securities are expected to be rated "BBB+" by Standard and Poor's Credit Market Services Europe Limited.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

RISK FACTORS

Any investment in the Securities is subject to a number of risks. Prior to investing in the Securities, prospective investors should carefully consider the risk factors associated with any investment in the Securities, the business of the Issuer and the industry in which it operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Securities and should be used as guidance only. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the Securities may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Securities is suitable for them in light of the information in this Prospectus and their personal circumstances.

Risks related to the Issuer and Group

The Group is exposed to the economic conditions in Finland

The Group conducts its lending operations exclusively in Finland and its lending growth is reliant on the prospects of Finnish municipalities and municipal federations, Finnish municipality-controlled entities and non-profit housing corporations in Finland. Therefore, the macroeconomic factors relating to Finland, and more specifically its municipalities, such as GDP, the inflation rate, interest rates, currency exchange rates and tax rates as well as unemployment, personal income and the financial situation of companies, together with various other factors, have a material impact on customer demand and margins for Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Should Finland's GDP slow or decline or Finnish municipalities' relative indebtedness increase, the Group may be exposed to instability in the prospects of both its customers and its ultimate guarantors. Additionally, should any of these factors result in Finland having its credit rating downgraded, it may cause an increase in the cost of the Group's future funding arrangements and thereby put further pressure on any lending required by the municipalities. As a result any of these factors relating to Finland or its municipal sector may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to credit risk from its counterparties on financial instruments

The Group manages its interest rate risk, its currency risk and its financial position as a whole by entering into derivative transactions with financial institutions and through short-term placements of cash and current account balances with financial institutions. The Group hedges against exchange rate risks by using derivative contracts to translate foreign currency denominated funding into euros. Also, while the Group's lending and funding bears both floating and fixed interest rates, the Group hedges its fixed interest rate exposure to floating rate. Derivative contracts are also used to hedge against other price risks. As a result of these activities, the Group had derivative contracts with a nominal value of Euro 62.8 billion as at 30 June 2015.

The Group's ability to engage in derivatives transactions could be adversely affected by the actions and commercial soundness of financial institutions who are its hedge counterparties. Derivative contracts and deposit arrangements expose the Group to credit risk in the event of a default by its counterparty. Defaults or non-performance by counterparties or a deterioration in the credit standing of its contractual counterparties may have a material adverse effect on the Issuer's financial condition and results of operations.

The Group may lose market share to competitors

As a result of the global credit crisis, many of the Group's competitors over the last several years were not able to lend at the rates, volumes and maturities that they had prior to the global credit crisis. However, during this time the Group increased its market share in its lending segments, as well as increase its

prices. However, over the last two years, the Group believes its market share was 65 per cent and 75 per cent of all competitive bidding for financing among the Group's customer base in 2014 and 2013, respectively, down from 80 per cent in 2012. Additionally, the total number of tender requests received by the Group in 2014 decreased by 13.8 per cent compared with 2013. However, should the Group's competitors be able to begin to match or beat the Group's pricing, such as a result of an increased liquidity in the markets and a loosening of global credit markets, the Group may suffer a decline in both the volume of loans it makes and its margins, which may have a material adverse effect on its business, financial condition and results of operations.

The value of the Group's investment portfolio may decline

The Group front-loads its funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. Because the Group front-loads much of its funding needs, the Group has significant assets for investment. The security of the investment and the stability of its valuation are two of the most important criterion for investments of the Group's funds. The Group's investment operations objective is to manage the investment assets by investing them securely with sufficient return to ensure that the Group's liquidity enables it to continue flexible lending operations under all market conditions. As a result, the Group maintains a high proportion of liquid funds. In response to market uncertainty regarding the eurozone in 2011 and 2012, the Group shifted the focus of its investment portfolio further towards investments that were considered more secure, primarily covered bonds and debt securities issued by EU states and other public sector entities in the economically strongest countries. During 2014, new investments were made in covered bonds and bonds issued by public sector entities and banks based in strong countries in the eurozone. As at 30 June 2015, the Group had Euro 7,107 million of debt securities in its liquidity portfolio. The Group monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are made. The market values of almost all debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information. However, should there be a decline in the market value of the debt security due to a material adverse event on the issuer, or in the market of the issuer, for which such securities are held, the Group may be unable to recover its original investment in such security. This could lead to losses which could have a material adverse effect on the Group's business, financial condition and results of operations.

Increased capital requirements and standards

Regulation and supervision of the global financial system remains a priority for governments and supranational organisations. Since the onset of the global financial crisis in 2008 and the increased loan losses and asset quality impairment suffered by financial institutions as a result, governments in some European countries (including Finland) have increased, or have announced that they are likely to increase, the minimum capital requirements for credit institutions domiciled in these countries over and above the increased capital requirements of Basel III and the CRD IV proposal discussed below.

At the international level, a number of initiatives are being implemented with the aim of increasing capital requirements, increasing the quantity and quality of capital and raising liquidity levels in the financial institutions sector. Among these are a number of specific measures proposed by the Basel Committee on Banking Supervision (the "**Basel Committee**") which are being implemented by the European Union.

The Basel Committee issued a comprehensive set of reform measures in December 2010 ("**Basel III**"). The aim of the framework is to improve the ability of credit institutions to absorb shocks arising from financial and economic stress, improve risk management and governance and strengthen credit institutions' transparency and disclosures. The framework is intended to raise both the quality and quantity of the capital base and increases capital requirements for certain exposures. The minimum requirements for capital will be underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. In addition to the minimum requirements, there are also buffer requirements in the form of both a capital conservation buffer and a countercyclical capital buffer, as well as additional capital buffers for institutions of systemic importance, which may be on a global, European or domestic basis. The framework also introduces internationally harmonised minimum requirements for liquidity risk. The regulatory framework will continue to evolve and any resulting changes could have a material impact on the business of the Issuer and the Group.

Following the Basel III guidelines, the European Commission published on 20 July 2011 the corresponding proposed changes at the EU level to replace the amended Capital Requirements Directive (2006/48/EC and 2006/49/EC) with two legislative instruments: a directly applicable European Parliament and Council Regulation establishing the prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013, known as the Capital Requirements Regulation or "**CRD IV Regulation**") and a European Council Directive (through an amendment of Directive 2002/87/EC) governing access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (known as "**CRD IV**"). The CRD IV Regulation has been directly effective in Finland since 1 January 2014, while CRD IV was implemented in Finland through the Finnish Act on Credit Institutions (610/2014, as amended) (in Finnish *laki luottolaitostoiminnasta*), (the "**Credit Institutions Act**"), which came into force on 15 August 2014. The CRD IV Regulation and CRD IV are both to be supported by a set of binding technical standards currently being developed by the European Banking Authority (the "**EBA**"). The new EU regulatory framework is broadly in line with the Basel III capital and liquidity standards, however certain issues continue to remain under discussion and certain details remain to be clarified.

The changes to the capital adequacy framework include stricter minimum capital requirements for the components in the capital base with the highest quality: common equity tier 1 ("**CET1**") capital must be at least 4.5 per cent. of risk weighted assets at all times and tier 1 capital 6.0 per cent. The minimum total capital (or 'own funds') requirement (tier 1 capital plus tier 2 capital) is 8.0 per cent. of risk weighted assets. In addition to the minimum capital requirements, CRD IV introduces further capital buffer requirements that are required to be satisfied with common equity tier 1 capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Certain of these buffers may be applicable to the Issuer and the Group as determined by the FIN-FSA. Breach of the combined buffer requirements will result in restrictions on certain capital distributions by the bank, for example, dividend and coupon payments on CET1 and tier 1 capital instruments (see "*Interest payments on the Securities may be cancelled by the Issuer (in whole or in part) at any time and, in certain circumstances, the Issuer will be required to cancel such interest payments*" and "*CRD IV introduces capital requirements that are in addition to the minimum capital ratio*" below). The CRD IV Regulation and CRD IV permit a transitional period for certain of the enhanced capital requirements and certain other measures. The Finnish authorities have, however, announced that they will implement the higher capital requirements resulting from the implementation of the CRD IV Regulation and CRD IV as soon as possible, without any phasing-in period, to the extent permitted.

In respect of liquidity requirements, the Basel Committee has supplemented their principles for sound liquidity risk management and supervision by fortifying their liquidity recommendations. The Basel Committee has introduced two new liquidity ratios for credit institutions. In order to improve the short-term payment capabilities of financial institutions, a liquidity coverage ratio ("**LCR**") will be implemented in 2015, pursuant to which the liquidity buffer comprised of high quality liquid assets ("**HQLA**") must amount at least 100 per cent. (when fully implemented) of the stress-tested amount of monthly net cash outflows. In line with Basel III, the CRD IV Regulation imposes a liquidity coverage requirement on credit institutions to improve the resilience of credit institutions to liquidity risks over a short-term period (i.e. thirty days). The general liquidity coverage requirement is set out in Article 412 of the CRD IV Regulation. Furthermore, on 10 October 2014, the European Commission published a Commission Delegated Regulation (EU) 2015/61 ("**Delegated Regulation**") to supplement CRD IV Regulation with regard to the liquidity coverage requirement for credit institutions. Finnish credit institutions must comply with the liquidity requirements set forth in the CRR and as further specified by the Delegated Regulation. The liquidity coverage requirements laid down in the Delegated Regulation shall enter into force in phases as from 1 October 2015 in accordance with Article 460(2) of the CRD IV Regulation (starting with a minimum of 60 per cent. from 1 October 2015 rising to 100 per cent. on 1 January 2018).

Furthermore, the Basel Committee has developed the Net Stable Funding Ratio (the "**NSFR**") which aims to ensure that a firm has an acceptable amount of stable funding to support its assets and activities over a one year horizon. The NSFR is scheduled to enter into force in 2018 without a phase-in period. Within the EU, work on detailed rules with respect to the NSFR is currently in progress.

CRD IV requirements adopted in Finland may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the EBA or changes

to the way in which the FIN-FSA interprets and applies these requirements to Finnish financial institutions (including as regards individual model approvals granted under CRD II and III). The changes brought about by the CRD IV requirements may have an impact on the financial position and profitability of the Issuer or the Group.

The new framework also includes an enhanced leverage ratio requirement. As at 30 June 2015, the Group's leverage ratio calculated under the Basel III Standards/CRD IV Regulation was 1.9 per cent. compared to the current prescribed minimum threshold of 3 per cent. set under Basel III/CRD IV Regulation. As a result, to ensure compliance with the leverage ratio requirement may require the Issuer to raise additional Tier 1 capital (such as the Securities), although compliance with the leverage ratio is not required until 2018. Further, definitive thresholds are yet to be determined and may be adjusted based on different entities risk profiles prior to implementation. In order to increase the Issuer's Tier 1 capital, the Issuer has decided to focus on increasing its profitability from 2011 and since then the Issuer's shareholders have elected not to distribute dividends for the Issuer to allow profits to be transferred to retained earnings (thereby improving Tier 1 capital). Although the Group believes that these measures will be sufficient to improve its Tier 1 capital sufficiently to meet the leverage ratio requirement by 2018, there can be no assurance that this will occur.

For the foregoing reasons, the Issuer and the Group may need to raise additional capital in the future. Such capital, whether in the form of debt financing, hybrid capital or additional equity, may not be available on attractive terms, or at all. The Issuer is unable to predict what regulatory requirements may be imposed in the future or accurately estimate the impact that any currently proposed regulatory changes may have on its business and the values of its assets. For example, if the Issuer or Group is unable to increase its capital to the required levels, it may be required to reduce the amount of its risk-weighted assets and engage in the disposition of businesses or assets, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group. Any change that limits the Issuer or Group's ability to manage effectively its financial position and capital resources going forward or to access funding sources, may have a material adverse effect on the their business, financial condition, regulatory capital position and liquidity.

The Issuer may be subject to statutory resolution

To complement the CRD IV Regulation and CRD IV legislative package, on 2 July 2014 the directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU) (known as the Bank Recovery and Resolution Directive or "**BRRD**") entered into force. The BRRD is designed to provide authorities with a harmonised set of tools and powers to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. The BRRD provides that it will be applied by Member States from 1 January 2015, other than the bail-in provisions (as contained in Section 5 of Chapter IV of Title IV) for which the implementation deadline is 1 January 2016.

The BRRD requires, *inter alia*, that EU credit institutions produce and maintain recovery plans setting out the arrangements that may be taken to restore the long-term viability of the institution in the event of a material deterioration of its financial position. National competent authorities will be required to prepare resolution plans setting out how an institution might be resolved in an orderly fashion and its essential functions preserved, if it were to fail. This includes the potential application of the resolution tools and powers referred to below as well as options for ensuring the continuity of critical functions.

The BRRD has been implemented in Finland through the Act on Resolution of Credit Institutions and Investment Firms (1197/2014, as amended) (in Finnish *laki luottolaitosten ja sijoituspalveluyritysten kriisinvratkaisusta*), (the "**Resolution Act**") and the Act on Financial Stability Authority (1198/2014, as amended) (in Finnish *laki rahoitusvakausviranomaisesta*). The latter regulates the Financial Stability Authority, which will be the national resolution authority. The Ministry of Finance will have responsibility for the Financial Stability Authority until the authority is fully operational (at the latest until 1 January 2016). Both acts entered into force on 1 January 2015 and apply to the Issuer.

Under the new regime, credit institutions are generally required to draw up recovery plans or living wills to secure continuation of business in financial distress. These plans must include options for measures to restore the financial viability of the institution and they must be updated yearly and submitted to the FIN-

FSA for review. The FIN-FSA has issued a statement requiring that Finnish credit institutions, including the Issuer, draw up and submit to the FIN-FSA recovery plans by the end of July 2015. In the context of the new legislation, the FIN-FSA became empowered to apply early intervention tools to banks and investment firms if the FIN-FSA has reasons to believe that the institution will fail its licensing conditions or obligations under the CRD IV Regulation within a 12 month period. The FIN-FSA's early intervention tools include, *inter alia*, the ability to require the management of an institution to implement measures included in the living will, to convene a general meeting of shareholders to take decisions relating to the recovery process, to require removal of members of the management and to require changes to the legal and financial structure of the institution.

Pursuant to the Resolution Act, the Financial Stability Authority shall draw up and adopt a resolution plan for institutions subject to its powers, which includes the Issuer. The resolution plan must be ready for execution in the event that the institution in question has to be placed into a resolution process. The Resolution Act vests the Financial Stability Authority with resolution powers and tools as provided in the BRRD. The resolution tools are intended to be used prior to the point at which any insolvency proceedings with respect to the relevant institution could have been initiated and the Financial Stability Authority will only be permitted to use resolution powers and tools in relation to an institution if it determines that all the conditions for resolution are satisfied. These conditions are (a) the determination that the institution is failing or likely to fail (the "failure condition"); (b) there is no reasonable prospect that any solution, other than a resolution action taken in respect of the institution, would prevent the failure of the institution within a reasonable timeframe (the "no alternative condition"), and (c) intervention through resolution action is necessary in the public interest (the "public interest condition").

During a resolution process, an institution such as the Issuer could be subject to a number of resolution tools: mandatory write-down of debts or conversion of debts into equity ("bail-in", as further described below), sale of business, transfer of all or part of the business to a bridge institution and asset separation. To continue the operations of the institution, the Financial Stability Authority has the power to decide to reduce the value of the institution's share capital or cancel its shares to cover losses. This reduction in value or cancellation is a precondition for any support from a newly established resolution fund administered by the Financial Stability Authority.

Bail-in tool under BRRD

A bail-in tool (which comprises a general power for resolution authorities to write-down the claims of certain unsecured creditors (which may include holders of Securities) of a failing institution or to convert such debt claims to equity, which may itself be subject to subsequent write-down) is required to be implemented under the BRRD by 1 January 2016 at the latest. The Resolution Act includes the bail-in tool which is implemented in Finland as of 1 January 2015. The bail-in tool can be used to recapitalise an institution that is failing or about to fail, allowing authorities to restructure it through the resolution process and restore its viability after reorganisation and restructuring. The bail-in tool could be used to impose losses on holders of Securities by effecting the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Securities, and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on the Securities into shares or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Securities, to give effect to the exercise by the relevant resolution authority of such bail-in tool. This may result in holders of Securities losing some or all of their investment.

In addition to the general bail-in tool, the Financial Stability Authority has the further power, before any other resolution action is taken, to permanently write-down or convert into equity relevant capital instruments, such as the Securities, at the point of non-viability (see the risk factor "*Loss absorption at the point of non-viability of the Issuer*" below for further information).

Regulatory supervision of the Issuer may be transferred to ECB and the Issuer may become subject to the European Single Resolution Mechanism

The licensing of credit institutions and the supervision of the most significant banks and financial groups in the Eurozone were transferred to the European Central Bank ("**ECB**") as of 4 November 2014 in the context of the Single Supervisory Mechanism ("**SSM**"). Furthermore, the EU has adopted a directly applicable regulation governing the resolution of the most significant financial institutions in the Eurozone, i.e. a regulation establishing a Single Resolution Mechanism for them (806/2014, "**SRM Regulation**"). The SRM Regulation establishes a single European resolution board (consisting of

representatives from the ECB, the European Commission and the relevant national resolution authorities) (the "**Resolution Board**") having resolution powers over the entities that are subject to the SRM, thus replacing or exceeding the powers of the national resolution authorities.

The Resolution Board will have the authority to exercise the specific resolution powers pursuant to the SRM Regulation similar to those of the national resolution authorities under the BRRD. These specific resolution powers include the sale of business tool, the bridge institution tool, the asset separation tool, the bail-in tool and the mandatory write-down and conversion power in respect of capital instruments. The use of one or more of these tools will be included in a resolution scheme to be adopted by the Resolution Board. National resolution authorities will remain responsible for the execution of the resolution scheme according to the instructions of the Resolution Board.

The Finnish legislation adopting the amendments necessitated by the SRM Regulation entered into force on 1 January 2015. Thus, the major banks and financial groups domiciled in Finland will ultimately be subject to the SRM Regulation instead of the Finnish rules implementing the BRRD. Although there remains uncertainty whether the Issuer will be subject to the Finnish rules implementing the BRRD or the SRM Regulation, according to the Issuer's financial statements of 2014, the Issuer would fulfil the requirements of a significant institution and, therefore, it is likely that the supervision of the Issuer will be transferred to the ECB in accordance with the SSM. Furthermore, it is also likely that the Issuer will be covered by the SRM Regulation. However, as the SRM Regulation will in material respects take effect only as of 1 January 2016, the Finnish regime implementing BRRD will be applied across the board to all Finnish institutions for a transitional period.

In addition, due to the systemic significance of the Issuer, the European Central Bank ECB has recently begun a comprehensive assessment of the Issuer's operations. The examination of the Issuer's resilience and positions consists of an asset quality review and a forward-looking stress test. The comprehensive assessment is a process related to the ECB's Single Supervisory Mechanism and to be completed by the end of 2015.

Effect of resolution powers under the Resolution Act, BRRD and SRM Regulation

The powers set out in the Resolution Act, BRRD and the SRM Regulation will impact how Finnish credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. There remains uncertainty regarding how the new Finnish resolution legislation would affect the Issuer, the Group and the Securities. The Securities may be subject to the bail-in powers and could be written down or converted into equity as part of a resolution process. The exercise of any power under the Resolution Act, BRRD or SRM Regulation or any suggestion of such exercise could materially adversely affect the rights of Holders, the price or value of the Securities and/or the ability of the Issuer to satisfy its obligations under the Securities. Until the new regulations take full effect, the Issuer cannot predict the precise effects of the resolutions powers, including the bail-in power and the write-down and conversion power, on the Securities. Prospective investors in the Securities should consult their own advisors as to the consequences of the Resolution Act, BRRD and SRM Regulation.

Loss absorption at the point of non-viability of the Issuer

Holders are subject to the risk that the Securities may be required to absorb losses as a result of statutory powers conferred on competent and resolution authorities in Finland. This is in addition to any contractual loss absorbency measures which are provided for, and may be imposed upon Holders, under the Conditions (see "*Loss Absorption following a Trigger Event*" below). As noted above, the powers provided to competent and resolution authorities in the BRRD and consequently to the Financial Stability Authority pursuant to the Resolution Act, include write-down/conversion powers to ensure that relevant capital instruments (such as the Securities) fully absorb losses at the point of non-viability of the issuing institution in order to allow it to continue as a going concern subject to appropriate restructuring. As a result, the Resolution Act contemplates that the Financial Stability Authority may require the permanent write-down (which write-down may be in full) of capital instruments (such as the Securities) or the conversion of them into common equity tier 1 instruments at the point of non-viability (which common equity tier 1 instruments may also be subject to any application of the general bail-in tool described above) and before any other bail-in or resolution tool can be used.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD as implemented by the Resolution Act is the point at which one or more of the following

circumstances apply: (a) the determination has been made by the relevant authority that the conditions for resolution (i.e. the "failure condition", the "no alternative condition" and the "public interest condition" described above under "*Bank Recovery and Resolution Directive*") have been met, before any resolution action is taken; (b) the relevant authority determines that unless the write-down/conversion power is exercised in relation to the relevant capital instruments, the institution "will no longer be viable" (as described in Article 59(4) of the BRRD) and/or (c) extraordinary public financial support is required by the institution.

The application of any non-viability loss absorption measure may result in Holders losing some or all of their investment. Any such conversion to equity or write-off of all or part of an investor's principal (including accrued but unpaid interest) shall not constitute an event of default and Holders will have no further claims in respect of any amount so converted or written off. The exercise of any such power may be inherently unpredictable and may depend on a number of factors which may be outside the Issuer's control. Any such exercise, or any suggestion that the Securities could become subject to such exercise, could, therefore, materially adversely affect the value of the Securities.

EBA Consultation Paper on the minimum requirement for own funds and eligible liabilities under the BRRD

To ensure that institutions always have sufficient loss-absorbing capacity, the BRRD requires institutions to maintain at all times a sufficient aggregate amount of own funds (as defined in Article 4(1)(118) of the CRD IV Regulation) and "eligible liabilities" (namely, liabilities and other instruments that do not qualify as Tier 1 or Tier 2 capital and that may be bailed-in using the bail-in tool). This is known as the minimum requirement for eligible liabilities ("**MREL**"). On 3 July 2015, the EBA published its final draft regulatory standards paper setting out draft regulatory technical standards ("**RTS**") on the criteria for determining an institution's MREL under the BRRD. In order to ensure the effectiveness of bail-in and other resolution tools introduced by the BRRD, the BRRD requires that all institutions must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, with effect from 1 January 2016 (or, if earlier, the date of national implementation of the BRRD). The draft RTS provide for resolution authorities to allow institutions a transitional period of up to four years to reach the applicable MREL requirements. The applicability of the bail-in tools to the Securities and accordingly MREL requirements is uncertain (see "*Bail-in tool under BRRD*").

The RTS do not set a minimum EU-wide level of MREL, and the MREL requirement applies to all credit institutions, not just to those identified as being of a particular size or of systemic importance. Each resolution authority is required to make a separate determination of the appropriate MREL requirement for each resolution group within its jurisdiction, depending on the resolvability, risk profile, systemic importance and other characteristics of each institution. At the date of this Prospectus, the FIN-FSA has not elaborated MREL requirements in Finland or how they will be applied to the Issuer.

Items eligible for inclusion in MREL will include an institution's own funds (within the meaning of CRD IV), which includes the Securities, along with "eligible liabilities", meaning liabilities which, *inter alia*, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives. The MREL requirement may also have to be met partially through the issuance of contractual bail-in instruments, being instruments that are effectively subordinated to other eligible liabilities in a bail-in or insolvency of the relevant institution.

The EBA's proposals are in draft form, and may therefore be subject to change. As a result, it is not possible to give any assurances as to the ultimate scope and nature of any resulting obligations, or the impact that they will have on the Issuer or the Group once implemented. If the EBA's proposals are implemented in their current form however, it is possible that the Issuer or the Group may have to issue a significant amount of additional eligible liabilities in order to meet the new MREL requirements within the required timeframes. If the Group was to experience difficulties in raising eligible liabilities, it may have to reduce its lending or investments in other operations.

The Group may be adversely affected by resulting changes in regulation

The European Markets Infrastructure Regulation ("**EMIR**") will significantly alter the structure of European OTC markets, as firms will need to clear all OTC derivative transactions, including in relation to interest rate and foreign exchange derivatives. The scope of the clearing obligation will apply to all

financial counterparties transacting in OTC derivatives. In order to address concerns that regulators do not have a full picture of the exposures of the firms they regulate and the possible systemic implications these may pose, a number of trade repositories are being established where information on positions will be collected. EMIR will require all derivative transactions (OTC and exchange traded) entered into by European Union counterparties to be reported within one day of the execution of the contract. Both counterparties to the transaction will need to report, although firms will be able to do so on behalf of their clients. The final implementation of these requirements may increase the costs of engaging in certain types of hedging and may have a material adverse effect on the cost and availability of certain derivative transactions the Group typically enters into. As a result, implementation of EMIR could have a material adverse effect on the Group's business, financial condition and results of operations.

These and other future regulatory changes could have a material adverse effect on the Group's business, financial condition and results of operations.

RISKS RELATED TO THE SECURITIES

The Issuer's obligations under the Securities are subordinated. An investor in the Securities assumes an enhanced risk of loss in the event of the Issuer's insolvency

The Securities constitute direct, unsecured and subordinated obligations of the Issuer. In the event of the voluntary or involuntary liquidation (*selvitystila*) or bankruptcy (*konkurssi*) of the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Securities will rank:

- (i) *pari passu* without any preference among the Securities and at least *pari passu* with Parity Securities;
- (ii) in priority to the payments to holders of ordinary shares of the Issuer and, to the extent permitted by Finnish law, relating to creditors' rights, any obligations or capital instruments of the Issuer that rank or are expressed to rank junior to the Securities (together, "**Junior Securities**"); and
- (iii) junior in right of payment to present or future claims of (a) all subordinated indebtedness of the Issuer (other than Parity Securities and Junior Securities) including, for the avoidance of doubt, securities of the Issuer recognised as Tier 2 Capital, and (b) all unsubordinated obligations of the Issuer.

In the event of the voluntary or involuntary liquidation (*selvitystila*) or bankruptcy (*konkurssi*) of the Issuer, the Issuer may not have enough assets remaining to pay amounts due under the Securities.

Although the Securities may pay a higher rate of interest than comparable Securities which are not subordinated or which are subordinated but not so deeply, there is a significant risk that an investor in the Securities will lose all or some of his investment in the event of the voluntary or involuntary liquidation (*selvitystila*) or bankruptcy (*konkurssi*) of the Issuer.

Further, it should be noted that except in respect of subordination by contract of the claims of a class of creditors to all other unsecured creditors, Finnish law does not regulate contractual subordination. Pursuant to item 4 of subsection 1 of Section 6 of the Act on Order of Priority of Claims (in Finnish: *laki velkojien maksunsaantijärjestyksestä*) (1578/1992, as amended) (the "**Priority Act**"), a claim subordinated by contract to the claims of all other creditors in liquidation and bankruptcy of the debtor will rank in priority to the payment to holders of equity interests in the debtor but junior in right of payment to the claims in respect of all unsubordinated indebtedness and other classes of subordinated indebtedness of the debtor. The Securities do not clearly fall within any of the categories of debt set out in the Priority Act but in the liquidation or bankruptcy of the Issuer, claims under the Securities may be treated in a similar way as claims stipulated in item 4 of subsection 1 of Section 6 of the Priority Act.

The Issuer is not prohibited from issuing further debt, which may rank pari passu with or senior to the Securities

There is no restriction on the amount of debt that the Issuer may issue that ranks senior to the Securities or on the amount of securities that it may issue that rank *pari passu* with the Securities. The issue of any such debt or securities may reduce the amount recoverable by Holders in the event of the voluntary or involuntary liquidation or bankruptcy of the Issuer.

The Securities are of a perpetual nature

The Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Securities. Although the Issuer may redeem the Securities in certain circumstances there are limitations on its ability to do so. Therefore, Holders should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

The Issuer has the right to redeem the Securities on the First Call Date or any Interest Payment Date thereafter or upon the occurrence of a Tax Event or a Capital Event. This may limit the market value of the Securities and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

Subject to the consent of the Relevant Regulator and certain of the other conditions set out in Condition 7(e) (*Conditions to Redemption and Purchase*), the Securities may be redeemed by the Issuer on the First Call Date (at their Original Principal Amount) or any Interest Payment Date thereafter or if a Tax Event or a Capital Event occurs (at their Prevailing Outstanding Amount).

There can be no assurances that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Securities. In the case of a redemption of the Securities at the option of the Issuer, the Issuer may be expected to redeem the Securities when its cost of borrowing is lower than the interest rate on the Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The redemption feature is likely to limit the market value of the Securities. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any such period.

Call options may not be exercised

Holders have no rights to call for the redemption of the Securities and should not invest in the Securities in the expectation that a call will be exercised by the Issuer. Even if the Issuer satisfies the Conditions to Redemption, any decision by the Issuer as to whether it will exercise calls in respect of the Securities will be taken at the absolute discretion of the Issuer with regard to factors such as the economic impact of exercising such calls, regulatory capital requirements and prevailing market conditions. Holders of the Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for a period of time in excess of the minimum period.

Substitution or Variation of the Securities

Upon the occurrence of a Tax Event or a Capital Event, the Issuer may, subject to giving any notice required to, and receiving any consent required from, the Relevant Regulator, substitute or vary the terms of the Securities so that they remain, or become, Compliant Securities. Any such substitution or variation may have adverse consequences for Holders, dependent on a number of factors, including the nature and terms and conditions of the relevant Compliant Securities and the tax laws to which a particular Holder of the Securities is subject.

Interest payments on the Securities may be cancelled by the Issuer (in whole or in part) at any time and, in certain circumstances, the Issuer will be required to cancel such interest payments

Interest on the Securities will be due and payable only at the sole discretion of the Issuer, and the Issuer shall have sole discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled in accordance with the terms of the Securities. If the Issuer does not make an interest payment on the relevant Interest Payment Date (or if the Issuer elects to make a payment of a portion, but not all, of such interest payment), such non-payment shall evidence the Issuer's exercise of its discretion to cancel such interest payment (or the portion of such interest payment not paid), and accordingly such interest payment (or the portion thereof not paid) shall not be due and payable.

Without prejudice to the exercise by the Issuer of its sole discretion, interest will be mandatorily cancelled and thus shall not be due and payable on such Interest Payment Date if and to the extent that:

- (i) the relevant Interest Amount, when aggregated together with any interest payment or distributions which have been paid or made or which are required to be paid or made on other own funds items of the Issuer in the then current financial year (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), exceeds the amount of Distributable Items (if any) on such Interest Payment Date;
- (ii) Interest Amounts would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive, the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the Group to be exceeded; or
- (iii) such cancellation is required by the CRD IV Directive, including the applicable criteria for Additional Tier 1 Capital instruments.

Cancelled interest shall not be due and shall not accumulate or be payable at any time thereafter, and Holders shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation. Furthermore, no cancellation of interest in accordance with the terms of the Securities shall constitute a default in payment or otherwise under the Securities. In addition, the Issuer may use amounts relating to any such cancelled payments without restriction to meet its other obligations as they fall due and there is no restriction under the terms of the Securities on the Issuer from otherwise paying dividends, interest or other distributions on, or redeeming or repurchasing, any of its other liabilities (including liabilities which rank *pari passu* with, or junior to, the Securities) or any of its share capital.

As of 31 December 2014, the Issuer had EUR 585.1 million of potential Distributable Items. These include retained earnings (EUR 42.2 million), profit for the 2014 financial period (EUR 10.9 million) and voluntary provisions (EUR 531.98 million). The voluntary provisions can be transferred to the Issuer's financial result after deduction of the applicable Finnish company tax rate in the relevant financial year.

Any actual or anticipated cancellation of interest on the Securities will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest cancellation provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition.

CRD IV introduces capital requirements that are in addition to the minimum capital ratio

Under CRD IV, institutions will be required to hold a minimum amount of regulatory capital of 8 per cent. of risk weighted assets. In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), which could include further capital requirements such as the additional CET1 Capital requirements imposed by the FIN-FSA under the Finnish Pillar 2 framework. The Issuer may also decide to hold additional capital.

CRD IV further introduces capital buffer requirements that are in addition to the minimum capital requirement and are required to be satisfied with CET 1 Capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer.

Under Article 141 of the CRD Directive, Member States of the European Union must require that institutions that fail to meet the "combined buffer requirement" will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to CET1 Capital, variable remuneration and payments on Additional Tier 1 Instruments such as the Securities). The "combined buffer requirement" and the associated restrictions under Article 141 above were implemented in Finland via the Credit Institutions Act. According to the Credit Institutions Act, an additional capital conservation buffer requirement has been applicable from 1 January 2015. The capital conservation buffer, which is 2.5 per cent. of total risk weighted assets must be complied with. The capital conservation buffer increases the CET1 Capital requirement to 7 per cent. and the total capital requirement to 10.5 per cent. of

risk weighted assets. Furthermore, an additional O-SII buffer is required to be maintained in accordance with Article 131(5) of the CRD IV Directive as the FIN-FSA has classified the Issuer as other systemically important institution ("**O-SII**"). Under the Act on Credit Institutions, O-SIIs are divided into five different classes which determine the demand of a capital add-on from 0 to 2 per cent. The Issuer was categorised into the Class 2 which means that a capital add-on of 0.5 per cent. comprised of CET1 Capital is required. Thus, whilst as at the date of this Prospectus, the total CET1 Capital requirement amounts to 7.0 per cent. and the total capital requirement is 10.5 per cent. of risk weighted assets as of 7 January 2016, the additional O-SII buffer of 0.5 per cent. (CET1 Capital) must be fulfilled. Furthermore, the FIN-FSA is empowered to set a countercyclical capital buffer requirement of 0 per cent. - 2.5 per cent. as of 1 January 2015 although as at the date of this Prospectus it has not yet done so. The Issuer's ratio of total own funds to risk-weighted assets was 31.75 per cent. as at June 30 2015. As at the date of this Prospectus, Finland has not introduced a systemic risk buffer within the meaning of Article 133 of the CRD IV for the Finnish financial sector.

Where any such restrictions are to apply they will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution since the last distribution of profits or "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed by the FIN-FSA that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Issuer of its discretion to cancel (in whole or in part) interest payments in respect of the Securities.

In addition to the "Pillar 1" capital requirements described above, CRD IV contemplates that competent authorities may require additional "Pillar 2" capital to be maintained by an institution relating to elements of risks which are not fully captured by the minimum "own funds" requirements ("**additional own funds requirements**") or to address macro-prudential requirements. The European Banking Authority ("**EBA**") published guidelines on 19 December 2014 addressed to national supervisors on common procedures and methodologies for the supervisory review and evaluation process ("**SREP**") which contained guidelines proposing a common approach to determining the amount and composition of additional own funds requirements and which is to be implemented by 1 January 2016. These guidelines contemplate that national supervisors should set by 1 January 2019 (or earlier, if they so decide at their discretion) a requirement to cover certain risks with additional own funds which is composed of at least 56 per cent. CET1 capital and at least 75 per cent. Tier 1 capital and the remainder in Tier 2 capital. The guidelines also contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements; accordingly, the combined buffer requirement (as discussed above) is in addition to the minimum own funds requirement and to the additional own funds requirement. There can be no assurance as to the relationship between the "Pillar 2" additional own funds requirements and the restrictions on discretionary payments referred to above and as to how and when effect will be given to the EBA's minimum guidelines in Finland, including as to the consequences for an institution of its capital levels falling below the minimum, buffer and additional requirements referred to above. There can also be no assurance as to the applicable future "Pillar 2" additional own funds requirements (since such requirements may change from time to time), as to the manner in which "Pillar 2" additional own funds requirements may be disclosed publicly in the future or that such restrictions will not cease to apply.

Loss Absorption following a Trigger Event

The principal amount of the Securities may be reduced to absorb losses

In the event that the CET1 ratio of the Issuer on a solo basis and/or the Group on a consolidated basis is less than 5.125 per cent. (the "**Trigger Level**" and such event a "**Trigger Event**"), the Issuer will write down the Prevailing Outstanding Amount of each Security as described in Condition 6 (*Loss Absorption and Discretionary Reinstatement*).

The Issuer may determine that a Trigger Event has occurred on more than one occasion and the then Prevailing Outstanding Amount of each Security may be written down on more than one occasion, provided that the Prevailing Outstanding Amount may never be reduced to below EUR 0.01.

A Write-Down will not constitute an Enforcement Event or a breach of the Issuer's obligations or duties or a failure to perform by the Issuer in any manner whatsoever and shall not entitle Holders to petition for the Issuer to be declared bankrupt or put into liquidation.

In the event of liquidation or bankruptcy of the Issuer prior to the Securities being written up in full, Holders' claims for principal will be based on the reduced Prevailing Outstanding Amount of the Securities. Further, during any period when the Prevailing Outstanding Amount of a Security is less than the Original Principal Amount, interest will accrue on Prevailing Outstanding Amount of the Securities and the Securities will be redeemable (pursuant to a Special Event) on any date on which they may be redeemed by the Issuer at the Prevailing Outstanding Amount, which will be lower than the Original Principal Amount.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, including those discussed in greater detail in the following paragraphs, any of which may be outside the Issuer's control

The circumstances surrounding a Trigger Event are unpredictable, and there are a number of factors that could affect the CET1 ratio.

The CET1 ratio may fluctuate. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting the Group's earnings, dividend payments by the Issuer, regulatory changes (including changes to definitions and calculations of regulatory capital ratios and their components, including CET1 Capital and risk weighted assets) and the Group's ability to manage risk weighted assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in EUR equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the CET1 ratio is exposed to foreign currency movements.

The calculation of the CET1 ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the FIN-FSA could require the Issuer to reflect such changes in any particular calculation of the CET1 ratio.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Group's calculations of regulatory capital, including CET1 Capital and Risk Weighted Assets, and the CET1 ratio.

Due to the inherent uncertainty regarding whether a Trigger Event will occur, it will be difficult to predict when, if at all, a Write-Down may occur. Accordingly, the trading behaviour of the Securities is not necessarily expected to follow the trading behaviour of other types of security. Any indication that a Trigger Event may occur can be expected to have a material adverse effect on the market price of the Securities.

The CET1 ratio will be affected by the Issuer's business decisions and, in making such decisions, the Issuer's interests may not be aligned with those of the Holders

As discussed, the CET1 ratio could be affected by a number of factors. It will also depend on the Group's decisions relating to its businesses and operations, as well as the management of its capital position. The Issuer will have no obligation to consider the interests of the Holders in connection with the strategic decisions of the Group, including in respect of capital management. For example, the Group may decide not to, or not be able to, raise capital at a time when it is possible to do so even if that would result in the occurrence of a Trigger Event. Holders will not have any claim against the Issuer or any other member of the Group relating to decisions that affect the business and operations of the Group, including its capital position, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Holders to lose all or part of the value of their investment in the Securities.

The CET1 ratio shall be calculated by the Issuer and shall be binding on the Holders

For the purposes of determining whether a Trigger Event has occurred and if a Write-Down of the Securities is required, the Issuer must calculate the CET1 ratio of the Issuer or the Group, as the case may

be, based on information (whether or not published) available to management of the Issuer, including information internally reported within the Issuer pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Issuer and the Group.

The Issuer's calculation of the CET1 ratios of the Issuer and the Group, and therefore its determination of whether a Trigger Event has occurred, shall be binding on the Holders, who shall have no right to challenge the published figures detailing the CET1 ratios of the Issuer or the Group, as the case may be.

Any reinstatement of the Securities is at the sole and absolute discretion of the Issuer

Any reinstatement of the Securities shall apply at the sole and absolute discretion of the Issuer. In addition, the Issuer's ability to reinstate the Prevailing Outstanding Amount of the Securities is subject to the Maximum Distributable Amount and the Reinstatement Limit and any reinstatement must be undertaken on a pro rata basis with the other Securities and with any Equal Trigger Instruments. As such, in the event the Securities are Written-Down there is no assurance that they will or can be subsequently reinstated.

The Securities may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer

With regard to risks applying to Holders in the context of loss absorption at the point of non-viability of the Issuer and resolution and further risks in connection with regulatory aspects concerning financial institutions in general, please see "*Bail-in tool under BRRD*" and "*Loss absorption at the point of non-viability of the Issuer*" above.

There are no events of default in relation to the Securities

In accordance with CRD IV, Holders have no ability to require the Issuer to redeem their Securities. The terms of the Securities do not, therefore, provide for any events of default. The Issuer is entitled to cancel the payment of any interest payments in whole or in part at any time and as further contemplated in Condition 5 (*Interest Cancellation*) and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Issuer.

Notwithstanding that the Securities are perpetual securities and have no fixed date for redemption, Holders may prove or claim payment under the laws of Finland and as further provided in Condition 10 (*Enforcement Events*) in the liquidation or bankruptcy of the Issuer in respect of the then Prevailing Outstanding Amount of the Securities together with any accrued and unpaid interest on the Securities that has not been cancelled. However, these are the only circumstances in which any such claim for payment may be made by the Holders.

If the Issuer exercised its right to redeem or purchase the Securities in accordance with Condition 7 (*Redemption and Purchase*) but failed to make payment of the Prevailing Outstanding Amount to redeem the Securities when due, such failure would not constitute an event of default but may entitle Holders to bring a claim for breach of contract against the Issuer, which, if successful, could result in damages.

Following any failure to pay amounts in respect of the Securities when due, Holders may also institute proceedings with a view to having the Issuer declared bankrupt, to the extent permitted by applicable law, or liquidated and to prove or claim in the bankruptcy or liquidation of the Issuer but may only otherwise claim payment in respect of the Securities in the bankruptcy or liquidation of the Issuer. Under Finnish law a creditor may not institute proceedings for the liquidation (in Finnish: *selvitystila*) of the debtor, except under the following limited situations: (i) the debtor has no registered board of directors, (ii) the debtor has no representative within the meaning of the Act on the Right to Carry on Trade (in Finnish: *laki elinkeinon harjoittamisen oikeudesta*) (122/1919, as amended), (iii) despite of the request of the register authority the debtor has not filed its annual accounts for registration within one (1) year from the end of the financial year or (iv) the debtor has been declared bankrupt and the bankruptcy has expired due to the lack of funds.

The Securities are complex financial instruments and may not be a suitable investment for all investors.

The Securities are complex financial instruments and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of its investment in light of its own

circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make an informed assessment of (i) the Conditions and (ii) the benefits and risks of investing in the Securities, based upon the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to properly evaluate, in the context of the investor's particular financial situation, an investment in the Securities and the impact such an investment would have on the investor's investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (d) understands thoroughly the Conditions and is familiar with the behaviour of any relevant markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the associated risks.

Reliance on Euroclear and Clearstream, Luxembourg

The Securities will be represented on issue by one or more Global Certificates that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in each Global Certificate, investors will not be entitled to receive Definitive Securities. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Certificate. While the Securities are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Securities are represented by Global Certificates, the Issuer will discharge its payment obligations under the Securities by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing systems and their participants to receive payments under the Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificates.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Securities so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing systems and their participants to appoint appropriate proxies.

Meetings of Holders: the Conditions permit defined majorities to bind all Holders

The Conditions contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including those Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

Modifications

Subject to the prior consent of the Relevant Regulator, the Fiscal Agent and the Issuer may agree, without the consent of the Holders, to:

- (i) any modification (except as mentioned above) of the Agency Agreement which is not, in the opinion of the Issuer, prejudicial to the interests of the Holders; or
- (ii) any modification of the Securities, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted the Amending Directive on 24 March 2014. The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "**interest payment**" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

Certain payments on Notes may be subject to U.S. withholding tax under FATCA

The United States has enacted rules, commonly referred to as "**FATCA**", that generally impose a new reporting and withholding regime with respect to certain payments made after 31 December 2016 by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the Republic of Finland (the "**IGA**"). Under the IGA, as currently drafted, the Issuer does not expect payments made on or with respect to the Notes to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Securities in the future. Prospective investors should consult their own tax advisers regarding the potential impact of FATCA.

Minimum denomination

As the Securities have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Securities may be traded in amounts in excess of EUR200,000 that are not integral multiples of EUR200,000. In such case a Holder of Securities who, as a result of trading such amounts, holds a principal amount of less than EUR200,000 may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a principal amount of Securities such that its holding amounts to the minimum denomination

Tax consequences of holding the Securities may be complex

Potential purchasers and sellers of the Securities should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the country where the Securities are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Securities. Potential investors are advised not to rely solely upon the tax summary contained in this Prospectus but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Securities. Only such adviser is in a position to duly consider the specific situation of the potential investor. This risk factor should be read in connection with the taxation sections of this Prospectus. See "*Taxation*" below.

There is no active trading market for the Securities

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Securities to be admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Main Securities Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities.

Legality of purchaser

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Securities by a prospective investor in the Securities, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it. The Joint Lead Managers are also required to comply with the MR Rules and as a result of this compliance, prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on page v of this Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Securities are legal investments for it, (ii) Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

Standard & Poor's are expected to assign a credit rating of BBB+ to the Securities. The rating (or any unsolicited ratings assigned to the Securities) may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. Credit ratings assigned to the Securities do not necessarily mean that they are a suitable investment. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Similar ratings on different types of Securities do not necessarily mean the same thing. The ratings do not address the marketability of the Securities or any market price. Any change in the credit ratings of the Securities or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Securities. The significance of each rating should be analysed independently from any other rating.

The market price of the Securities may be volatile

The market price of the Securities could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Securities, as well as other factors, including the trading market for Securities issued by or on behalf of the Republic of Finland as a sovereign borrower. In

addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Securities without regard to the Issuer's results of operations or financial condition.

INFORMATION INCORPORATED BY REFERENCE

The following information, which has previously been published and filed with the Central Bank, shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (1) the unaudited consolidated IFRS half-year report (including the auditors' review report thereto) of the Issuer in respect of the six month period ended 30 June 2015 (set out on pages 3 to 27 and the auditors' review report on page 28) (the "**Interim Report 2015**");
- (2) the audited consolidated IFRS and standalone financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 31 December 2014 (set out on pages 24 to 92 (and the auditors' report on page 94); and
- (3) the audited consolidated IFRS and standalone financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 31 December 2013 (set out on pages 26 to 93 (and the auditors' report on page 95).

Copies of the documents specified above as containing information incorporated by reference in this Prospectus may be inspected, free of charge, at the registered office of the Issuer. Copies of the Issuer's audited financial statements (including the auditors' report thereon and notes thereto) in respect of the years ended 31 December 2014 and 31 December 2013 (which are included in the Issuer's annual reports for 2013 and 2014 respectively) and of the unaudited half-year report of the Issuer in respect of the six month period ended 30 June 2015 are also available on the Issuer's website (www.munifin.fi) specifically at https://www.munifin.fi/sites/default/files/press_release/field_file/munifin_annual_report_2013.pdf, https://www.munifin.fi/sites/default/files/press_release/field_file/municipality_finance_annual_report_2014.pdf and https://www.munifin.fi/sites/default/files/press_release/field_file/municipality_finance_interim_report_2015.pdf. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus. The contents of the websites referenced above do not form part of this Prospectus.

If the documents incorporated by reference into this Prospectus themselves incorporate by reference any information or other documents therein such information or other documents will not form part of this Prospectus except where such information or other documents are themselves specifically incorporated by reference into the Prospectus.

USE OF PROCEEDS

The issue of the Securities will form part of the Issuer's capital base and the net proceeds of the issue of the Securities will be applied by the Issuer for lending to customers and general corporate purposes.

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the terms and conditions of the Securities which, subject to amendment, will be endorsed on each Certificate and will be attached and (subject to the provisions thereof) apply to each Global Certificate:

The EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities (the "**Securities**", which expression includes any further securities issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of Municipality Finance Plc (the "**Issuer**") are the subject of a fiscal agency agreement dated 1 October 2015 (as amended and/or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A. London Branch as fiscal agent and principal paying agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Securities), Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Securities), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities) and Citibank, N.A. London Branch acting as agent bank (the "**Agent Bank**", which expression includes any successor agent bank appointed from time to time in connection with the Securities), and a deed of covenant dated 1 October 2015 (as amended and/or supplemented from time to time, the "**Deed of Covenant**") by the Issuer in favour of the holders of the Securities (the "**Holder**s"). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The Holders are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement and Deed of Covenant are available for inspection by Holders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Interpretation

In these Conditions the following expressions have the following meanings:

"**30/360**" means, with respect to any period, the number of days in such period to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months;

"**5 Year Swap Rate**" means, in respect of the relevant Reset Period (i) the semi-annual mid-swap rate for euro swaps with a term of 5 years as displayed on the Screen Page at the Relevant Time on the relevant Reset Interest Determination Date; or (ii) if such rate does not appear on the Screen Page at the Relevant Time, the Reset Reference Bank Rate on such Reset Interest Determination Date;

"**5 Year Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction having been converted from a semi-annual to annual basis which: (A) has a term of 5 years commencing on the relevant Reset Date; (B) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and (C) has a floating leg based on 6-month EURIBOR (calculated on an Actual/360 day count basis);

"**Additional Tier 1 Capital**" means capital which is treated as additional Tier 1 capital (or any equivalent or successor term) under the Relevant Rules by the Relevant Regulator for the purposes of the Issuer or the Group, as the case may be;

"**Actual/360**" means, with respect to any period, the actual number of days in such period to (but excluding) the relevant payment date, divided by 360;

"**BRRD**" means the Directive (2014/59/EU) of the European Parliament and of the Council on resolution and recovery of credit institutions and investment firms dated 15 May 2014 and published in the Official Journal of the European Union on 12 June 2014 (or, as the case may be, any provision of Finnish law transposing or implementing such Directive including, without

limitation, the Finnish Act on Resolution of Credit Institutions and Investment Firms (*laki luottolaitosten ja sijoituspalveluyritysten kriisinratkaisusta*) or Regulation (EU) No 806/2014 of the European Parliament and of the Council dated 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, each as amended or replaced from time to time;

"**Calculation Amount**" means EUR1,000 in principal amount of each Security;

A "**Capital Event**" will occur if, at any time, on or after the date of issue of the Securities, there is a change in the regulatory classification of the Securities that results or will result in:

- (i) their exclusion, in whole or in part, from the regulatory capital of the Issuer and/or the Group; or
- (ii) reclassification, in whole or in part, as a lower quality form of regulatory capital of the Issuer and/or the Group;

"**CET1 Ratio**" means the Common Equity Tier 1 ratio of the Issuer or the Group (as the case may be) pursuant to Article 92(1) (a) CRR or any successor provision;

"**CRD IV Directive**" means directive 2013/36/EU of the European Parliament and of the Council on the prudential supervision of credit institutions and investment firms dated 26 June 2013 and published in the Official Journal of the European Union on 27 June 2013, as amended from time to time or such other directive as may come into effect in place thereof;

"**CRD IV Implementing Measures**" means any regulatory capital rules implementing the CRD IV Directive or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts (including regulatory technical standards) adopted by the European Commission, national laws and regulations, and regulations and guidelines issued by the Relevant Regulator, which are applicable to the Issuer and/or the Group and which prescribe the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital of the Issuer and/or the Group;

"**CRD IV Rules**" means any, or any combination of, the CRD IV Directive, the CRR, and any CRD IV Implementing Measures;

"**CRR**" means regulation no. 575/2013 of the European Parliament and of the Council on the prudential requirements for credit institutions and investment firms dated 26 June 2013 and published in the Official Journal of the European Union on 27 June 2013, as amended from time to time or such other regulation as may come into effect in place thereof;

"**Distributable Items**" shall have the meaning assigned to such term in the CRR as interpreted in accordance with the Relevant Rules;

"**Equal Trigger Instrument**" means, at any time, any instrument issued directly or indirectly by the Issuer or the Group, which qualifies as Additional Tier 1 Capital of the Issuer and/or the Group and which contains provisions relating to a write-down of the principal amount of such instrument or conversion of the instrument into the ordinary shares on the occurrence, or as a result, of the relevant Trigger Event;

"**Enforcement Event**" has the meaning given in Condition 10 (*Enforcement Events*);

"**First Call Date**" means 1 April 2022;

"**Group**" means the Issuer and its subsidiaries;

"**Interest Amount**" means the amount of interest payable on each Security for any Interest Period;

"**Interest Payment Date**" means any day on which interest is due under these Conditions;

"Interest Period" means the period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date;

"Issue Date" means 1 October 2015;

"Loss Absorbing Instrument" means, at any time, any Additional Tier 1 Capital instrument (other than the Securities) issued directly or indirectly by the Issuer or any member of the Group which has terms pursuant to which all or some of its principal amount may be written-down (whether on a permanent or temporary basis) or may otherwise absorb losses (in each case in accordance with its terms) on the occurrence, or as a result, of a trigger event set by reference to either the Issuer's or Group's CET1 Ratio;

"Margin" means 3.960 per cent.;

"Maximum Distributable Amount" means any maximum distributable amount determined pursuant to Article 141(2) of the CRD IV Directive (or, if different, any provision of Finnish law transposing or implementing Article 141(2) of the CRD IV Directive), or any successor provision thereto, that may be applicable to the Issuer and/or the Group from time to time;

"Optional Redemption Date" means the First Call Date and any Interest Payment Date thereafter;

"Original Principal Amount" means, in respect of a Security, its principal amount on the Issue Date;

"Parity Security" means any obligation or capital instrument of the Issuer recognised as Additional Tier 1 Capital by the Relevant Regulator, and any securities or other obligations of the Issuer which rank or are expressed to rank on a voluntary or involuntary liquidation (*selvitystila*) or bankruptcy (*konkurssi*) *pari passu* with the Securities;

"Prevailing Outstanding Amount" means the principal amount of each Security outstanding at any given time, adjusted for any Write-Down or any increase pursuant to a reinstatement in accordance with Condition 6 (*Loss Absorption and Discretionary Reinstatement*);

"Reference Banks" means five leading swap dealers in the euro interbank market as selected by the Agent Bank after consultation with the Issuer;

"Relevant Regulator" means initially the Finnish Financial Supervisory Authority or any successor or substituted authority thereto, or other authority responsible for the prudential regulation and oversight of the Issuer and/or the Group;

"Relevant Rules" means at any time the laws, regulations, requirements, guidelines and policies of the Relevant Regulator relating to capital adequacy applicable to the Issuer and/or the Group from time to time including, for the avoidance of doubt and without limitation to the generality of the foregoing, applicable rules contained in, or implementing, the CRD IV Rules and/or the BRRD, and those regulations, requirements, guidelines and policies relating to capital adequacy adopted by the Relevant Regulator, from time to time, and then in effect (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer or the Group);

"Relevant Time" means, with respect to a Reset Interest Determination Date, at or around 11:00 a.m. (Central European time) on such Reset Interest Determination Date;

"Reset Date" means the First Call Date and each date falling on the fifth anniversary thereafter;

"Reset Interest Determination Date" means, with respect to a Reset Date, the day falling two business days prior to such Reset Date, where **"business day"** means for these purposes a TARGET Settlement Day;

"Reset Period" means each period from, and including, the First Call Date to, but excluding, the next following Reset Date and thereafter, from and including, each Reset Date to but excluding the next following Reset Date;

"Reset Reference Bank Rate" means, in relation to a Reset Date and the relevant Reset Interest Determination Date, the percentage rate determined on the basis of the 5 year Swap Rate Quotations provided by the Reference Banks to the Agent Bank at or around the Relevant Time. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate in respect of the relevant Reset Date, as determined by the Agent Bank, will be (i) in the case of each Reset Date other than the First Call Date, the 5 Year Swap Rate in respect of the immediately preceding Reset Date or (ii) in the case of the First Call Date, the last 5 Year Swap Rate available on the Screen Page;

"Screen Page" means the display page on the relevant Reuters information service designated as the "ISDAFIX2" page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, in each case for the purpose of displaying equivalent or comparable rates to the 5 Year Swap Rate;

"Special Event" means a Tax Event or a Capital Event;

"TARGET2" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"TARGET Settlement Day" means any day on which TARGET2 is open for the settlement of payments in euro;

A **"Tax Event"** will occur if, as a result of any change in the laws, regulations or rulings of Finland or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings in each case which becomes effective on or after the Issue Date, the Issuer receives an opinion of external counsel in Finland that:

- (i) on the next Interest Payment Date it would be required to pay additional amounts as provided in Condition 9 (*Taxation*); or
- (ii) it will no longer be able to obtain a full tax deduction for the purposes of Finnish tax for any payment of interest under the Securities;

"Tier 1 Capital" means capital which is treated as Tier 1 capital or any equivalent or successor term under the Relevant Rules by the Relevant Regulator for the purposes of the Issuer or the Group, as the case may be;

"Tier 2 Capital" means capital which is treated as Tier 2 capital or any equivalent or successor term under the Relevant Rules by the Relevant Regulator for the purposes of the Issuer or the Group, as the case may be;

A **"Trigger Event"** shall occur if, at any time, the CET1 Ratio of the Issuer on an unconsolidated basis and/or the Group on a consolidated basis is less than the Trigger Level;

"Trigger Level" means 5.125 per cent. in relation to the CET1 Ratio of the Issuer on a solo basis and 5.125 per cent. in relation to the CET1 Ratio of the Group on a consolidated basis.

"Write-Down Amount" is the amount of the write down of the Prevailing Outstanding Amount of the Securities on the Write-Down Date and will be equal to the lower of:

- (i) the amount necessary to restore the CET1 Ratio of the Issuer and/or the Group, as applicable, to at least the Trigger Level in respect of which any Trigger Event has occurred taking into account the *pro-rata* write down or, as the case may be, conversion into equity, of the prevailing principal amount of all Loss Absorbing

Instruments (if any) to be written down or converted concurrently (or substantially concurrently) with the Securities, provided that with respect to each Loss Absorbing Instrument (if any) such *pro-rata* write down or conversion of such Loss Absorbing Instrument shall only be taken into account to the extent required to restore the CET1 Ratio of the Issuer and/or the Group (as applicable) to the lower of (a) such Loss Absorbing Instrument's relevant trigger level and (b) the Trigger Level in respect of which a Trigger Event has occurred; and

- (ii) the amount that would reduce the Prevailing Outstanding Amount to EUR 0.01,

provided, however, that to the extent the write down, or, as the case may be, conversion of the principal amount of any Loss Absorbing Instrument is not, or by the relevant Write-Down Date will not be, effective for any reason the ineffectiveness of any such write down or, as the case may be, conversion shall not prejudice the requirement to effect a write down of the Prevailing Outstanding Amount pursuant to this condition and shall not be taken into account in determining the amount of the reduction of the Prevailing Outstanding Amount;

"Write-Down Date" means the date on which the Securities will be written down, being no later than one month after the Trigger Event, or any earlier date as selected by the Issuer or as instructed by the Relevant Regulator and as specified in the Write-Down Notice; and

"Write-Down Notice" means a notice which, subject to Condition 6(b) (*Write-Down Notice*) specifies that a Trigger Event has occurred, the Write-Down Amount and the Write-Down Date. Any such notice shall be accompanied by a certificate signed by two authorised officers of the Issuer stating that the Trigger Event has occurred and setting out the method of calculation of the relevant Write-Down Amount attributable to the Securities.

In addition:

- (i) any reference to interest shall be deemed to include any additional amounts in respect of interest that may be payable under Condition 9 (*Taxation*); and
- (iii) references to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

2. **Form, Denomination and Title**

- (a) *Form*

The Securities are in registered form in the denominations of EUR200,000 and integral multiples of EUR1,000 in excess thereof (each an "**Authorised Denomination**").

The Prevailing Outstanding Amount of the Securities may be adjusted as provided in Condition 6 (*Loss Absorption and Discretionary Reinstatement*) or as otherwise required by then current legislation and/or regulations applicable to the Issuer and/or the Group. Any such adjustment to the Prevailing Outstanding Amount of the Securities will not have any effect on the denomination of the Securities.

- (b) *Register*

The Registrar will maintain a register (the "**Register**") in respect of the Securities in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Security means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each a "**Certificate**") will be issued to each Holder in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(c) *Title*

The Holder of each Security shall (except as otherwise required by law) be treated as the absolute owner of such Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

(d) *Transfers*

Subject to paragraphs (g) (*Closed periods*) and (h) (*Regulations concerning transfers and registration*) below, a Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Authorised Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor.

(e) *Registration and delivery of Certificates*

Within five business days of the surrender of a Certificate in accordance with paragraph (d) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(f) *No charge*

The transfer of a Security will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity by the Holder or the transferee thereof as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(g) *Closed periods*

Holder may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Securities.

(h) *Regulations concerning transfers and registration*

All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who requests in writing a copy of such regulations.

3. **Status and Subordination**

The Securities constitute direct, unsecured, subordinated obligations of the Issuer ranking *pari passu* among themselves and shall not benefit from any guarantee or support undertaking.

In the event of the voluntary or involuntary liquidation (*selvitystila*) or bankruptcy (*konkurssi*) of the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Securities will rank:

- (i) *pari passu* without any preference among the Securities and at least *pari passu* with Parity Securities;
- (ii) in priority to the payments to holders of ordinary shares of the Issuer and, to the extent permitted by Finnish law relating to creditors' rights, any obligations or capital instruments of the Issuer that rank or are expressed to rank junior to the Securities (together, "**Junior Securities**");
- (iii) junior in right of payment to present or future claims of (a) all subordinated indebtedness of the Issuer (other than Parity Securities and Junior Securities) including, for the avoidance of doubt, securities of the Issuer recognised as Tier 2 Capital, and (b) all unsubordinated obligations of the Issuer.

Subject to applicable law, no Holder may, in the event of liquidation (*selvitystila*) or bankruptcy (*konkurssi*), exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities and each Holder shall, by virtue of being the Holder of any of the Securities, be deemed to have waived all such rights of set-off.

In liquidation (*selvitystila*) of the Issuer, for the purposes of determining whether the liabilities of the Issuer exceed the market value of its assets under Chapter 20, Section 7(2) of the Finnish Companies Act (624/2006, as amended (*osakeyhtiölaki*)), the Securities shall not be regarded as liabilities of the Issuer.

4. **Interest**

(a) *Rate of Interest*

The Securities shall bear interest on the Prevailing Outstanding Amount at the following rates (each a "**Rate of Interest**"):

- (i) from, and including, 1 October 2015 (the "**Interest Commencement Date**") to, but excluding, the First Call Date, at a fixed rate of 4.500 per cent. per annum; and
- (ii) for each Reset Period thereafter, at the applicable 5 Year Swap Rate plus the Margin.

Subject as described below under Condition 5 (*Interest Cancellation*) and Condition 6 (*Loss Absorption and Discretionary Reinstatement*), interest shall be payable annually in arrear on 1 April (each an "**Interest Payment Date**"). The first payment of interest shall be made on 1 April 2016 in respect of the period from (and including) the Issue Date to (but excluding) such Interest Payment Date.

(b) *Calculation of Interest*

The amount of interest payable (subject to Condition 5 (*Interest Cancellation*) and Condition 6 (*Loss Absorption and Discretionary Reinstatement*)) in respect of a Security shall be calculated per Calculation Amount. The amount of interest per Calculation Amount for any period shall be calculated by the Agent Bank by (a) applying the prevailing Rate of Interest to the Calculation Amount, (b) multiplying such sum by the Day Count Fraction and (c) rounding the resultant figure to the nearest cent (half a cent being rounded upwards or otherwise in accordance with applicable market convention). The amount of interest payable (subject as aforesaid) in respect of such Security shall be the amount determined per Calculation Amount multiplied by a fraction, the numerator of which is the Prevailing Outstanding Amount of such Security and the denominator is the Calculation Amount, without any further rounding.

If, pursuant to Condition 6 (*Loss Absorption and Discretionary Reinstatement*), the Prevailing Outstanding Amount of the Securities is reduced and/or reinstated during an Interest Period, the amount of interest will be adjusted by the Agent Bank to reflect interest having accrued on the relevant Prevailing Outstanding Amount during each part of such Interest Period.

In these Conditions, "**Day Count Fraction**" means the number of days in the relevant period (from and including the date from which interest begins to accrue to, but excluding, the date on which it falls due) divided by the number of days in the Interest Period in which the relevant period falls.

(c) *Determination and notification of Rate of Interest*

The Agent Bank will, on each Reset Interest Determination Date, determine the Rate of Interest applicable to the corresponding Reset Date. The Fiscal Agent shall, promptly following determination thereof, cause such Rate of Interest to be notified to the Issuer, to the Holders in accordance with Condition 16 (*Notices*) and, if the Securities are listed on a stock exchange and the rules of such exchange so require, to such exchange.

(d) *Accrual of Interest*

Each Security will cease to bear interest from the due date for redemption unless payment of the Prevailing Outstanding Amount in respect thereof is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition until whichever is the earlier of:

- (i) the day on which all sums due in respect of such Security up to that day are received by or on behalf of the relevant Holder; and
- (ii) the day which is seven days after the Fiscal Agent has notified the Holders in accordance with Condition 16 (*Notices*) that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is any subsequent default in payment).

(e) *Notifications etc.*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Fiscal Agent, the Agent Bank or the Reset Reference Banks (or any of them) will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Paying and Transfer Agents and the Holders and (subject as aforesaid) no liability to any such person will attach to the Fiscal Agent, the Agent Bank or the Reset Reference Banks (or any of them) in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

5. **Interest Cancellation**

The provisions of Condition 4 (*Interest*) above shall be subject to this Condition 5.

(a) *Optional cancellation of interest*

The Issuer may elect, in its sole discretion, to cancel in whole or in part any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date.

(b) *Mandatory cancellation of interest*

No payment of interest will be made in respect of the Securities if and to the extent that:

- (i) the relevant Interest Amount, when aggregated together with any interest payment or distributions which have been paid or made or which are required to be paid or made on other own funds items of the Issuer in the then current financial year (excluding any such interest payments or distributions which (i)

are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), exceeds the amount of Distributable Items (if any) on such Interest Payment Date;

- (ii) when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of Finnish law transposing or implementing such article) made in the same Interest Period payment of an Interest Amount would cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the Group to be exceeded; or
- (iii) such cancellation of interest is required by the CRD IV Directive, including the applicable criteria for Additional Tier 1 Capital instruments.

(c) *Interest non-cumulative*

If any payment of interest (or part thereof) is cancelled in accordance with this Condition 5 (*Interest Cancellation*), then the right of the Holders to receive the relevant interest payment (or part thereof) in respect of that Interest Period will be extinguished (and shall not accumulate) and the Issuer will have no obligation to pay such interest (or part thereof) or to pay any interest thereon, whether or not interest on the Securities is paid in respect of any future Interest Period.

(d) *No default*

Failure to pay such interest (or the cancelled part thereof) in accordance with this Condition 5 shall not constitute an Enforcement Event. The Issuer may use amounts relating to any such cancelled payments without restriction to meet its other obligations as they fall due.

(e) *Notice of interest cancellation*

The Issuer shall provide notice of any cancellation of interest (in whole or in part) to the Holders and the Fiscal Agent as soon as possible. If practicable, the Issuer shall endeavour to provide such notice at least five (5) Business Days prior to the relevant Interest Payment Date. Failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation or deemed cancellation of interest, or give Holders any rights as a result of such failure.

6. **Loss Absorption and Discretionary Reinstatement**

(a) *Write-Down*

If a Trigger Event occurs at any time, the Issuer will:

- (i) immediately notify the Relevant Regulator;
- (ii) cancel any accrued and unpaid interest in respect of the Securities to (but excluding) the Write-Down Date in accordance with Condition 5 (*Interest Cancellation*) above (including if payable on the Write-Down Date); and
- (iii) on the Write-Down Date (without any requirement for the consent or approval of Holders), reduce the then Prevailing Outstanding Amount of each Security by the relevant Write-Down Amount (such reduction, a "**Write-Down**" and "**Written-Down**" shall be construed accordingly).

(b) *Write-Down Notice*

Upon the occurrence of a Trigger Event, the Issuer shall give a Write-Down Notice to the Holders and to the Fiscal Agent. If the Write-Down Amount has not been determined when the Write-Down Notice is given, the Issuer shall, as soon as

reasonably practicable following such determination, notify Holders and the Fiscal Agent of the Write-Down Amount.

Such notice should be given as soon as practicable following the occurrence of a Trigger Event and in any event not later than 5 Business Days following such occurrence, although any failure by the Issuer to give any such notice to or otherwise to so notify Holders will not in any way impact on the effectiveness of, or otherwise invalidate, any Write-Down, or give Holders any rights as a result of such failure. The Issuer will also procure that a similar notice is, or has been given in respect of other Loss Absorbing Instruments.

(c) *Write-Down may occur on one or more occasion; No default*

A Write-Down may occur on more than one occasion and the Securities may be Written-Down on more than one occasion. A Write-Down will not constitute an Enforcement Event or a breach of the Issuer's obligations or duties or a failure to perform by the Issuer in any manner whatsoever and shall not entitle Holders to institute proceedings for the Issuer to be declared bankrupt (*konkurssi*) or put into liquidation (*selvitystila*).

(d) *Interest accrual on Prevailing Outstanding Amount*

Following a reduction of the Prevailing Outstanding Amount of the Securities as described above, interest will accrue on the reduced Prevailing Outstanding Amount of each Security from (and including) the relevant Write-Down Date, and (for the avoidance of doubt) such interest will be subject to Condition 5 (*Interest Cancellation*) and this Condition 6.

(e) *Discretionary Reinstatement*

Following a Write-Down, the Issuer may, at its sole discretion, reinstate some or all of the Original Principal Amount of the Securities (a "**Reinstatement**") subject to compliance with the Relevant Rules and the Reinstatement Limit on a *pro rata* basis with the reinstatement of all other Equal Trigger Instruments (if any) which have been written down and with terms permitting a principal write-up to occur on a basis similar to the Reinstatement of the Securities.

Any Reinstatement of some or all of the Original Principal Amount of the Securities may not at any time exceed the Reinstatement Limit and shall be subject to the Maximum Distributable Amount Restriction.

As used herein:

"**Reinstatement Limit**" means the lower of the Available Reinstatement Amounts for each of the Issuer and the Group where "**Available Reinstatement Amount**" means the amount equal to the profits of (in the case of the calculation of the Issuer's Available Reinstatement Amount) the Issuer or (in the case of the Group's Available Reinstatement Amount) the Group, in each case after the Issuer or the Group, as the case may be, has taken a formal decision confirming its final profits, multiplied by the sum of the Original Principal Amount of all Securities and the aggregate initial principal amount of all written-down Additional Tier 1 Capital instruments of the Issuer or the Group (as the case may be), divided by the total Tier 1 Capital of the Issuer or the Group (as the case may be) in each case at the date of the relevant Reinstatement, less:

- (A) the sum of any principal amount (if any) of the Securities that has already been reinstated during the period to which such profits relate;
- (B) the sum of any amounts of interest in respect of the Securities which were paid or have been calculated (but disregarding any such interest which has been cancelled) during the period to which such profits relate on the basis of a Prevailing Outstanding Amount which is lower than the Original Principal Amount of the Securities;

- (C) the sum of any principal amounts (if any) of Additional Tier 1 Capital instruments that have already been reinstated during the period to which such profits relate; and
- (D) the sum of any amounts of interest or, as the case may be, other periodic distributions in respect of Additional Tier 1 Capital instruments which were paid or have been calculated (but disregarding any such interest or periodic distribution which has been cancelled) during the period to which such profits relate on the basis of an outstanding principal amount which is lower than the principal amount they were issued with; and

"Maximum Distributable Amount Restriction" means that no Reinstatement as described above shall be effected in circumstances which (when aggregated together with distributions of the kind referred to in Article 141(2) of CRD IV Directive or, as the case may be, any provision of Finnish law transposing or implementing Article 141(2) of the CRD IV Directive, or any successor thereto) would cause any Maximum Distributable Amount to be exceeded.

Reinstatement of some or all of the Original Principal Amount of the Securities may be made on more than one occasion in accordance with these provisions until the Prevailing Outstanding Amount of the Securities has been reinstated to the Original Principal Amount.

Any decision by the Issuer to effect or not to effect any Reinstatement of some or all of the Original Principal Amount of the Securities on any occasion shall not preclude it from effecting or not effecting any such Reinstatement on any other occasion pursuant to these provisions.

If the Issuer decides to reinstate some or all of the Original Principal Amount of the Securities, a notice (a **"Reinstatement Notice"**) of such Reinstatement shall be given to the Holders and to the Fiscal Agent specifying the amount of any such reinstatement and the date on which such Reinstatement shall take effect. Such Reinstatement Notice shall be given at least five Business Days prior to the date on which the relevant Reinstatement is to become effective.

Following a Reinstatement in respect of the Securities, interest will accrue on the increased Prevailing Outstanding Amount of each Security from (and including) the date on which the relevant reinstatement takes effect, and (for the avoidance of doubt) such interest will be subject to Condition 5 (*Interest Cancellation*) and this Condition 6.

- (f) *No Liability of Paying Agents and Agent Bank*

None of the Paying Agents nor the Agent Bank shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event or any consequent Write-Down and cancellation of the Securities or any claims in respect thereof, and none of the Paying Agents nor the Agent Bank shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the foregoing.

7. **Redemption and Purchase**

- (a) *No scheduled redemption*

The Securities have no final maturity and are only redeemable or repayable in accordance with the relevant provisions set out in this Condition 7.

- (b) *Issuer Call*

Subject to Condition 7(e) (*Conditions to Redemption and Purchase*) below, the Issuer may, in its sole and discretion, upon the expiry of the appropriate notice, redeem all (but not some only) of the Securities on any Optional Redemption Date at their Original

Principal Amount together with interest accrued (if any) to (but excluding) the relevant Optional Redemption Date (excluding any cancelled interest).

For the avoidance of doubt, if at any time the Securities have been Written Down pursuant to Condition 6(a) (*Write-Down*), the Issuer may only exercise its option under this Condition 7(b) at such time as the Securities are reinstated to their Original Principal Amount pursuant to Condition 6(e) (*Discretionary Reinstatement*)).

The appropriate notice referred to in this Condition 7(b) is a notice given by the Issuer to the Fiscal Agent and the Holders, which notice shall be signed by two duly authorised officers of the Issuer and shall specify:

- (i) that the Securities are subject to redemption; and
- (ii) the due date for such redemption, which shall be an Optional Redemption Date which is not more than 60 days and not less than 30 days after the date on which such notice is validly given.

Subject to Condition 7(f) (*Occurrence of a Trigger Event*) below, any such notice shall be irrevocable, and the delivery thereof shall oblige the Issuer to make the redemption therein specified.

(c) *Redemption upon a Special Event*

Subject to Condition 7(e) (*Conditions to Redemption and Purchase*) below, upon the occurrence of a Special Event, the Issuer may, in its sole and absolute discretion, having given not less than 30 days' nor more than 60 days' notice to the Holders, at any time redeem all (but not some only) of the Securities at an amount equal to the then Prevailing Outstanding Amount of such Securities, together with interest accrued (if any) to (but excluding) the date of redemption (excluding any cancelled interest).

(d) *Purchase*

Subject to Condition 7(e) (*Conditions to Redemption and Purchase*) below and compliance with the Relevant Rules, the Issuer may, at any time, purchase Securities at any price in the open market or otherwise.

(e) *Conditions to Redemption and Purchase*

No redemption or purchase of the Securities may be made without the prior approval of the Relevant Regulator, and:

- (i) on or before such redemption or purchase (as applicable) of the Securities, the Issuer replaces the Securities with capital instruments of an equal or higher quality on terms that are sustainable for its income capacity; or
- (ii) the Issuer has demonstrated to the satisfaction of the Relevant Regulator that its Tier 1 Capital and Tier 2 Capital would, following such redemption or purchase (as applicable), exceed the capital ratios required under CRD IV by a margin that the Relevant Regulator may consider necessary on the basis set out in CRD IV for it to determine the appropriate level of capital of an institution; and

in the case of redemption before the fifth anniversary of the Issue Date, if:

- (iii) the conditions listed in paragraphs (i) or (ii) above are met; and
- (iv) in the case of redemption due to the occurrence of a Capital Event, (x) the Relevant Regulator considers such change to be sufficiently certain and (y) the Issuer demonstrates to the satisfaction of the Relevant Regulator that the Capital Event was not reasonably foreseeable at the time of the issuance of the Securities; or

- (v) in the case of redemption due to the occurrence of a Tax Event, the Issuer demonstrates to the satisfaction of the Relevant Regulator that such Tax Event is material and was not reasonably foreseeable at the time of issuance of the Securities.

(f) *Occurrence of a Trigger Event*

If any notice of redemption of the Securities is given pursuant to this Condition 7 and prior to the relevant redemption date a Trigger Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Securities on such redemption date and, instead, a Write-Down shall occur as provided under Condition 6 (*Loss Absorption and Discretionary Reinstatement*). For the avoidance of doubt, the Issuer shall not be prevented from redeeming the Securities in accordance with these Conditions once such Write-Down has occurred.

(g) *Cancellation*

All Securities redeemed or purchased in accordance with this Condition 7 and shall be cancelled and may not be reissued or resold.

(h) *Substitution or Variation*

Following the occurrence of a Special Event, the Issuer may, subject to giving any notice required to, and receiving any consent required from, the Relevant Regulator, (and without any requirement for the consent or approval of the Holders but having given not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at any time either substitute all (but not some only) of the Securities for, or vary the terms of the Securities so that they remain or, as appropriate, become, Compliant Securities provided that such variation or substitution does not itself give rise to any right of the Issuer to redeem the varied or substituted securities that are inconsistent with the redemption provisions of the Securities.

As used above "**Compliant Securities**" means any securities issued directly or indirectly by the Issuer that:

- (i) have terms which are not materially less favourable to a Holder than the terms of the Securities, as reasonably determined by the Issuer following consultation with an investment bank or financial adviser of international standing which is independent of the Issuer;
- (ii) contain terms which comply with the then current requirements in relation to Additional Tier 1 Capital under the Relevant Rules;
- (iii) include terms which provide for the same redemption rights, Interest Payment Dates and Rate of Interest, including for the avoidance of doubt any rate of interest reset provisions, as those from time to time applying to the Securities prior to the relevant substitution or variation;
- (iv) rank at least *pari passu* with the Securities;
- (v) shall preserve any existing rights under the Securities to any accrued interest which has not been satisfied in respect of the period from and including the Interest Payment Date last preceding the date of the substitution or variation;
- (vi) are listed on a recognised stock exchange (if the Securities were listed immediately prior to such variation or substitution); and
- (vii) where the Securities which have been substituted or varied had a published rating from an internationally recognised rating agency immediately prior to their substitution or variation each such rating agency has ascribed, or

announced its intention to ascribe, an equal or higher published rating to such securities.

If the Issuer has given a notice of substitution or variation of the Securities, and, after giving such notice but prior to the date of such substitution or variation, as applicable, the Issuer determines that a Trigger Event has occurred, the Issuer shall, in consultation with the Relevant Regulator determine whether or not the proposed substitution or variation, as applicable, will proceed and, if so, whether any amendments to the substance and/or timing of such substitution or variation, as applicable, will be made.

8. **Payments**

(a) *Principal*

Payments of principal shall be made by Euro cheque drawn on, or, upon application by a Holder of Securities to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to TARGET2 and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(b) *Interest*

Payments of interest shall be made by Euro cheque drawn on, or, upon application by a Holder of Securities to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to TARGET2 and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a Euro account (or other account to which Euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, *where* payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph “**business day**” means:

- (i) in the case of payment by transfer to a Euro account (or other account to which Euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day; and

- (ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Security, the Issuer shall procure that the *amount* and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.
- (f) *Record date:* Each payment in respect of a Security will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date *for* such payment (the "**Record Date**"). Where payment in respect of a Security is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

9. **Taxation**

All payments of principal and interest in respect of the Securities by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes or duties of whatever nature imposed or levied by, or on behalf of, the Republic of Finland unless the withholding or deduction of such taxes is required by law. In that event, in respect of payments of interest only, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amount of interest which would otherwise have been receivable in respect of the Securities, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Security presented for payment:

- (a) by or on behalf of a Holder who is liable for such taxes or duties in respect of such Security by reason of his having some connection with the Republic of Finland other than the mere holding of such Security; or
- (b) by or on behalf of a Holder of such Security who, at the time of such presentation, is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exception to the relevant tax authority; or
- (c) in the Republic of Finland; or
- (d) more than 30 days after the Relevant Date (as defined below) except to the extent that the Holder of such Security would have been entitled to such additional amounts on presenting such Security for payment on the last day of such period of 30 days; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) by or on behalf of a Holder who would be able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders in accordance with Condition 16 (*Notices*).

10. **Enforcement Events**

In the event that:

- (i) the Issuer shall in respect of any Security, default for a period of 7 days in the payment of any amount that has become due and payable in accordance with the Conditions; or
- (ii) an order is made or an effective resolution is passed for the liquidation (*selvitystila*) of the Issuer (except for the purpose of a merger, reconstruction or amalgamation under which any continuing entity effectively assumes the entire obligations of the Issuer under the Securities) or the Issuer is otherwise declared bankrupt (*konkurssi*) or put into liquidation (*selvitystila*), in each case, by a court or agency or supervisory authority in Finland or elsewhere having jurisdiction in respect of the same,

then the Holder may, to the extent permitted by applicable law:

- (x) (in the case of (i) above) institute proceedings for the Issuer to be declared bankrupt (*konkurssi*) or put into liquidation (*selvitystila*) in each case, in Finland and not elsewhere, and prove or claim in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer; and/or
- (y) (in the case of (ii) above) prove or claim in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer, whether in the Republic of Finland or elsewhere and instituted by the Issuer itself or by a third party,

but (in either case) the Holder may claim payment in respect of the Security only in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer.

In any of the events or circumstances described in (ii) above, the Holder of any Security may, by notice to the Issuer, declare such Security to be due and payable, and such Security shall accordingly become due and payable at its Prevailing Outstanding Amount, but subject to such Holder only being able to claim payment in respect of the Security in the bankruptcy (*konkurssi*) or liquidation (*selvitystila*) of the Issuer and provided that where any such event occurs after the date on which a Trigger Event occurs but before the relevant Write-Down Date, the Holder of any such Security may only declare such Security to be due and payable to the extent of its Prevailing Outstanding Amount (if any) as reduced by the relevant Write-Down Amount in respect of such Trigger Event.

The Holder of any Security may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Securities (other than, without prejudice to the above, any obligation for the payment of any principal or interest in respect of the Securities) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it, except with the prior approval of the Relevant Regulator.

No remedy against the Issuer, other than as provided above shall be available to the Holders of Securities, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Securities.

11. **Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

12. **Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably

require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. **Paying Agents**

In acting under the Agency Agreement and in connection with the Securities the Paying Agents and the Agent Bank act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent or the Agent Bank and to appoint a successor fiscal agent or agent bank and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain (a) a fiscal agent and an agent bank, (b) a paying agent with a specified office in such place as may be required by the rules and regulations of the stock exchange (or any other relevant authority) (from time to time) and (c) a paying agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Holders in accordance with Condition 16 (*Notices*).

14. **Meetings of Holders; Modification**

(a) *Meetings of Holders*

The Agency Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the Conditions and the Agency Agreement. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority of the nominal amount of the Securities for the time being outstanding, or at any such adjourned meeting one or more persons present being or representing the Holders whatever the nominal amount of the Securities held or represented, except that at any meeting, the business of which includes the modification of certain Conditions, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 75 per cent., or at any such adjourned meeting not less than 50 per cent., of the nominal amount of the Securities for the time being outstanding.

Any resolution passed at any meeting of the Holders will be binding on all the Holders, whether or not they are present at the meeting. Any Securities which have been purchased and are held by or on behalf of the Issuer but have not been cancelled shall (unless and until resold) be deemed not to be outstanding for the purposes of the right to attend or participate in any way at any meeting of Holders.

(b) *Modification*

Subject to the prior consent of the Relevant Regulator, the Fiscal Agent and the Issuer may agree, without the consent of the Holders, to:

- (i) any modification (except as mentioned above) of the Agency Agreement which is not, in the opinion of the Issuer, prejudicial to the interests of the Holders; or
- (ii) any modification of the Securities, the Deed of Covenant or the Agency Agreement which is, in the opinion of the Issuer, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Holders create and issue further Securities having the same terms and conditions as the Securities in all respects (or in all respects except, where applicable, for the first payment of interest) so as to form a single series with the Securities.

16. **Notices**

For so long as the Securities are listed on the Official List of the Irish Stock Exchange and admitted to trading on the Main Securities Market of the Irish Stock Exchange, notices to Holders will be deemed to have been validly given if published on the website of the Irish Stock Exchange (www.ise.ie) or in such other manner as the Irish Stock Exchange or its rules and regulations may prescribe or accept.

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Securities are for the time being listed or by which they have been admitted to trading.

17. **Governing Law and Jurisdiction**

- (a) The Securities, the Agency Agreement and the Deed of Covenant and all non contractual obligations arising out of or in connection with any of them are governed by English law except the provisions of Condition 3 (*Status and Subordination*) and Condition 10 (*Enforcement Events*) shall be governed by the laws of the Republic of Finland.
- (b) The Issuer agrees for the benefit of the Holders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Securities (including any non contractual obligations arising out of or in connection with the Securities).
- (c) The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.
- (d) Condition 17(b) is for the benefit of the Holders only. As a result, nothing in this Condition 17 prevents any Holder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Holders may take concurrent Proceedings in any number of jurisdictions.
- (e) The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Jordans Trust Company Limited at 20-22 Bedford Row, London WC1R 4JS or at any other address of the Issuer in Great Britain at which service of process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on the Issuer's behalf, the Issuer shall, on the written demand of any Holder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to proceedings in England and to Proceedings elsewhere.
- (f) The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

- (g) To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will be represented by a Global Certificate which will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg.

The Global Certificate will become exchangeable in whole, but not in part, for Individual Certificates if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates will be issued in an aggregate principal amount equal to the Prevailing Outstanding Amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Securities scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Certificate; or
- (b) any of the Securities evidenced by the Global Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Securities has occurred and, in either case, payment in full of the Prevailing Outstanding Amount falling due with all accrued interest thereon has not been made to the Holder of the Global Certificate on the due date for payment in accordance with the terms of the Global Certificate, then the Global Certificate (including the obligation to deliver Individual Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to interests in the Securities will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Certificate became void, they had been the registered Holders of Securities in an aggregate principal amount equal to the Prevailing Outstanding Amount of Securities they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Global Certificate will contain provisions that modify the Terms and Conditions of the Securities as they apply to the Securities evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Certificate, "**business day**" means any day which is a TARGET Settlement Day.

Payment Record Date: Each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Notices: Notwithstanding Condition 16 (*Notices*), so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg, notices to Holders of Securities represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg.

Write-Down and Reinstatement: For so long as all of the Securities are represented by the Global Certificate registered with the nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg, any Write-Down of the Securities will be effected in Euroclear and Clearstream, Luxembourg in accordance with their operating procedures by way of a reduction in the pool factor and any reinstatement in respect of the Securities will be effected in Euroclear and Clearstream, Luxembourg or such Alternative Clearing System in accordance with their operating procedures by way of an increase in the pool factor.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth consolidated cash and cash equivalents and capitalisation (including short term debt, long-term debt and shareholders' equity) of the Issuer as at 30 June 2015.

The information in this table should be read in conjunction with "*Management's Discussion and Analysis of Financial Position and Results of Operations of the Group*" the Group Consolidated Financial Statements and the notes to those statements and the Interim Report 2015 and the notes to that statement.

	As at 30 June 2015
	<i>(Euro '000)</i>
Cash and cash equivalents	1,438,127
Indebtedness:	
Liabilities to credit institutions	5,017,693
Liabilities to the public and public sector entities	945,825
Debt securities issued	25,491,290
Total Indebtedness	31,454,808
Shareholders' equity	
Share capital	42,583
Reserve fund	277
Fair value reserve	28,215
Reserve for invested non-restricted equity	40,366
Retained earnings	542,166
Total equity attributable to parent company equity holders	653,607
Total capitalisation⁽¹⁾	33,546,542

⁽¹⁾ Total capitalisation is the sum of total indebtedness and total equity.

SELECTED FINANCIAL INFORMATION RELATING TO THE GROUP

The following tables set out, in summary form, selected consolidated financial information for the Group as at and for the six months ended 30 June 2015 and 30 June 2014 and as at and for the years ended 31 December 2014, 31 December 2013 and 31 December 2012, as derived from the Group Consolidated Financial Statements which are prepared in accordance with EU IFRS. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Group Consolidated Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Position and Results of Operations of the Group" appearing elsewhere in this Prospectus.

CONSOLIDATED INCOME STATEMENT DATA

Consolidated Income Statement

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(Euro '000)</i>				
Interest income.....	84,308	109,939	212,351	180,014	275,660.5
Interest expense	(208)	(30,926)	(52,343)	(30,524)	(133,258.9)
NET INTEREST INCOME	84,100	79,012	160,008	149,490	142,401.6
Commission income	2,670	1,786	5,047	1,933	1,729.8
Commission expense	(1,767)	(1,823)	(3,834)	(4,135)	(3,225.0)
Net income from securities and foreign exchange transactions.....	1,086	(3,048)	(5,711)	5,023	14,340.4
Net income from available-for-sale financial assets.....	2,312	170	6,629	214	404.9
Net income from hedge accounting.....	1,660	(2,490)	3,693	9,617	339.6
Other operating income.....	7	8	11	5	25.6
Administrative expenses	(8,210)	(6,686)	(14,721)	(14,802)	(13,494.7)
Depreciation and impairment on tangible and intangible assets.....	(748)	(728)	(1,442)	(1,196)	(1,066.9)
Other operating expenses.....	(2,828)	(2,843)	(5,521)	(4,937)	(4,874.2)
Impairment losses on other financial assets	-	-	-	54	2,020.0
OPERATING PROFIT	78,283	63,360	144,160	141,266	138,601.1
Income taxes	(15,691)	(12,705)	(28,908)	(16,567)	(33,990.6)
PROFIT FOR THE FINANCIAL PERIOD	62,591	50,655	115,252	124,699	104,610.5
Profit attributable to:.....					
Equity holders of the parent company.....	62,480	50,575	115,044	124,697	104,510.4
Non-controlling interest	111	80	207	1	100.2

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(Euro '000)</i>				
Profit for the financial period.....	62,591	50,655	115,252	124,699	104,610.6
Available-for sale financial assets (fair value reserve):.....					
Net change in fair value	(1,777)	8,998	14,462	1,004	47,307.5
Net amount transferred to profit or loss	(1,642)	(133)	(3,769)	(2,356)	283.1
IAS39 Reclassification adjustment	46	46	92	167	272.3
Taxes relating to components of other comprehensive income	675	(1,782)	(2,157)	290	(11,726.4)
Change in corporate tax rate	-	-	-	1,254	-
TOTAL COMPREHENSIVE INCOME	59,893	57,784	123,880	125,057	140,747.1
Total comprehensive income attributable to:					
Equity holders of the parent company.....	59,782	57,704	123,673	125,056	140,646.9
Non-controlling interest	111	80	207	1	100.2

CONSOLIDATED FINANCIAL POSITION DATA

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
	<i>(Euro '000)</i>			
ASSETS				
Cash and cash equivalents.....	1,438,127	592,907	354,232	228,187.6
Loans and advances to credit institutions.....	484,951	1,072,099	589,144	106,828.0
Loans and advances to the public and public sector entities.....	19,531,227	19,337,730	17,882,282	15,764,231.6
Debt securities	8,279,826	6,416,586	5,985,644	6,637,830.8
Shares and participations	9,752	9,789	10,050	10,035.1
Derivative contracts	3,729,904	2,321,699	1,094,150	2,551,682.7
Intangible assets.....	5,499	4,757	4,740	2,399.0
Tangible assets.....	2,464	2,465	2,525	2,341.5
Other assets.....	5,172	2,196	1,977	2,410.1
Accrued income and prepayments	206,444	249,032	231,656	254,213.7
TOTAL ASSETS.....	33,693,366	30,009,259	26,156,402	25,560,160.0
LIABILITIES AND EQUITY				
Liabilities to credit institutions.....	5,017,693	3,882,771	2,264,386	3,961,730.2
Liabilities to the public and public sector entities	945,825	963,662	929,209	1,049,476.6
Debt securities issued.....	25,491,290	23,230,298	20,269,298	18,798,374.7
Derivative contracts	1,235,463	934,399	1,818,359	937,983.3
Other liabilities	3,596	2,056	1,395	1,306.3
Accrued expenses and deferred income.	183,029	249,902	268,590	297,999.2
Subordinated liabilities	36,257	37,943	48,974	90,354.7
Deferred tax liabilities.....	126,394	114,124	85,967	77,670.4
TOTAL LIABILITIES.....	33,039,547	29,415,155	25,686,178	25,214,895.4
EQUITY AND NON-CONTROLLING INTEREST				
Share capital	42,583	42,583	42,583	42,583.2
Reserve fund.....	277	277	277	276.7
Fair value reserve.....	28,215	30,914	22,285	21,926.6
Reserve for invested non-restricted equity.	40,366	40,366	40,366	40,366.1
Retained earnings.....	542,166	479,686	364,641	239,944.0
Total equity attributable to parent company equity holders	653,607	593,825	470,153	345,096.6
Non-controlling interest.....	212	279	71	168.0
TOTAL EQUITY AND NON-CONTROLLING INTEREST.....	653,819	594,104	470,224	345,264.5
TOTAL LIABILITIES AND EQUITY	33,693,366	30,009,259	26,156,402	25,560,160.0

CONSOLIDATED CASH FLOW DATA

	For the six months ended 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
	<i>(Euro '000)</i>				
Cash flow from operating activities	633,003	4,476	1,307,834	(62,468)	(482,694.8)
Cash flow from investing activities.....	(1,489)	(390)	(1,348)	(3,709)	(1,128.3)
Cash flow from financing activities	(1,206)	(10,000)	(10,000)	(40,098)	(173.0)
Change in cash funds	630,307	(5,914)	1,296,486	(106,275)	(483,996.1)
Cash funds at 1 January	3,181,659	1,885,173	1,885,173	1,991,448	2,475,444.2
Cash funds at period end.....	3,811,966	1,879,259	3,181,659	1,885,173	1,991,448.0

KEY PERFORMANCE INDICATORS

The following table sets out some of the key indicators of the results and performance of the Group and the Issuer used by management. Finanssivalvonta (or the Financial Supervisory Authority) ("FIN-FSA"), which is the authority for supervision of Finland's financial and insurance sectors, defines what key

indicators need to be presented as part of the "Report of the Board of Directors". The Report of the Board of Directors, which includes some of the key indicators below, is not governed by EU IFRS, however all of the key indicators below are calculated based on our consolidated financial information which is presented in accordance with EU IFRS. These key indicators are not directly comparable with those related to other credit institutions.

Certain key indicators do not have official definitions from EU IFRS or FIN-FSA and are presented to clarify certain indicators used by management, such as our funding portfolio or lending portfolio. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Group Consolidated Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Position and Results of Operations of the Group" appearing elsewhere in this Prospectus.

	As at and for the six months ended 30 June		As at and for the year ended 31 December		
	2015	2014	2014	2013	2012
Turnover ⁽¹⁾ (mEUR).....	92.0	106.4	222.0	196.8	292.5
Net interest income (mEUR).....	84.1	79.0	160.0	149.5	142.4
% of turnover.....	91.37%	74.28%	72.1%	76.0%	48.7%
Operating profit (mEUR).....	78.3	63.4	144.2	141.3	138.6
% of turnover.....	85.05%	59.57%	64.9%	71.78%	47.38%
Cost-to-income ratio ⁽²⁾	0.15x	0.16x	0.15x	0.15x	0.14x
Loan portfolio ⁽³⁾ (mEUR).....	19,378	18,365	19,205	17,801	15,700
Funding portfolio ⁽⁴⁾ (mEUR).....	28,817	25,477	26,616	23,108	22,036
Total assets (mEUR).....	33,693	28,211	30,009	26,156	25,560
Return on equity (%) (ROE) ⁽⁵⁾	20.06%	20.30%	21.66%	30.58%	38.04%
Return on assets (%) (ROA) ⁽⁶⁾	0.39%	0.37%	0.41%	0.48%	0.42%
Equity ratio (%) ⁽⁷⁾	1.94%	1.87%	1.98%	1.80%	1.35%
Tier 1 capital (mEUR).....	647.5	494.9	557.2	454.2	331.9
Own funds (mEUR).....	682.5	559.3	623.1	511.5	428.9
Capital adequacy ratio, Tier 1 capital, (%) ⁽⁸⁾	30.12%	25.70%	29.98%	35.42%	26.22%
Capital adequacy ratio (%) ⁽⁹⁾	31.75%	29.04%	33.53%	39.88%	33.87%

⁽¹⁾ Turnover is calculated as the sum of interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income.

⁽²⁾ Cost-to-income ratio is calculated as the sum of commission expenses, administrative expenses, depreciations and other operating expenses divided by the sum of net interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income.

⁽³⁾ Loan portfolio is calculated as loans and advances to the public and public sector entities less leasing receivables.

⁽⁴⁾ Funding portfolio is calculated as the sum of liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued less collateral received.

⁽⁵⁾ Return on equity (per cent.) (ROE) is calculated as operating profit less income taxes divided by average total equity and non-controlling interest (average of the beginning of the year and the end of the year).

⁽⁶⁾ Return on assets (per cent.) (ROA) is calculated as operating profit less income taxes divided by average total assets (average of the beginning of the year and the end of the year).

⁽⁷⁾ Equity ratio (per cent.) is calculated as the sum of total equity and non-controlling interest and appropriations less deferred tax liabilities divided by total assets.

⁽⁸⁾ Capital adequacy ratio, Tier 1 capital (per cent.) equals total Tier 1 capital divided by risk-weighted assets. Calculations for periods prior to 30 June 2015 are not comparable due to the implementation of EU Capital Requirements Regulation.

⁽⁹⁾ Capital adequacy ratio (per cent.) equals total own funds divided by risk-weighted assets. Calculations for periods prior to 30 June 2015 are not comparable due to the implementation of EU Capital Requirements Regulation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE GROUP

The discussion below is based on the Group Consolidated Financial Statements.

The following discussion of the Group's results of operations, financial position and cash flows should be read in conjunction with the Group Consolidated Financial Statements and other financial information included in other sections of this Prospectus, specifically jointly with the data presented in "Selected Financial Information Relating to the Group". This section includes forward-looking statements that reflect the current views of the Board of Directors and due to their nature involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of the factors discussed below and in other sections of this Prospectus, particularly in "Risk Factors" (see also "Forward-Looking Statements"). Investors should read the whole of this Prospectus and not base their decisions or opinions solely upon the information contained in this section.

The summary of critical accounting policies and estimates according to which the Group Consolidated Financial Statements were prepared is provided in this section. See "—Critical accounting policies".

Overview

Municipality Finance Plc (Kuntarahoitus Oyj) (the "**Issuer**") was established on 1 May 2001, when the old Municipality Finance Plc (established in 1989) and Municipal Housing Finance Plc (established in 1993) were merged to form a new company, Municipality Finance Plc, a credit institution referred to in the (Finnish) Credit Institutions Act. On 26 April 2001, the Issuer was granted a credit institution licence by the Ministry of Finance.

The Issuer serves the Finnish municipal sector which consists of municipalities, municipal federations and a range of organisations owned or controlled by municipalities, and corporations designated by state authorities engaging in housing on social grounds. The Issuer's mission is to be, as a financial institution owned by the municipal sector and the Republic of Finland, the most sought-after and active partner in municipal-sector financial services in Finland. The Issuer's aim is to ensure cost-effective financial services for the municipal and social housing sector, to operate efficiently and grow profitably, and to improve its self-sufficiency and increase its own funds primarily through funds from its operations in compliance with the Municipal Guarantee Board Act and all relevant and applicable rules and legislation. The Issuer focuses actively on customer relations and creates solutions and services for its customers.

The Issuer's fully paid-up capital was approximately Euro 42.6 million and its own funds amounted to approximately Euro 682.5 million at 30 June 2015. The Issuer's total assets on 30 June 2015 were approximately Euro 33.7 billion, of which the lending portfolio represented approximately Euro 19.4 billion.

The Issuer's five largest shareholders at 30 June 2015 were Keva (formerly named "The Local Government Pensions Institution") (30.66 per cent.), the Republic of Finland (16.00 per cent.), City of Helsinki (10.41 per cent.), City of Espoo (3.96 per cent.) and VAV Asunnot Oy (City of Vantaa) (2.47 per cent.).

Significant Factors Affecting Operating and Financial Results

Pricing, cost of funding and liquidity

The availability and the cost of funding has a material impact on the net interest income of the Group, impacting the Group's competition situation, and thus potentially the growth of its lending portfolio and the levels of its net interest margins. One of the most significant factors affecting the cost and availability of the Group's funding has been and is related to the general development of the European economy. While the international position of Finland is favourable in terms of access to funding, should the European financial crisis re-emerge again, the cost of acquiring funding might rise.

Despite the global economic downturn, Finland was one of the only countries in the EU not to lose its Aaa rating and it was still rated Aaa (with a negative outlook from 5 June 2015) by Moody's as at the date of this Prospectus. However, on 11 April 2014, Standard and Poor's ("**S&P**") affirmed its AAA credit ratings on Finland but at the same time revised its outlook to negative from stable and then on 14 October 2014 S&P lowered its rating to AA+ (stable). As a result, the Group was also downgraded as a

consequence of the equivalent action on the rating of the Republic of Finland. On 25 September 2015, S&P revised its outlook on Finland to AA+ (negative). The Finnish economy returned to growth in 2014 after two years of contraction. The real GDP is estimated to have grown by 0.1 per cent in 2014 according to the Ministry of Finance. The growth is expected to gain momentum in 2015 with real GDP increasing by 0.5 per cent according to forecasts by the Ministry of Finance published in April 2015.

The Group requires ongoing access to funding in order to originate new lending contracts. The Group front-loads its expected funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. The main sources of funding used by the Group for lending activities are its EUR 25 billion Programme for the Issuance of Debt Instruments ("**Programme**"), its domestic debt programme, its EUR 4 billion Euro-Commercial Paper Programme and its Australian dollar 2 billion Medium Term Note Programme. Since 2010, Municipality Finance Plc has held the status of central bank counterparty, and together with its securities portfolio, the Group's entire municipal loan book can be used as eligible collateral for borrowings from the Finnish central bank, which acts as a substantial liquidity buffer.

As a result of the significant volume of funding the Group requires, the Group realises significant expenses in acquiring its funding. Since most of these expenses relate to the interest expense of such funding, which is hedged to floating rate euro, the Group focuses on achieving lending prices which offer a target margin over its cost of funding. As a result, if the Group's cost of funding were to increase, it may be forced to increase its pricing to its customers which may reduce its market share.

Additionally, because the Group front-loads much of its funding needs, the Group has significant assets for investment. Therefore, the Group must manage the cost of securing the funding against any returns on holding the funds to meet the Group's liquidity requirements prior to such funds being used for lending purposes. The credit risk of the investment and the stability of its valuation are two of the most important criterion for investment of the Group's funds. The objective of the Group's investment operations is to manage the investment assets by investing them securely with sufficient return to ensure that the Group's liquidity enables it to continue flexible lending operations under all market conditions. As a result, the Group maintains a high proportion of liquid funds. Investment assets comprise the Group's own funds and acquired funding. In response to market uncertainty regarding the eurozone in 2011 and 2012, the Group shifted the focus of its investment portfolio further towards investments that were considered more secure, primarily covered bonds and debt securities issued by EU states and other public sector entities in the economically strongest countries. Investments were primarily made in core countries in the eurozone, including the Nordic countries. In investments with a maturity of over one year, the focus was on AAA-rated covered bonds on transactions issued by highly rated supranational, sovereign and agency-issuers and on senior bank papers issued by lower risk banks. During 2014, the Group allocated more long term investments into unsecured bank notes in core European countries as the eurozone crisis and systemic risk diminished. The aggregate portfolio breakdown between covered bonds, unsecured bank notes and state related entities is approximately one third invested in each. The Group's liquidity portfolio had an average rating of AA at year-end 2014 and as at 30 June 2015 (2012 AA and 2013 AA+). Higher rated assets often have lower interest rates than less highly rated assets. As a result, the more conservative the Group's investments are, the more likely interest income from investment activity will decrease. The Group experienced this effect in 2012 as average interest rates on its investment securities decreased as a result of the more conservative positioning of the investment portfolio. Further, as part of its management of funding the Group sometimes uses its funds to buy-back or redeem existing debt, the costs of which can sometimes impact the Group's net interest income.

The volume of the Group's lending and its market share

The Issuer is a credit institution owned by Finnish municipalities, Keva (the pension fund for Finnish municipalities) and the Republic of Finland and focuses solely on offering market-based financing to municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations. The Issuer specialises in long-term loan arrangements that are used in particular for infrastructure investments and the construction, renting, management or maintenance of social housing in Finland in accordance with the Act on MGB. As such, the Issuer conducts its lending operations exclusively in Finland and its lending growth is reliant on the prospects of municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations in Finland. Therefore the macroeconomic factors relating to Finland, and more specifically its municipalities, such as GDP, the inflation rate, interest rates, currency exchange rates and tax rates, together with various other factors, have a material impact on customer demand and margins for Group's products and services.

Municipalities' investment needs grew in the 2000s. According to a report by the Ministry of Finance, Finnish municipalities have more than 500 mandatory functions, whose main focus is on health care, social services and education. In addition to this, municipalities bear a significant responsibility for developing and maintaining society's other infrastructure, such as energy and water supply, amongst other areas. Despite the growth of debt in absolute terms, municipalities' relative indebtedness has not increased since 2009, as the income available to them has also grown correspondingly. However, debt may become a problem for the municipalities in the future if the amount of debt is allowed to increase at the current pace. Municipalities receive an annual share of the revenues from corporate taxes collected by the state. According to the Association of Finnish Local and Regional Authorities, an average Finnish municipality funds approximately half of its activities by its own tax revenues, although the proportion varied between 78 and 18 per cent. for the year ended 31 December 2014. In 2014, the municipalities raised approximately Euro 21.1 billion from taxation according to the Association of Finnish Local and Regional Authorities.

There were no significant changes in the financing needs of the Finnish municipal sector in 2014 compared to the previous years, and the demand for loans continued to grow at a conservative rate. In 2013 and 2012, demand in housing loans was increased by the conversion of state-subsidised loans (ARAVA) to financial institution loans. Although, state-subsidised production of new housing increased, loan demand declined slightly. However, in 2013 the amount of lending for housing financing was negatively affected by the lower conversions of state-subsidised loans. In 2012, customers applied for interest subsidy decisions concerning only a few rental building projects. The funding requirements for interest-subsidised housing production, however, remained unchanged in 2013 from the previous year. If this situation continues unchanged, there may be a shortage of reasonably priced rental housing, particularly in the Helsinki metropolitan area and other growth centres. Infrastructure projects such as the construction of roads were emphasised in loan demand. Energy sector financing focused on energy-efficient projects utilising domestic fuel.

During the increase in demand for loans described above in 2012 and 2013, many of the Group's competitors had been restricted in their ability to lend due to higher funding costs and reduced access to capital as a result of the global credit crisis. Further, those that were able to lend often had to raise their prices from their pre-crisis levels. As a result, the Group gained market share in many of its lending markets during those years, even while it had increased its prices. However, the Group believes its market share has decreased since 2012. Any improvement in the global credit markets may result in increased competition which may lead to increased pricing pressure or a further decline in market share in the future, similar to what we have experienced over the last year.

Customers' demand for loans was higher during the first half of 2015 compared to the same period the previous year. The total volume of tender requests received by the Group in the six months ended 30 June 2015 was EUR 2,833 million (EUR 2,146 million in the six months ended 30 June 2014). The total amount of new loans withdrawn in the six months ended 30 June 2015 was lower than in the same period last year at EUR 1,173 million (EUR 1,245 million in the six months ended 30 June 2014). As of 30 June 2015, the Group's long-term loan portfolio stood at EUR 19,378 million.

The Group has concluded a number of facility agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is seen as a viable alternative, particularly for procurement by municipalities, municipal corporations engaging in municipal operations and hospital districts. The leasing portfolio stood at EUR 153 million as of 30 June 2015 (31 December 2014: EUR 133 million).

As of 30 June 2015, the Group had EUR 1,182 million in municipal commercial paper and municipal company commercial paper on its balance sheet (31 December 2014: EUR 845 million). During the six months ended 30 June 2015, customers acquired EUR 4,736 million in financing under short-term programmes.

The total number of loan tender requests received by the Group in the year ended 31 December 2014 decreased by 13.8 per cent. compared with 2013. The total number of loan tender requests received by the Group in 2013 increased by 13 per cent. compared with 2012. The total value of loan tender requests received in 2014 was Euro 4,387 million, of which the Group won Euro 2,814 million, compared with Euro 5,090 million for the year ended 31 December 2013 of which it won Euro 3,442 million and Euro 4,515 million for the year ended 31 December 2012 of which it won Euro 3,284 million. Based on internal calculations of the tender requests the Group receives, the Group believes its market share was 65

per cent., 75 per cent. and 80 per cent., respectively, of all competitive bidding for financing among the Issuer's customer base in 2014, 2013 and 2012, respectively.

Fluctuations in interest rates, currency exchange rates and the valuation of derivatives

The Group's funding portfolio as at 30 June 2015 was Euro 28,817 million. Of this total amount as at 30 June 2015, 16 per cent. was denominated in euros and 84 per cent. in foreign currencies. However, the Group hedges against all currency risks by using derivative contracts to translate foreign currency denominated funding into euros.

Also, while the Group's lending and funding is in both floating and fixed interest rates, the Group also hedges all of its fixed rate interest exposure (both borrowings and loans to customers) to floating rate.

In addition to loans, the Group offers municipalities, municipal federations and municipal enterprises customised derivative agreements for the management of their interest risks. The Group arranges back-to-back derivative agreements with other financial institutions for any derivative agreements it offers to municipalities, municipal federations and municipal enterprises.

As a result of these activities, the Group had derivative contracts with a nominal value of Euro 62,809.9 million as at 30 June 2015.

The following table sets forth, as of the dates indicated, information on the derivative contracts of the Group:

	As at 30 June 2015		
	Nominal value	Fair Value	
	Total	Positive	Negative
	<i>Euro ('000)</i>		
Contracts not included in hedge accounting			
Interest rate derivatives			
Interest rate swaps.....	6,040,842	141,637	(144,644)
Interest rate options.....	142,547	2,799	(2,798)
Forward rate agreements.....	-	-	-
Currency derivatives			
Cross currency interest rate swaps.....	23,715	1,370	(1,371)
Forward exchange contracts.....	1,059,526	39,275	(8,395)
Equity derivatives.....	1,742,330	81,398	(81,398)
Other derivatives.....	204,690	24,824	(24,704)
Total.....	9,213,651	291,303	(263,310)
Contracts under hedge accounting			
Interest rate derivatives			
Interest rate swaps.....	32,204,974	540,871	(379,096)
Interest rate options.....	14,976	1	(192)
Currency derivatives			
Cross currency interest rate swaps.....	21,376,313	2,897,729	(592,865)
Total.....	53,596,263	3,438,601	(972,154)
Grand total.....	62,809,914	3,729,904	(1,235,463)

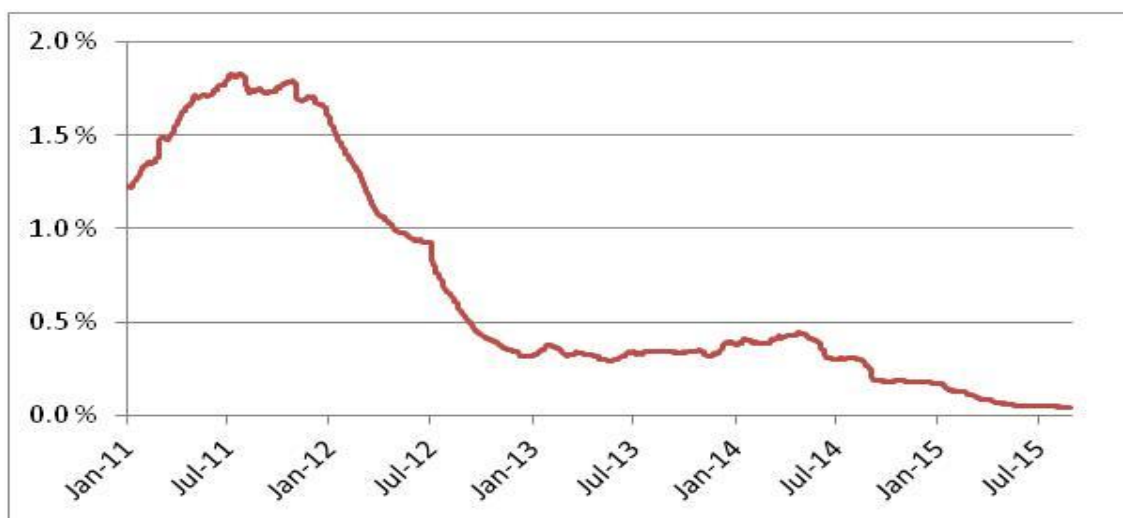
	As at 31 December 2014			As at 31 December						
	Nominal value	Fair Value		2013			2012			
		Total	Positive	Total	Nominal value	Fair value		Nominal value	Fair value	
						Total	Positive		Negative	Total
	(Euro '000)									
Contracts not included in hedge accounting										
Interest rate derivatives										
Interest rate swaps	5,333,590	143,914	(151,784)	6,431,774	44,682	(59,360)	6,196,383	56,035	(91,858)	
Interest rate options	62,661	2,752	(2,948)	42,206	802	(629)	-	-	-	
Forward rate agreements	-	-	-	5,000	-	(2)	-	-	-	
Currency derivatives										
Cross currency interest rate swaps	27,838	33	(33)	39,160	145	(142)	53,858	329	(323)	
Forward exchange contracts	898,665	42,978	(1)	1,442,027	-	(26,134)	927,088	592	(13,249)	
Equity derivatives	1,567,862	64,723	(64,723)	2,232,366	88,486	(88,486)	3,790,493	172,391	(172,391)	
Other derivatives	166,096	22,263	(22,143)	253,285	34,422	(34,182)	365,562	44,093	(43,733)	
Total	8,056,710	276,663	(241,632)	10,445,819	168,537	(208,935)	11,333,384	273,441	(321,554)	
Contracts under hedge accounting										
Interest rate derivatives										
Interest rate swaps	28,787,923	599,447	(441,699)	25,339,097	273,041	(257,090)	18,625,030	516,296	(378,058)	
Interest rate options	68,044	-	(588)	73,461	-	(1,285)	-	-	-	
Currency derivatives										
Cross currency interest rate swaps	19,767,470	1,445,589	(250,480)	16,886,601	652,572	(1,351,049)	14,041,357	1,761,946	(238,371)	
Total	48,623,437	2,045,036	(692,767)	42,299,159	925,613	(1,609,424)	32,666,387	2,278,242	(616,429)	
Grand total	56,680,147	2,321,699	(934,399)	52,744,978	1,094,150	(1,818,359)	43,999,772	2,551,683	(937,983)	

While the Group uses derivatives only for hedging purposes, certain derivatives entered into by the Group do not qualify for hedge accounting and create volatility in the Group's income statement. This volatility is a function of the volatility of market interest rates and currency exchange rates and the related fair value changes of those derivatives which the Group must recognise on its income statement. The total nominal value of derivative contracts not included in hedge accounting under EU IFRS was Euro 9,213.7 million as at 30 June 2015. Changes in the fair value of such derivatives are recognised on the income statement during the period in which they occur as one component of the net result for the line item "Net income from securities and foreign exchange transactions". The Group recognised changes in fair value of derivative contracts of Euro 6.1 million, Euro 21.0 million and negative Euro 8.0 million the years ended 31 December 2014, 2013 and 2012, respectively.

Interest rate movements

The Group hedges its lending portfolio and funding into floating rate euros. As a result, the Group's interest income and interest expense are sensitive to interest rate movements. As interest rates decrease the Group's interest earned on its existing lending portfolio will decrease and the interest paid under its existing funding will decrease. The Group's profitability is based on its ability to manage the margin between the interest income and the interest expense. Interest rates began to decline in late 2011 and continued to fall through 2012, while remaining broadly stable in 2013 and 2014 at low rates.

The table below shows the Euribor 6-month interest rate for 2012, 2013 and 2014 and the first six months of 2015.



The Group's interest income declined from 2011 to 2013 even though the volume of the Group's lending increased as well as the margin it sets on such lending. Also, the Group's interest expense declined from 2011 to 2013 even as the Group had more outstanding debt securities in 2013 than in 2011. However, during this period, the Group's net interest income increased steadily given the increase in loan volume and interest rate margin and its successful funding operations. In 2014 rates were broadly in line with 2013 although they began to fall in the second half of 2014, where they have remained in the first six months of 2015. As a result of the lower rates in the first six months of 2015 compared to the first six months of 2014 the Group's interest income and interest expense both decreased in the first six months of 2015 compared to the same period in 2014. Should interest rates fall even further, the Group may experience declines in its interest income and interest expense. Conversely, should interest rates rise the Group's interest income and interest expense may rise even if there is a reduction in the volume of the lending or funding.

In light of the proposed implementation of CRR and CRD IV based on the Basel III Standards in recent and also coming years, the Group has focused on increasing its profitability, which has included generally increasing the lending margins charged on its lending (although adjusting the margin to maintain certain lending volumes) which began gradually in mid-2011. At the same time, the Issuer's shareholders have elected not to distribute dividends for the Issuer to allow the transfer of profits to retained earnings, thereby increasing the Issuer's Tier 1 capital and improving the Group's leverage ratio.

Summary of Key Consolidated Statement Income Items

Interest Income

The interest income of the Group depends primarily on the level of its interest earning assets, as well as the average rate earned on its interest earning assets. Interest income consists of loans and advances to credit institutions and central banks, loans and advances to the public and public sector entities, debt securities, derivative contracts, leasing operations and other interest income. The largest component of interest income of the Group is income from loans and advances to the public and public sector entities. The volume development for loans and advances to the public and public sector entities is closely linked to the economic situation and interest rate levels (driven both by market rates and competition in the banking sector).

The effective interest method is applied to interest income. Commissions and fees received and paid, transaction expenses as well as any premiums and discounts are taken into account when the effective interest rate is calculated. The effective interest rate calculation is a method of calculating the amortised cost of financial assets or liabilities and allocating interest income to a given period.

The effective interest rate is the percentage rate at which estimated future cash payments or receipts are discounted over the period to the expiry of the financial instrument to the net financial position value of

the asset or liability. When calculating the effective interest rate, the Group estimates cash flows taking into account all the contractual terms and conditions of a given financial instrument, excluding potential future loan losses.

Interest income in respect of derivative financial instruments relating to the Group's loans and investments are recognised as offsetting items in interest income.

Interest Expense

The interest expense of the Group depends primarily on the level of its interest-bearing liabilities, as well as the average rate paid on its interest-bearing liabilities. Interest expense consists of liabilities to the public and public sector entities, liabilities to credit institutions and central banks, debt securities issued, derivative contracts, subordinated liabilities and other interest expense. The largest component of interest expense of the Group is expense from debt securities issued.

The effective interest method is applied to interest expense. See "*—Interest Income*".

Interest expense in respect of derivative financial instruments relating to the Group's liabilities and debt securities issued are recognised as offsetting items in interest expense.

Commission Income

Commission income includes commission and fees received for financial advisory services, primarily conducted by Inspira, the Issuer's subsidiary.

Commission Expense

Commission expenses include the guarantee fee paid to MGB, custody fees and debt programme fees and costs.

Net Income from Securities and Foreign Exchange Transactions

Net income from securities and foreign exchange transactions consists of gains and losses resulting from foreign exchange measurements and changes in the fair value of assets and liabilities valued using the fair value option. This also includes fair value changes of derivatives which are not included in fair value hedge accounting. Monetary receivables and liabilities denominated in a foreign currency have been converted into euros using the European Central Bank's average exchange rate on the financial position date.

Net Income from Available-for-Sale Financial Assets

Net income from available-for-sale financial assets consists primarily of the realised capital gains and losses on financial assets as well as unrealised gains and losses transferred from the fair value reserve, in addition to impairment recognised through profit or loss on the Group's investment portfolio.

Impairment on debt securities available-for-sale is recognised when there is objective evidence on the impairment of the item.

Net Income from Hedge Accounting

Net income from hedge accounting includes the net income from the measurement at fair value of the Group's lending and funding portfolio and the derivatives hedging them (to the extent such hedging qualifies for fair value hedge accounting).

Administrative Expenses

Administrative expenses of the Group are primarily generated by personnel expenses. Staff costs are driven by the overall number of the Group's full-time equivalent employees, as well as the level of wages and salaries and pension costs. The main components of the Group's other administrative expenses are IT, maintenance of fixed assets and rents, as well as promotion and advertising activities.

Other Operating Expenses

Other operating expenses consists of rental expenses and other expenses from actual credit institution operations.

Impairment Losses on other Financial Assets

Impairment losses on other financial assets consists of the impairment loss on any debt securities held to maturity. The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

Income Taxes

Income tax expense is mainly determined by the statutory tax rates applicable in Finland and generally comprise accrual-based taxes that are determined based on the profits generated by the Group, and changes in deferred taxes. Taxes have been adjusted by taxes related to previous years. The corporate income tax rate for the Group's operations in Finland was 20 per cent., 24.5 per cent. and 24.5 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively.

Results of Operations

The following tables set forth, as of the dates indicated, certain summary financial information about the results of the Group's operations:

	For the six months ended 30 June		Change 2014 to 2015
	2015	2014	
	<i>(Euro '000)</i>		%
Interest income	84,308	109,939	(23.3)
Interest expense	(208)	(30,926)	99.3
NET INTEREST INCOME	84,100	79,012	6.4
Commission income	2,670	1,786	49.5
Commission expense	(1,767)	(1,823)	(3.1)
Net income from securities and foreign exchange transactions	1,086	(3,048)	135.6
Net income from available-for-sale financial assets	2,312	170	1257.6
Net income from hedge accounting	1,660	(2,490)	166.7
Other operating income	7	8	(12.5)
Administrative expenses	(8,210)	(6,686)	22.8
Depreciation and impairment on tangible and intangible assets	(748)	(728)	2.8
Other operating expenses	(2,828)	(2,843)	(0.5)
NET OPERATING PROFIT	78,283	63,360	23.5
Income tax expense	(15,691)	(12,705)	23.5
PROFIT FOR THE PERIOD	62,591	50,655	23.6
Profit attributable to:			
Equity holders of the parent company	62,480	50,575	23.5
Non-controlling interest	111	80	38.8

	For the year ended 31 December			Change 2013 to 2014	Change 2012 to 2013
	2014	2013	2012		
	(Euro '000)			%	
Interest income	212,351	180,014	275,660.5	18.0	(34.7)
Interest expense	(52,343)	(30,524)	(133,258.9)	(71.5)	(77.1)
NET INTEREST INCOME	160,008	149,490	142,401.6	7.0	5.0
Commission income	5,047	1,933	1,729.8	161.1	11.7
Commission expense	(3,834)	(4,135)	(3,225.0)	7.3	(28.2)
Net income from securities and foreign exchange transactions	(5,711)	5,023	14,340.4	(213.7)	(65.0)
Net income from available-for-sale financial assets	6,629	214	404.9	2997.7	(47.2)
Net income from hedge accounting	3,693	9,617	339.6	(61.6)	2728.5
Other operating income	11	5	25.6	120.0	(80.8)
Administrative expenses	(14,721)	(14,802)	(13,494.7)	0.5	(9.7)
Depreciation and impairment on tangible and intangible assets	(1,442)	(1,196)	(1,066.9)	(20.6)	(12.1)
Other operating expenses	(5,521)	(4,937)	(4,874.2)	(11.8)	(1.3)
Impairment losses on other financial assets	-	54	2,020.0	-	(97.3)
OPERATING PROFIT	144,160	141,266	138,601.1	2.0	1.9
Income taxes	(28,908)	(16,567)	(33,990.6)	(74.5)	51.3
PROFIT FOR THE FINANCIAL PERIOD	115,252	124,699	104,510.4	(7.6)	19.2
Profit attributable to: Equity holders of the parent company	115,044	124,697	104,510.4		
Non-controlling interest	207	1	100.2		

Net Interest Income

The table below sets forth, for the periods indicated, the principal components of the Group's net interest income.

	For the year ended 31 December			Change 2013 to 2014	Change 2012 to 2013
	2014	2013	2012		
	(Euro '000)			%	
Interest income					
Loans and advances to credit institutions and central banks	182	338	1,422	(46.2)	(76.2)
Loans and advances to the public and public sector entities	265,070	260,267	313,775	1.8	(17.1)
Debt securities	94,711	88,154	91,935	7.4	(4.1)
Derivative contracts	(153,568)	(171,555)	(134,503)	10.5	(27.5)
Leasing operations	1,630	1,279	1,080	27.4	18.4
Other interest income	4,326	1,531	1,952	182.6	(21.6)
Total	212,351	180,014	275,660	18.0	(34.7)

	For the year ended 31 December			Change 2013 to 2014	Change 2012 to 2013
	2014	2013	2012		
	(Euro '000)			%	
Interest expense					
Liabilities to the public and public sector entities	20,858	22,563	28,691	(7.6)	(21.4)
Liabilities to credit institutions and central banks	45,632	59,212	45,450	(22.9)	30.3
Debt securities issued	596,251	320,135	519,486	86.2	(38.4)
Derivative contracts	(612,980)	(374,177)	(463,471)	(63.8)	19.3
Subordinated liabilities	1,648	1,850	2,563	(10.9)	(27.8)
Other interest expense	934	942	540	(0.8)	74.4
Total	52,343	30,524	133,259	71.5	(77.1)
Net interest income	160,008	149,490	142,401	7.0	5.0

Six months ended 30 June 2015 versus six months ended 30 June 2014

Net interest income increased by Euro 5.1 million, or 6.4 per cent., to Euro 84.1 million for the six months ended 30 June 2015, compared to Euro 79.0 million for the six months ended 30 June 2014 primarily due to a decrease in the Group's interest expense.

Interest income

Interest income decreased by Euro 25.6 million, or 23.3 per cent., to Euro 84.3 million for the six months ended 30 June 2015, compared to Euro 109.9 million for the six months ended 30 June 2014 primarily due to a decrease in interest rates, which was partially offset by an increase in the Group's investments in debt securities.

Interest expense

Interest expense decreased by Euro 30.7 million, or 99.3 per cent., to Euro 0.2 million for the six months ended 30 June 2015, compared to Euro 30.9 million for the six months ended 30 June 2014 primarily due to the decrease of interest rates to historically low levels.

Net income from securities and foreign exchange transactions

Net income from securities and foreign exchange transactions was 1.0 million for the six months ended 30 June 2015, compared to a loss of Euro 3.0 million for the six months ended 30 June 2014 primarily due to an increase in income from securities.

Net income from hedge accounting

Net income from hedge accounting was Euro 1.7 million for the six months ended 30 June 2015, compared to a loss of Euro 2.5 million for the six months ended 30 June 2014 primarily due to the fair value changes of both the derivative hedges and the underlying hedged items. For a breakdown of the Group's derivative contracts during the periods under review see "*Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

2014 versus 2013

Net interest income increased by Euro 10.5 million, or 7.0 per cent., to Euro 160 million for the year ended 31 December 2014, compared to Euro 149.5 million for the year ended 31 December 2013 primarily due to an increase in the Issuer's interest rate margin on new lending and its lending portfolio value. As discussed previously, the Issuer has focused on increasing its profitability by generally increasing its lending margins, although adjusting it as necessary to maintain certain lending volumes as part of its strategy to improve its leverage ratio to meet the current proposed Basel III requirement. This process continued in 2014 when the Issuer benefited from a greater proportion of its outstanding loans bearing interest at the increased margin. Further, even though the value of new lending in 2014 was less than it was in 2013, the Group's overall lending portfolio value increased by 8%.

Interest income

Interest income increased by Euro 32.3 million, or 18 per cent., to Euro 212.4 million for the year ended 31 December 2014, compared to Euro 180 million for the year ended 31 December 2013 primarily due to the increased pricing margin on new lending and the increase of its lending portfolio value.

Interest income from loans and advances to the public and public entities increased by Euro 4.8 million, or 1.8 per cent., to Euro 265.1 million for the year ended 31 December 2014, compared to Euro 260.3 million for the year ended 31 December 2013 primarily due to increases in pricing margin on new lending and the increase of its lending portfolio value.

Interest income from debt securities (i.e., the Group's investment portfolio) increased by Euro 6.6 million, or 7.4 per cent., to Euro 94.7 million for the year ended 31 December 2014, compared to Euro 88.2 million for the year ended 31 December 2013 primarily due to an increase in debt security investments.

Further contributing to these increases, interest expense payable on derivative contracts decreased by Euro 18 million, or 10.4 per cent., to Euro 153.6 million for the year ended 31 December 2014, compared to Euro 171.6 million for the year ended 31 December 2013 primarily due to the decrease in interest rates.

Interest expense

Interest expense increased by Euro 21.8 million, or 71.5 per cent., to Euro 52.3 million for the year ended 31 December 2014, compared to Euro 30.5 million for the year ended 31 December 2013 primarily due to an increase in the amount of debt securities issued, which was partially offset by an increase interest income received from derivative contracts.

Interest expense from debt securities issued increased by Euro 276.1 million, or 86.2 per cent., to Euro 596.3 million for the year ended 31 December 2014, compared to Euro 320.1 million for the year ended 31 December 2013 primarily due to an increase in the amount of debt securities issued, partially offset by a decline in interest rates.

Interest income received on derivative contracts increased by Euro 238.8 million, or 63.8 per cent., to Euro 613.0 million for the year ended 31 December 2014, compared to Euro 374.2 million for the year ended 31 December 2013 primarily due to the increase in the amount of derivatives entered into.

2013 versus 2012

Net interest income increased by Euro 7.1 million, or 5.0 per cent., to Euro 149.5 million for the year ended 31 December 2013, compared to Euro 142.4 million for the year ended 31 December 2012 primarily due to an increase in its interest rate margin and the volume of lending. As discussed previously, the Issuer decided to focus on increasing its profitability by raising lending margins in 2011 as part of its strategy to improve its leverage ratio to meet the current proposed Basel III requirement, which it has continued and the Issuer continues to benefit as a greater proportion of its loans become outstanding with the increased margin.

Interest income

Interest income decreased by Euro 95.6 million, or 34.7 per cent., to Euro 180.0 million for the year ended 31 December 2013, compared to Euro 275.7 million for the year ended 31 December 2012 primarily due to a decline in interest rates, partially offset by the increased pricing margin on new lending and the increase of its lending portfolio value.

Interest income from loans and advances to the public and public entities decreased by Euro 53.5 million, or 17.1 per cent., to Euro 260.3 million for the year ended 31 December 2013, compared to Euro 313.8 million for the year ended 31 December 2012 primarily due to increases in pricing margin on new lending and the increase of its lending portfolio value, which was substantially offset by a decline in interest rates.

Interest income from debt securities (i.e., the Group's investment portfolio) decreased by Euro 3.8 million, or 4.1 per cent., to Euro 88.2 million for the year ended 31 December 2013, compared to Euro 91.9 million for the year ended 31 December 2012 primarily due to lower interest rates in 2013 than in 2012 as well as lower total amounts invested in debt securities.

Further contributing to these decreases, interest expense payable on derivative contracts increased by Euro 37.1 million, or 27.5 per cent., to Euro 171.6 million for the year ended 31 December 2013, compared to Euro 134.5 million for the year ended 31 December 2012 primarily due to the decline in interest rates and an increase in amount of derivatives entered into.

Interest expense

Interest expense decreased by Euro 102.7 million, or 77.1 per cent., to Euro 30.5 million for the year ended 31 December 2013, compared to Euro 133.3 million for the year ended 31 December 2012 primarily due to a decline in interest rates, partially offset by an increase in the amount of debt securities issued.

Interest expense from debt securities issued decreased by Euro 199.4 million, or 38.4 per cent., to Euro 320.1 million for the year ended 31 December 2013, compared to Euro 519.5 million for the year ended 31 December 2012 primarily due to the decline in interest rates, partially offset by an increase in the amount of debt securities issued.

Further contributing to these decreases, interest income received on derivative contracts decreased by Euro 89.3 million, or 19.3 per cent., to Euro 374.2 million for the year ended 31 December 2013,

compared to Euro 463.5 million for the year ended 31 December 2012 primarily due to changes in interest rates, partially offset by the increase in the amount of derivatives entered into.

Administrative Expenses

The table below sets forth for the periods indicated, the principal components of the Group's administrative expenses.

	For the year ended 31 December		
	2014	2013	2012
	<i>(Euro '000)</i>		
Personnel expenses			
Wages and salaries.....	7,476	8,355	7,416
Pension costs.....	1,479	1,603	1,407
Other personnel related costs	393	400	363
Total	9,348	10,358	9,186
Other administrative expenses	5,373	4,445	4,309
Total	14,721	14,802	13,495

The Group had 94, 90, 83 and 72 total personnel as at 30 June 2015 and as at 31 December 2014, 2013 and 2012, respectively.

Administrative expenses increased by Euro 1.5 million, or 22.8 per cent., to Euro 8.2 million for the six months ended 30 June 2015, compared to Euro 6.7 million for the six months ended 30 June 2014 primarily due to expenses in 2014 having been realised at lower amounts than provisioned for at year end 2013.

Administrative expenses decreased by Euro 0.1 million or 0.5 per cent., to Euro 14.7 million for the year ended 31 December 2014, compared to Euro 14.8 million for the year ended 31 December 2013 primarily due to a decrease in personnel expenses.

Administrative expenses increased by Euro 1.3 million, or 9.69 per cent., to Euro 14.8 million for the year ended 31 December 2013, compared to Euro 13.5 million for the year ended 31 December 2012 primarily due to the growth in business volume and ongoing system development projects and the resulting increase in the number of personnel.

Income Taxes

Income taxes increased by Euro 3.0 million, or 23.5 per cent., to Euro 15.7 million for the six months ended 30 June 2015, compared to Euro 12.7 million for the six months ended 30 June 2014 due to an increase in operating profit in the first six months of 2015 compared with the first six months of 2014.

Income taxes increased by Euro 12.3 million, or 74.5 per cent., to Euro 28.9 million for the year ended 31 December 2014, compared to Euro 16.6 million for the year ended 31 December 2013 due to the increase in profit before tax as well as the Euro 13.0 million in deferred tax liability in 2013 (as described below).

Income taxes decreased by Euro 17.4 million, or 51.3 per cent., to Euro 16.6 million for the year ended 31 December 2013, compared to Euro 34.0 million for the year ended 31 December 2012 due to the decrease in the Finnish corporate income tax rate from 24.5 per cent to 20 per cent. Although the lower tax rate was effective starting 1 January 2014, it was used to calculate deferred taxes on the Group financial result for the year ended 31 December 2013 which resulted in a decrease of Euro 13.0 million in deferred tax liability in 2013.

Financial Position

Assets

The following table sets forth, as of the dates indicated, certain summary financial information about the assets of the Group:

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
	<i>(Euro '000)</i>			
Assets				
Cash and cash equivalents	1,438,127	592,907	354,232	228,187.6
Loans and advances to credit institutions	484,951	1,072,099	589,144	106,828.0
Loans and advances to the public and public sector entities	19,531,227	19,337,730	17,882,282	15,764,231.6
Debt securities.....	8,279,826	6,416,586	5,985,644	6,637,830.8
Shares and participations.....	9,752	9,789	10,050	10,035.1
Derivative contracts.....	3,729,904	2,321,699	1,094,150	2,551,682.7
Intangible assets	5,499	4,757	4,740	2,399.0
Tangible assets	2,464	2,465	2,525	2,341.5
Other assets	5,172	2,196	1,977	2,410.1
Accrued income and prepayments.....	206,444	249,032	231,656	254,213.7
Total Assets.....	33,693,366	30,009,259	26,156,402	25,560,160.0

As of 30 June 2015, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 58.0 per cent., 24.6 per cent. and 11.1 per cent., respectively, of total assets. As of 30 June 2015, total assets had increased by Euro 3,684.1 million, or by 12.3 per cent., to Euro 33,693.4 million, compared to Euro 30,009.3 million as of 31 December 2014, which was mainly attributable to an increase in debt securities, cash and cash equivalents and derivative contracts.

As of 31 December 2014, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 64.4 per cent., 21.4 per cent. and 7.7 per cent., respectively, of total assets. As of 31 December 2014, total assets had increased by Euro 3.9 million, or by 14.7 per cent., to Euro 30,009.3 million, compared to Euro 26,156.4 million as of 31 December 2013. The increase was mainly attributable to an increase in the portfolio of loans and advances to the public and public sector entities of Euro 1,455.4 million and an increase in the balance of derivative contracts compared to balances as of 31 December 2013.

As of 31 December 2013, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 68.4 per cent., 22.9 per cent. and 4.2 per cent., respectively, of total assets. As of 31 December 2013, total assets had increased by Euro 596.2 million, or by 2.3 per cent., to Euro 26,156.4 million, compared to Euro 25,560.2 million as of 31 December 2012. The increase was mainly attributable to an increase in the portfolio of loans and advances to the public and public sector entities of Euro 2,118.0 million and partially offset by a decrease in the balance of derivative contracts compared to balances as of 31 December 2012.

As of 31 December 2012, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 61.7 per cent., 26.0 per cent. and 10.0 per cent., respectively, of total assets.

The main components of the Group's assets and the key drivers of the changes in the assets of the Group as of the indicated dates are described below.

Loans and advances to the public and public sector entities

Loans and advances to the public and public sector entities increased by Euro 193.5 million, or 1.0 per cent., to Euro 19,531.2 million as at 30 June 2015, compared to Euro 19,337.7 million as at 31 December 2014 due to an increase in the volume of lending by the Group.

Loans and advances to the public and public sector entities increased by Euro 1,455.4 million, or 8.1 per cent., to Euro 19,337.7 million as at 31 December 2014, compared to Euro 17,882.3 million as at 31 December 2013 primarily due to an increase in the volume of lending by the Group.

Loans and advances to the public and public sector entities increased by Euro 2,118.1 million, or 13.4 per cent., to Euro 17,882.3 million as at 31 December 2013, compared to Euro 15,764.2 million as at 31 December 2012 primarily due to an increase in the volume of lending by the Group.

Debt securities

The following table sets forth, as of the dates indicated, information on the composition of debt securities of the Group:

	As at 31 December		
	2014	2013	2012
	<i>(Euro '000)</i>		
Debt securities issued by public sector entities	2,234,429	1,578,395	1,391,274
Held to maturity	760,583	652,008	697,341
Municipal commercial papers	760,583	652,008	697,341
Available for sale	1,411,914	900,169	667,143
Government bonds	543,752	517,258	333,618
Bonds issued by other public sector entities	868,162	382,910	333,525
Fair value through profit or loss	61,932	26,217	26,790
Bonds issued by other public sector entities	61,932	26,217	26,790
Debt securities issued by other than public sector entities	4,182,156	4,407,250	5,246,557
Held to maturity	173,885	172,816	187,958
Bank bonds	5,000	4,999	4,999
Other debt securities	84,090	115,849	127,650
Commercial papers	84,796	51,968	55,309
Available for sale	3,185,044	3,448,459	3,767,986
Bank bonds	3,165,120	3,426,636	3,338,586
Other debt securities	19,924	21,823	429,400
Fair value through profit or loss	823,227	785,975	1,290,613
Bank certificates of deposit	409,980	119,896	579,828
Bank bonds	413,247	666,079	659,358
Other debt securities	-	-	51,426
Total debt securities	6,416,585	5,985,644	6,637,831
Eligible for central bank refinancing	4,764,450	4,658,293	4,604,967
Total non-interest bearing	5,000	4,999	4,999

Debt securities increased by Euro 1,863.2 million, or 29.0 per cent., to Euro 8,279.8 million as at 30 June 2015, compared to Euro 6,416.6 million as at 31 December 2014 due to an increase in the amount of funds invested in debt securities.

Debt securities increased by Euro 430.9 million, or 7.2 per cent., to Euro 6,416.6 million as at 31 December 2014, compared to Euro 5,985.6 million as at 31 December 2013 primarily due to an increase in the amount of funds invested in debt securities.

Debt securities decreased by Euro 652.2 million, or 9.8 per cent., to Euro 5,985.6 million as at 31 December 2013, compared to Euro 6,637.8 million as at 31 December 2012 primarily due to a decrease in the amount of funds invested in debt securities.

Derivative contracts

For a breakdown of the Group's derivative contracts during the periods under review see "*Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contract assets increased by Euro 1,408.3 million, or 60.7 per cent., to Euro 3,730 million as at 30 June 2015, compared to Euro 2,321.7 million as at 31 December 2014 primarily due to changes in foreign exchange rates.

Derivative contract assets increased by Euro 1,227.5 million, or 112.2 per cent., to Euro 2,321.7 million as at 31 December 2014, compared to Euro 1,094.1 million as at 31 December 2013 primarily due to changes in interest rates and currency exchange rates.

Derivative contract assets decreased by Euro 1,457.5 million, or 57.1 per cent., to Euro 1,094.1 million as at 31 December 2013, compared to Euro 2,551.7 million as at 31 December 2012 primarily due to changes in interest rates and currency exchange rates.

Liabilities

The following table sets forth, as of the dates indicated, certain summary financial information about the liabilities of the Group:

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
	<i>(Euro '000)</i>			
Liabilities				
Liabilities to credit institutions	5,017,693	3,882,771	2,264,386	3,961,730.2
Liabilities to the public and public sector entities	945,825	963,662	929,209	1,049,476.6
Debt securities issued	25,491,290	23,230,298	20,269,298	18,798,374.7
Derivative contracts	1,235,463	934,399	1,818,359	937,983.3
Other liabilities	3,596	2,056	1,395	1,306.3
Accrued expenses and deferred income	183,029	249,902	268,590	297,999.2
Subordinated liabilities	36,257	37,943	48,974	90,354.7
Deferred tax liabilities	126,394	114,124	85,967	77,670.4
Total Liabilities	33,039,547	29,415,155	25,686,178	25,214,895.4

As of 30 June 2015, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, derivative contracts and liabilities to the public and public sector entities, representing 77.2 per cent., 15.2 per cent., 3.7 per cent. and 2.9 per cent., respectively, of total liabilities. As of 30 June 2015, total liabilities had increased by Euro 3,624.4 million, or by 12.3 per cent., to Euro 33,039.5 million, compared to Euro 29,415.2 million as of 31 December 2014, which was mainly attributable to an increase in the amount of collateral received from derivative counterparties and the increase in debt securities issued of Euro 2,261.0 million compared to the balance as of 31 December 2014.

As of 31 December 2014, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions and liabilities to the public and public sector entities, representing 79.0 per cent., 13.2 per cent., and 3.3 per cent., respectively, of total liabilities. As of 31 December 2014, total liabilities had increased by Euro 3,729 million, or by 14.5 per cent., to Euro 29,415.2 million, compared to Euro 25,686.2 million as of 31 December 2013. The increase was mainly attributable to an increase in the amount of debt securities issued of Euro 2,961.0 million and an increase in the amount of liabilities to credit institutions, which was partially offset by a decrease in the derivative contracts balance compared to the balances as of 31 December 2013.

As of 31 December 2013, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions and derivative contracts, representing 78.9 per cent., 8.8 per cent., and 7.1 per cent., respectively, of total liabilities. As of 31 December 2013, total liabilities had increased by Euro 471.3 million, or by 1.87 per cent., to Euro 25,686.2 million, compared to Euro 25,214.9 million as of 31 December 2012. The increase was mainly attributable to an increase in the amount of debt securities issued of Euro 1,470.9 million and an increase in the derivative contracts balance of Euro 880.4 million compared to the balances as of 31 December 2012. These increases were partially offset by a decrease in the amount of liabilities to credit institutions and liabilities to the public and public sector entities.

As of 31 December 2012, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, liabilities to the public and public sector entities and derivative contracts, representing 74.6 per cent., 15.7 per cent., 4.2 per cent. and 3.7 per cent., respectively, of total liabilities.

The main components of the Group's liabilities and the key drivers of the changes in the liabilities of the Group as of the indicated dates are described below.

Debt securities issued

The total amount (nominal value) of unmatured bonds and other funding issued by the Issuer as at 30 June 2015 was:

	As at 30 June 2015
	<i>(Euro '000)</i>
Domestic funding	
Kuntaobligaatit	19,310
Total	19,310
International funding	
Debt instruments issued under EMTN Programmes	19,130,039
Debt instruments issued under the AUD Programme.....	430,838
Debt instruments issued under stand-alone MTN documentation	2,123,213
Total	21,684,190
Other domestic funding	
Commercial Papers of the Issuer.....	1,555,244
Debenture loans	35,000
Total	1,590,244
Other international funding	2,729,039
Total	26,022,783

Debt securities issued by the Group increased by Euro 2,261.0 million, or 9.7 per cent., to Euro 25,491.3 million for as at 30 June 2015, compared to Euro 23,230.3 million as at 31 December 2014 primarily due to an increase in the volume of debt securities issued by the Group to accommodate its increased funding requirements.

Debt securities issued by the Group increased by Euro 2,961 million, or 14.6 per cent., to Euro 23,230.3 million for as at 31 December 2014, compared to Euro 20,269.3 million as at 31 December 2013 primarily due to an increase in the volume of debt securities issued by the Group to accommodate its increased funding requirements.

Debt securities issued by the Group increased by Euro 1,470.9 million, or 7.8 per cent., to Euro 20,269.3 million for as at 31 December 2013, compared to Euro 18,798.4 million as at 31 December 2012 primarily due to an increase in the volume of debt securities issued by the Group to accommodate its increased funding requirements.

For more information on the Group's debt securities issued, see "*Contingent Liabilities—Commitments*" below.

Liabilities to credit institutions

Liabilities to credit institutions increased by Euro 1,135.0 million, or 29.2 per cent., to Euro 5,017.7 million as at 30 June 2015, compared to Euro 3,882.7 million as at 31 December 2014 mainly due to an increase in received collateral from derivative counterparties.

Liabilities to credit institutions increased by Euro 1,618.4 million, or 71.5 per cent., to Euro 3,882.7 million as at 31 December 2014, compared to Euro 2,264.4 million as at 31 December 2013 primarily due to an increase in the volume of funding by the Group from credit institutions and the increase in received collateral.

Liabilities to credit institutions decreased by Euro 1,697.3 million, or 42.8 per cent., to Euro 2,264.4 million as at 31 December 2013, compared to Euro 3,961.7 million as at 31 December 2012 primarily due to a decrease in the volume of funding by the Group from credit institutions and the decrease in received collateral.

Liabilities to the public and public sector entities

Liabilities to the public and public sector entities consists of primarily of bilateral loans. Liabilities to the public and public sector entities decreased by Euro 17.9 million, or 1.9 per cent., to Euro 945.8 million as at 30 June 2015, compared to Euro 963.7 million as at 31 December 2014 primarily due to maturing liabilities.

Liabilities to the public and public sector entities consists of primarily of bilateral loans from public sector entities. Liabilities to the public and public sector entities increased by Euro 34.5 million, or 3.7 per cent., to Euro 963.7 million as at 31 December 2014, compared to Euro 929.2 million as at 31 December 2013 primarily due to the increase of funding acquired from the public and public sector entities.

Liabilities to the public and public sector entities decreased by Euro 120.3 million, or 11.5 per cent., to Euro 929.2 million as at 31 December 2013, compared to Euro 1,049.5 million as at 31 December 2012 primarily due to matured liabilities and the decrease of funding acquired from the public and public sector entities.

Derivative contracts

For a breakdown of the Group's derivative contracts during the period see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contracts liabilities for the Group increased by Euro 301.1 million, or 32.2 per cent., to Euro 1,235.5 million as at 30 June 2015, compared to Euro 934.4 million as at 31 December 2014 primarily due to changes in interest rates and currency exchange rates.

Derivative contracts liabilities for the Group decreased by Euro 884.0 million, or 48.6 per cent., to Euro 934.4 million as at 31 December 2014, compared to Euro 1,818.4 million as at 31 December 2013 primarily due to changes in interest rates and currency exchange rates.

Derivative contracts liabilities for the Group increased by Euro 880.4 million, or 93.9 per cent., to Euro 1,818.4 million as at 31 December 2013, compared to Euro 938.0 million as at 31 December 2012 primarily due to changes in interest rates and currency exchange rates.

Capital Adequacy

The Group has calculated its capital adequacy since the financial year ended 31 December 2007 according to the Basel II capital adequacy requirements. As a credit institution, the Group is also required to comply with CRR and CRD IV based on Basel III requirements, to the extent that they will be applied to credit institutions such as the Group which specialise in servicing the local government sector. Basel III will also be taken into account in the Group's future capital adequacy planning.

The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. For capital adequacy calculations of credit risk, the Group uses methods for reducing the credit risk such as guarantees provided by the municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

The Board of Directors monitors and approves the plan for capital adequacy management, which is revised annually. The latest revision was made in February 2015 and the current plan extends to 2020. The implementation of the Basel III leverage ratio requirement in 2018 has forced the Issuer to begin preparations at this early stage, as the implementation of the leverage ratio would mean that requirements

concerning the Issuer's own funds would be increased significantly. The leverage ratio requirement is based on comparing total own funds with financial position assets without the consideration for the risks related to the assets that are incorporated into capital adequacy calculations.

The adequacy of own funds is also followed up in monthly business analyses.

The table below shows the Group's own funds for the periods indicated. The information has been presented based on the new rules implemented with effect from 1 January 2014.

Own funds, Group	For the year ended		
	As at 30 June	31 December	
	2015	2014	2013*
	<i>(Euro '000)</i>		
Common Equity Tier 1 before adjustments.....	653,038	561,112	447,925
Adjustments to Common Equity Tier 1.....	(5,499)	(4,757)	(4,740)
Common Equity Tier 1 (CET1)	647,539	556,354	443,185
Additional Tier 1 capital before adjustments	-	807	8,807
Adjustments to Additional Tier 1 capital	-	-	-
Additional Tier 1 Capital (AT1)	-	807	8,807
Tier 1 Capital (T1)	647,539	557,162	451,992
Tier 2 capital before adjustments	35,000	65,914	57,285
Adjustments to Tier 2 capital	-	-	-
Tier 2 Capital (T2)	35,000	65,914	57,285
Total own funds.....	682,539	623,075	509,277

* Own funds at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

Own funds, Group	For the year ended	
	2013	2012
	<i>(Euro '000)</i>	
Share capital	42,583	42,583
Minority interest	71	168
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	239,944	135,434
Profit for the financial period	124,697	104,510
Capital loans	11,009	11,009
Intangible assets.....	(4,740)	(2,399)
Total Tier 1 capital	454,208	331,948
Fair value reserve.....	22,285	21,927
Subordinated liabilities included in upper Tier 2 capital	-	40,000
Subordinated liabilities included in lower Tier 2 capital	35,000	35,000
Total Tier 2 capital	57,285	96,927
Total own funds.....	511,493	428,875

Minimum requirement for own funds, Group

	30 June 2015		31 December 2014	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
	(EUR '000)			
Credit and counterparty risk, standard method	147,092	1,838,645	127,077	1,588,468
Exposures to institutions	97,817	1,222,708	79,207	990,083
Exposures to public sector entities	3,113	38,916	-	-
Exposures in the form of covered bonds	18,199	227,489	15,258	190,731
Items representing securitisation positions	26,364	329,548	27,028	337,851
Exposures in the form of shares in CIUs	100	1,251	101	1,258
Other items	1,499	18,733	5,484	68,545
Market risk	19	238	6	73
Credit valuation adjustment risk (CVA VaR), standard method	1,025	12,817	1,586	19,829
Operational risk, basic method	23,851	298,143	19,994	249,928
TOTAL	171,987	2,149,843	148,664	1,858,298

Consolidated key figures for capital adequacy

	As at 30 June	As at 31 December
	2015	2014
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	30.12%	29.94%
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	30.12%	29.98%
Ratio of total own funds to risk-weighted assets, %	31.75%	33.53%

The Group has also presented the previous calculation and presentation for 2013 and 2012 for completeness, but the two different presentations should not be treated as comparable.

Risk-weighted receivables & capital requirements, Group	For the year ended 31 December		
	2013*	2013	2012
	(Euro '000)		
Credit risk, standard method	1,370,836	1,087,383	1,137,809
Total minimum requirement for own funds			
Credit risk, standard method:			
Claims on credit institutions and investment firms	60,869	38,233	45,549
Covered bonds	16,733	16,733	13,528
Securitised items	29,129	29,129	28,755
Shares in investment funds	132	132	105
Other items	2,804	2,764	3,087
Total credit risk, standard method	109,667	86,991	91,024
Market risk	0	0	0
Operational risk, basic method	15,609	15,609	10,270
Total minimum requirement for own funds	125,276	102,600	101,294
Capital adequacy ratio, Tier 1 capital, %	28.86%	35.42%	26.22%
Capital adequacy ratio, %	32.52%	39.88%	33.87%

*Own funds at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

In addition to the above, the table below shows the own funds for the Issuer only for the periods indicated. For 2014 and 2013 the information has been presented based on the new rules implemented with effect from 1 January 2014.

Own funds, Parent company	As at 30 June	As at 31 December	
	2015	2014	2013*
	<i>(Euro '000)</i>		
Common Equity Tier 1 before adjustments.....	652,836	560,905	447,844
Adjustments to Common Equity Tier 1.....	(5,766)	(5,131)	(5,338)
Common Equity Tier 1 (CET1)	647,070	555,773	442,506
Additional Tier 1 capital before adjustments	-	807	8,807
Adjustments to Additional Tier 1 capital	-	-	-
Additional Tier 1 Capital (AT1)	-	807	8,807
Tier 1 Capital (T1)	647,070	556,581	451,313
Tier 2 capital before adjustments	35,000	65,914	57,285
Adjustments to Tier 2 capital	-	-	-
Tier 2 Capital (T2)	35,000	65,914	57,285
Total own funds	682,070	622,494	508,598

*Own funds at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014.

Own funds, Parent company	For the year ended 31 December	
	2013	2012
	<i>(Euro '000)</i>	
Share capital	43,008	43,008
Reserve fund	277	277
Reserve for invested non-restricted equity	40,743	40,743
Voluntary provisions	321,584	217,425
Retained profit	21,641	144
Profit for the financial period	20,591	21,497
Capital loans	11,009	11,009
Intangible assets	(5,338)	(3,175)
Total Tier 1 capital	453,515	330,928
Fair value reserve	22,285	21,927
Subordinated liabilities included in upper Tier 2 capital	-	40,000
Subordinated liabilities included in lower Tier 2 capital	35,000	35,000
Total Tier 2 capital	57,285	96,927
Total own funds	510,800	427,855

Minimum requirement for own funds, Parent company

	30 June 2015		31 December 2014	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
	(Euro '000)			
Credit and counterparty risk, standard method	147,069	1,838,358	127,044	1,588,049
Exposures to institutions	97,807	1,222,590	79,196	989,953
Exposures to public sector entities	3,113	38,916	-	-
Exposures in form of covered bonds	18,199	227,489	15,258	190,731
Items representing securitisation positions	26,364	329,548	27,028	337,851
Exposures in form of shares in CIUs	100	1,251	101	1,258
Other items	1,485	18,563	5,460	68,256
Market risk	19	238	6	73
Credit valuation adjustment risk (CVA VaR), standard method	1,025	12,817	1,586	19,829
Operational risk, basic method	23,569	294,618	19,721	246,515
TOTAL	171,682	2,146,030	148,357	1,854,467

Key figures for capital adequacy, Parent company

	As at 30 June	As at 31 December
	2015	2014
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets	30.15%	29.97%
Ratio of Tier 1 capital (T1) to risk-weighted assets	30.15%	30.01%
Ratio of total own funds to risk-weighted assets	31.78%	33.57%

The Issuer has also presented the previous calculation and presentation for 2013 and 2012 for completeness, but the two different presentations should not be treated as comparable.

Risk-weighted receivables & capital requirement, Parent company	For the year ended 31 December		
	2013*	2013	2012
	(Euro '000)		
Credit risk, standard method	1,370,280	1,086,826	1,136,776
Total minimum requirement for own funds			
Credit risk, standard method:			
Claims on credit institutions and investment firms	60,865	38,229	45,543
Covered bonds	16,733	16,733	13,528
Securitised items	29,129	29,129	28,755
Shares in investment funds	132	132	105
Other items	2,764	2,723	3,011
Total credit risk, standard method	109,622	86,946	90,942
Market risk	0	0	0
Operational risk, basic method	15,306	15,306	10,030
Total minimum requirement for own funds	124,928	102,252	100,972
Capital adequacy ratio, Tier 1 capital, %	28.90%	35.48%	26.22%
Capital adequacy ratio, %	32.57%	39.96%	33.90%

* Capital requirement and risk-weighted assets at 31 December 2013 taking into account the changes pursuant to the EU Capital Requirements Regulation (EU 575/2013) effective as of 1 January 2014

As at 30 June 2015, the Group's own funds totalled Euro 682.5 million and its Tier 1 capital totalled Euro 647.5 million. No provision for dividend distribution was made for Tier 1 capital. The Group's Tier 2 capital totalled Euro 35.0 million as at 30 June 2015.

As at 30 June 2015, the Group's leverage ratio, calculated under the current Basel III Standards and in accordance with EU Capital Requirements Regulation, was 1.9 per cent., which would be substantially below the prescribed minimum threshold.

The Group's own funds totalled Euro 623.1 million at the end of 2014 (2013: Euro 511.5 million). Common Equity Tier 1 (CET1) totalled Euro 556.4 million (2013: Euro 443.2 million), and it takes into account the Group's own Debt Valuation Adjustment (DVA) amounting to Euro negative 1.9 million (2013: -). Tier 1 capital amounted to Euro 557.2 million (2013: Euro 454.2 million). Own funds include the profit of the financial year 2014 based on the permission received from the Finnish Financial Supervisory Authority. Tier 1 capital does not include a provision for dividend distribution, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its dividend proposal based on the company's financial situation, the applicable regulation and taking into account the company's ownership structure.

Additional Tier 1 capital includes capital investments totalling Euro 1 million. These do not fulfil the criteria of the Capital Requirements Regulation that entered into force at the beginning of 2014. As a result, only a certain proportion, defined by the competent authority, of these items can be included in own funds going forward. During 2014, Euro 0.8 million of the capital investments can be included in additional Tier 1 capital. A subordinated debenture loan (I/2003) of Euro 10 million was included in the additional Tier 1 capital at the end of 2013. This loan was repaid with the permission of the Finnish Financial Supervisory Authority on 10 June 2014.

Tier 2 capital at the end of 2014 was Euro 65.9 million (2013: Euro 57.3 million), of which the fair value reserve accounted for Euro 30.9 million (2013: Euro 22.3 million). The Tier 2 capital includes a Euro 35 million debenture loan maturing on 9 May 2021. The Group has the right to prematurely repay the loan principal and accumulated interest from 9 May 2016.

The Group's capital adequacy has remained good, with the ratio of total own funds to risk-weighted assets being 33.53% as of 31 December. At the end of 2013, the ratio of total own funds to risk-weighted assets based on the new capital adequacy regulation was 32.52%.

The capital adequacy ratio based on the capital adequacy regulations in force on 31 December 2013 was 39.88%. The decrease in the capital adequacy ratio since the end of 2013 is due to the changes in the Capital Requirements Regulation, according to which, from the beginning of 2014, risk-weighted assets for debt securities and derivatives are calculated on the basis of the counterparty credit rating instead of the previous practice of using the credit rating of the country where the counterparty is located. The capital requirement for credit risk has increased as a result of the new regulation.

In December 2010, the Basel Committee on Banking Supervision published its final standards on the revised capital adequacy and liquidity framework, known as Basel III, with a revised version published in June 2011 (the "**Basel III Standards**"), which were significantly more stringent than the former requirements under Basel II. Basel III is intended to increase the quality and quantity of capital, to increase capital required to be held against risk weighted assets and to introduce a new liquidity framework (incorporating a leverage ratio, liquidity coverage ratio and a net stable funding ratio). While the Basel III Standards themselves are not legally binding in any jurisdiction, new rules in the form of a new directive and regulation of the European Commission have entered into force in order to implement the Basel III Standards. The Basel III Standards implementing European Commission rules consist of a new Capital Requirements Regulation which entered into force on 28 June 2013 and a Fourth Capital Requirements Directive which entered into force on 17 July 2013. The rules became effective on 1 January 2014, although certain requirements will be phased in over the coming years.

The Basel III Standards and consequently the CRR include a leverage ratio requirement. The Basel III Standards set the minimum leverage ratio at 3 per cent while the CRR includes currently no minimum threshold. As at 31 December 2014, the Group's leverage ratio, calculated under the current Basel III Standards, was 1.8 per cent., which was below the prescribed minimum threshold. As a result, the Board of Directors has proposed not to pay any dividends and to transfer the amount which otherwise would have been paid as dividends into retained earnings to boost the Group's capital, in attempt to meet the leverage ratio requirement. In addition, in light of the leverage ratio requirement, the Issuer has focused on increasing its profitability by continuously forecasting lending volumes and adjusting lending margins and thereby increase the amount of funds transferred to retained earnings and compliance with the ratio may also require the Issuer to raise additional Tier 1 capital such as the Securities. The Board believes

that by operating profitably and retaining profits the Group will be able to improve its leverage ratio sufficiently to meet the Basel III leverage ratio requirements.

At the Annual General Meeting of Issuer was held on 23 March 2011 and at the meeting it was decided that a dividend of Euro 0.25 per share would be paid from Municipality Finance's distributable own funds, totalling Euro 9.8 million. The dividend was paid on 28 March 2011. The Annual General Meeting also decided on changing the dividend policy in such a way that in the future, the Board of Directors evaluates the amount of dividend paid out each year and gives its proposal on the payment of dividends based on the Group's economic situation and the applicable regulations, taking into account the Issuer's structure of ownership. At the Annual General Meeting of the Issuer held on 26 March 2013 the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of Euro 21,641,120.68 in equity. At the Annual General Meeting of the Issuer held on 26 March 2014 the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of Euro 42,232,539.73 in equity. At the Annual General Meeting of the Issuer held on 26 March 2015 the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of Euro 53,158,350.27 in equity.

Contingent Liabilities

In the ordinary course of business, the Group enters into transactions which, upon being concluded, are not disclosed in the Group's statement of financial position as assets or liabilities, but result in contingent liabilities. The off-balance sheet liabilities of the Group are financial commitments, consisting of binding loan commitments to customers.

Breakdown of off balance sheet unmatured commitments	As at 30 June 2015
	<i>(Euro '000)</i>
Binding loan commitments	1,518,819

Commitments

As a rule, loans issued to the municipal sector by the Issuer have been given to the Guarantor as collateral.

On 30 June 2015, the Issuer had given collateral as follows:

Bonds	As at 30 June 2015
	<i>(Euro '000)</i>
Loans pledged to the central bank	2,308,379
Loans pledged to the Guarantor	16,830,545
Debt securities pledged to the Guarantor	6,630,020

The following is a breakdown of the Issuer's financial liabilities by maturity as at 31 December 2014:

Payment due by period as at 31 December 2014						
Total	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	
<i>(Euro '000)</i>						
Liabilities to credit institutions..	3,882,771	1,559,419	43,657	134,533	595,759	1,549,403
Liabilities to the public and public sector entities.....	963,662	17,968	10,286	421,997	299,176	214,235
Debt securities issued	23,230,298	3,858,019	4,348,551	12,993,300	1,272,668	757,760
Subordinated liabilities.....	37,943	-	-	36,934	-	1,009
Total	28,114,674	5,435,406	4,402,494	13,586,764	2,167,603	2,522,407

Cash Flows

The table below sets out, for the period indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	As at 30 June		For the year ended 31 December		
	2015	2014	2014	2013	2012
<i>(Euro '000)</i>					
Cash flow from operating activities	633,003	4,476	1,307,834	(62,468)	(482,694.8)
Cash flow from investing activities.....	(1,489)	(390)	(1,348)	(3,709)	(1,128.3)
Cash flow from financing activities	(1,206)	(10,000)	(10,000)	(40,098)	(173.0)
Change in cash funds	630,307	(5,914)	1,296,486	(106,275)	(483,996.1)
Cash funds at 1 January	3,181,659	1,885,173	1,885,173	1,991,448	2,475,444.2
Cash funds at period end.....	3,811,966	1,879,259	3,181,659	1,885,173	1,991,448.0

Operating Activities

The operating activities of the Group for the six months ended 30 June 2015 generated net cash inflows of Euro 633.0 million compared to net cash outflows of Euro 4.5 million for the six months ended 30 June 2014. The main driver for this change was the change in collateral the Group received in connection with its derivative contracts. Generally, the Group requires counterparties to provide it with cash collateral for any obligations owed under derivative contracts, and the Group includes any such cash inflow or outflow in cash flow from operating activities. The Group's change in collateral was Euro 1,156.0 million in the six months ended 30 June 2015 and Euro 537.3 million in the six months ended 30 June 2014, respectively.

The operating activities of the Group for the year ended 31 December 2014 generated net cash inflows of Euro 1,307.8 million, compared to net outflows of Euro 62.5 million and Euro 482.7 million for the years ended 31 December 2013 and 2012, respectively. The main driver for this change was the change in collateral the Group received in connection with its derivative contracts. Generally, the Group requires counterparties to provide it with cash collateral for any obligations owed under derivative contracts, and the Group includes any such cash inflow or outflow in cash flow from operating activities. The Group's change in collateral was Euro 1,359.7 million in the year ended 31 December 2014 and was negative Euro 1,970.9 million and negative Euro 32.9 million in the years ended 31 December 2013 and 2012, respectively.

Investing Activities

The investing activities of the Group generated net cash outflows of Euro 1.5 million and Euro 0.4 million for the six months ended 30 June 2015 and 2014, respectively, from the acquisition of tangible and intangible assets.

The investing activities of the Group generated net cash outflows of Euro 1.3 million for the year ended 31 December 2014 and Euro 3.7 million and Euro 1.1 million for the years ended 31 December 2013 and 2012, respectively, from the acquisition of tangible and intangible assets.

Financing Activities

Net cash outflow from financing activities of Euro 1.2 million and Euro 10.0 million for the six months ended 30 June 2015 and 2014, respectively was primarily due to the repayment of capital investments totalling Euro 1 million in April 2015 and the repayment of a Euro 10 million capital loan in June 2014.

Net cash outflow from financing activities of Euro 10.0 million for the year ended 31 December 2014 was primarily due to the repayment of a Euro 10 million capital loan. On 10 June 2014 the Issuer repaid the EUR 10 million subordinated liability with consent of the Finnish Financial Supervisory Authority.

Net cash outflow from financing activities of Euro 40.1 million for the year ended 31 December 2013 was primarily due to the repayment of a Euro 40 million capital loan. On 31 March 2013, the Company repaid the perpetual loan of EUR 40 million with the permission of the Finnish Financial Supervisory Authority. Net cash outflows from financing activities, principally consists of dividends paid to shareholders.

For the years ended 31 December 2014, 2013 and 2012 the Group paid dividends of nil, Euro 0.1 million and Euro 0.2 million, respectively.

Critical Accounting Policies

Preparation of the accounts in accordance with EU IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements. The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates made as of the date of closing of the accounts. These are related to, among other things, the determination of fair value and the impairment of financial assets.

Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement.

The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

MUNICIPALITY FINANCE PLC

Introduction

Municipality Finance Plc was established on 1 May 2001, when the old Municipality Finance Plc (established in 1989) and Municipal Housing Finance Plc (established in 1993) were merged to form a new company, Municipality Finance Plc, a credit institution referred to in the (Finnish) Credit Institutions Act. On 26 April 2001, the Issuer was granted a credit institution licence by the Ministry of Finance.

The Issuer serves the Finnish municipal sector which consists of municipalities, municipal federations and a range of organisations owned or controlled by municipalities, and corporations designated by state authorities engaging in housing on social grounds. The Issuer has provided funding for the Finnish municipal sector since 1991. The Issuer's mission is to be, as a financial institution owned by the municipal sector and the Republic of Finland, the most sought-after and active partner in municipal-sector financial services in Finland. The Issuer's aim is to ensure cost-effective financial services for the municipal and social housing sector, to operate efficiently and grow profitably, and to improve its self-sufficiency and increase its own funds primarily through funds from its operations in compliance with the Municipal Guarantee Board Act (the "**MGB Act**") (see below "*The Municipal Guarantee Board*") and all relevant and applicable rules and legislation. The Issuer focuses actively on customer relations and creates solutions and services for its customers.

The risk management approach of the Issuer is based on risk avoidance and minimisation. In order to minimise risks and safeguard profits, derivatives are only used for hedging purposes. According to the Articles of Association, the Issuer's shares may not be assigned to anyone other than Keva (former name "the Local Government Pensions Institution"), municipalities, municipal federations, central organisations of municipalities, entities wholly owned by or under the control of municipalities or municipal federations or companies owned by such entities without the consent of the Issuer's Board of Directors.

Municipality Finance Plc's Financial Advisory Services, which was established in 2004, was turned into a subsidiary under the name Financial Advisory Services Inspira Ltd ("**Inspira**") in November 2007. Inspira focuses on independent expert advisory services for public-sector administration in various areas of funding. Its aim is to assist customers in providing different types of services and in meeting investment needs.

Funding to the municipal sector by the Issuer is guaranteed by the Municipal Guarantee Board ("**MGB**"). MGB is an institution under public law which was established under the MGB Act and operates in accordance with it, as amended from time to time, to safeguard and develop the joint funding of the Finnish municipal sector. Its members are jointly responsible for its debts and obligations in accordance with the MGB Act- See "*The Municipal Guarantee Board*".

According to calculations carried out in accordance with the (Finnish) Financial Supervisory Authority, the Issuer's own funds amounted to approximately Euro 682.5 million on 30 June 2015. The Issuer's total assets on 30 June 2015 were approximately Euro 33.7 billion, of which the loan portfolio represented approximately Euro 19.4 billion.

Customer finance

The Issuer grants financing:

- to municipalities and municipal federations (which are members of MGB);
- at preferential terms in accordance with European Union State aid rules to corporations designated by state authorities and engaging in the renting or production and maintenance of housing on social grounds, or corporations controlled by them; and
- at preferential terms in accordance with European Union State aid rules to entities totally owned or controlled by municipalities or municipal federations, or municipal enterprises provided they fall within certain categories. They should either provide public services falling within the sphere of municipal authority as provided for in the applicable legislation or carry out functions directly in service thereof. Alternatively, they should provide other services essential to citizens, if due to local or regional circumstances the provision of such services is necessary to ensure their availability or efficient provision. An absolute guarantee or a deficiency guarantee from a

municipality or municipal federation, a State deficiency guarantee or a guarantee from the State and a municipality are received as loan collateral in order for the Issuer to advance funds. In addition, a deficiency guarantee for a loan project requires mortgage security. A loan can be granted directly to a municipality or a municipal federation without separate collateral.

The Issuer offers also short-term funding products to municipalities, municipal federations and to organisations controlled by municipalities and municipal federations.

In 2014 the total number of municipalities which had been granted loans was 287. The loan portfolio was Euro 19.2 billion, Euro 17.8 billion and Euro 15.7 billion as at 31 December 2014, 31 December 2013 and 31 December 2012, respectively. The municipal sector's funding needs depend on the size and project to be funded of each municipal-sector client. On average as at 31 December 2014, loans issued by the Issuer are in an amount of about Euro 3.2 million.

By acquiring funding jointly through the Issuer, municipalities can benefit from the good overall credit standing of the entire municipal sector and raise funds in the wholesale market. Because of the Issuer's policy on guarantees and the composition of the Issuer's clientele, all lending by the Issuer is considered zero risk in the capital adequacy calculations of banks and credit institutions in Finland.

Neither the Issuer nor its predecessors has ever suffered any credit losses or had non-performing loans. The Issuer has no significant investments in other companies or corporations.

Funding

The Issuer's long-term funding takes place in both the international (e.g. the euro zone, Japan, Australia, other Asian markets, Switzerland) and domestic capital markets.

International funding is usually obtained through bond issues. The main form of raising international funds is the issuance of bonds under the Programme. On 31 December 2014, the Issuer had a total of Euro 18.5 billion (Euro 17.2 billion on 31 December 2013) unmatured medium-term notes issued under the Programme. The Issuer also has an Australian dollar 2 billion Medium Term Note Programme for accessing the Australian markets. Total bonds outstanding under this program totalled Euro 255.5 million as at 31 December 2014 (Euro 92.6 million on 31 December 2013). In addition, as at 31 December 2014, the Issuer had standalone bond issues of USD 1.75 billion and USD 1 billion outstanding.

The Issuer obtains domestic funding through domestic bonds under its domestic Euro 800 million debt programme. In 1993, the old Municipality Finance Plc began to develop its domestic funding by issuing the first *Kuntaobligaatio* for subscription by the general public. "**Kuntaobligaatio**" is a registered trademark owned by the Issuer. On 31 December 2014, unmatured Municipal Bonds totalled approximately Euro 27.1 million (Euro 75.4 million on 31 December 2013).

The Issuer's short-term funding is obtained through the issuance of domestic commercial paper under a Euro 4 billion Euro-Commercial Paper Programme. Short-term funding is used for the municipal sector's short-term financial needs and for securing the liquidity required for the Issuer's normal business operations. Commercial paper is short-term, liquid, low-risk money market instruments for the investment needs of municipalities and other investors, for instance. Total commercial paper outstanding as at 31 December 2014 totalled Euro 1,259.3 million (Euro 1,592.0 million on 31 December 2013).

Liquidity

The Group front-loads its funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. As at 31 December 2014, the Group's liquidity buffer was approximately 12.6 months. The following assumptions are made when calculating the liquidity buffer: a) no new long-term funding, b) loans and other customer financing will continue in accordance with the estimated demand (budgeted amount), c) any collateral received under the bilateral CSA agreements is not included in the calculations, d) 30 per cent. of callable funding is assumed to be called every 10 months, e) short-term lending will be financed with the short-term ECP funding program and short-term debt does not finance long-term lending, f) central bank credit is not available, and g) from the pre-funding portfolio, liquidity is calculated only on the most liquid part of the portfolio. The main sources of funding used by the Group for lending activities are its Programme, its domestic debt programme, its Euro-Commercial Paper Programme and its AUD debt programme. Since 2010, Municipality Finance has held the status of central bank counterparty, and together with its securities

portfolio, the Group's entire municipal loan book can be used as eligible collateral for transactions with the Finnish central bank, which acts as an additional liquidity buffer.

Risk Management

The Issuer aims to meet the financing needs of the municipal sector as diversified and cost-effectively as possible. The Issuer does not seek maximum profit from its business operations, which is why risk-taking is also minimised.

The practical aspects of risk management are the responsibility of the Managing Director and the management group assisting him. The Issuer's management group handles risk management matters at its meetings at least once a month.

The Issuer's task is to provide competitive funding for Finnish municipalities. In accordance with this principle, the only credit risk affecting the Issuer's lending portfolio is related to that of municipalities, municipal federations and the Republic of Finland. If any loans are granted to entities owned or controlled by municipalities, these must have municipalities as their majority owners and an absolute guarantee or a deficiency guarantee from a municipality or municipal federation or a deficiency guarantee from the Republic of Finland. The Issuer's entire lending portfolio bears zero risk in the capital adequacy calculation of banks and financial institutions. The same applies to all debt instruments of various durations issued by the Issuer itself. For hedging against interest rate and currency risks, the Issuer uses derivatives contracts.

The Group has two risk committees, the Credit Risk Committee and the Asset and Liability Management ("ALM") Committee. The Credit Risk Committee is responsible for monitoring and supervising the Group's credit risk, as well as making decisions regarding the management of credit risk. The ALM Committee is responsible for outlining the Group's strategic policies and risk management principles in relation to market, liquidity and funding risks.

Principles based on credit rating and contract types, approved by the Issuer's Board of Directors are applied of assessment of credit risk when contractual counterparties are being chosen.

In addition to credit risk and counterparty risk, the Issuer regularly monitors trends in market, liquidity and market liquidity, operational, legal and strategic risks and factors affecting them.

The Group assess its credit risks by utilising principles and limits based on external credit ratings which have been approved by the Board of Directors and are applied to the selection of counterparties. Nominal values of debt securities and market values of derivatives (fair value method) are used in monitoring credit risk. Further, the Issuer limits credit risk caused by the derivative agreement with ISDA Credit Support Annexes in place with all derivatives counterparties with material exposure. As at 31 December 2014, of the Issuer's 46 counterparties under ISDA Master Agreements, the Issuer had 46 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

The Group manages its operation risk, or the risk of loss due to insufficient or failed internal processes, personnel, systems, or external factors. Operational risks also include risks arising from failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or the interruption of operations.

Operational risks are recognised as part of the Group's operations and processes. This has been implemented with an annual mapping of operational risk at a unit and company-specific level. The management of operational risks is the responsibility of the Group's functions/departments and in addition, the risk management function supports them and coordinates the work.

The Group uses various methods for managing operational risks. The Group has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are revised on a regular basis. The tasks of trading, risk control, back office functions, documentation and bookkeeping are separated. The Group has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and improved through regular development discussions and training plans. The Group maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. The

Group has a contingency plan for situations where business operations are interrupted. The plan is designed to help the Group continue functioning and limit its losses in different disruptive scenarios. The annual mapping of operational risks and the damage report procedure for operational risk events are used as input in the Group's continuity planning.

The Group's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the Group's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations of the authorities concerning the operations of credit institutions are facing significant changes, which creates challenges for the Group's compliance operations. The Group has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the Issuer's internal compliance operations (including reporting evaluation of effects).

The Group started extensive information system projects in 2011 to enhance its operations. The extent of these projects causes operational risks that the Group is trying to minimise by developing models related to project management and monitoring (including regular reporting).

The realisation of operational risks is monitored with systematic damage reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No material losses were incurred as a result of operational risks in 2014.

Financial reporting

The Issuer publishes yearly an annual report and a mid-year interim report.

MANAGEMENT AND SHAREHOLDERS OF MUNICIPALITY FINANCE PLC

Administration of the Issuer

In accordance with the Issuer's Articles of Association, the Board of Directors consists of 5-8 members. The current 8 members were elected at the annual shareholders' meeting held on 26 March 2015 for a one year period.

Board of Directors	Main duties outside the Issuer
Chairman	
Eva Liljebloom	Professor, Hanken School of Economics
Vice Chairman	
Tapani Hellstén.....	Deputy CEO, Keva
Board members	
Fredrik Forssell.....	CIO, Internal Equity & FI Management, Keva
Teppo Koivisto	Head of Division, State Treasury
Sirpa Louhevirta	Senior Vice President, Group Treasury and Real Estate, Sanoma Corporation
Tuula Saxholm.....	Finance Director, City of Helsinki
Asta Tolonen.....	Municipal Manager, Municipality of Suomussalmi
Juha Yli-Rajala	Director, City of Tampere

The Board of Directors has approved the Corporate Governance rules for the Issuer, which largely follows the principles of corporate governance laid down by the (Finnish) Securities Market Association. The Board of Directors has also approved a Code of Conduct for the Issuer.

The Board of Directors has an Audit Committee, which has four members: Tapani Hellstén (Chairman), Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala. The purpose of the Audit Committee is, as a preparatory body of the Board of Directors, to monitor the bookkeeping and the preparation of the final accounts, the final accounts and the internal control. The tasks and responsibilities of the committee have been defined in the rules of procedure, which the Board of Directors has approved. Internal auditing within the Issuer has been outsourced to Deloitte & Touche Oy. The Board of Directors approves internal audit plans annually.

The Board of Directors has a Risk Committee which has three members Fredrik Forssell (Chairman), Eva Liljebloom and Sirpa Louhevirta. The Risk Committee assists the Board in the matters with regard to the institution's overall risk appetite and strategy, and in overseeing that the management complies with the risk strategy decided by the Board. The Risk Committee is to estimate whether the prices for the services that tie up capital correspond with the institution's risk strategy and, in the event this is not the case, to present a remedy plan to the Board. Further, the Risk Committee shall assist the Remuneration Committee in the establishment of sound remuneration policies, and to assess whether the incentives provided by the remuneration system take into consideration the institution's risks, capital and liquidity requirements, and the likelihood and timing of the earnings.

The Board also has a Remuneration Committee, which has four members. The purpose of the Remuneration Committee is, as a preparatory body of the Board of Directors, to prepare remuneration matters and commitment schemes. The tasks and responsibilities of the committee have been defined in the rules of procedure, which the Board of Directors has approved. The members of the Remuneration Committee are Eva Liljebloom (Chairman), Teppo Koivisto and Juha Yli-Rajala.

The aggregate compensation paid to the members of the Board of Directors, excluding travel and out of pocket expenses related to their services on the Board of Directors, for the year ended 31 December 2014 was approximately Euro 0.2 million.

The Issuer's President and CEO is Pekka Averio, and the deputy to the President and CEO is Esa Kallio. The Issuer's Management Group consists of the CEO, the Deputy to the CEO, Marjo Tomminen (Senior Vice President), Toni Heikkilä (Senior Vice President), Jukka Helminen (Senior Vice President) and Mari Tyster (Senior Vice President).

The Issuer's offices are located at P.O. Box 744 (Jaakonkatu 3A, 5th Floor), FI-00101 Helsinki, which is the contact address for each person mentioned above. The documents mentioned in this Prospectus can also be viewed at this address.

No member of the Board of Directors or member of the Management Group is subject to existing or potential conflicts of interest between their duties related to the Issuer and their private interests or other duties.

Major Shareholders

As at the date of the Prospectus the Issuer had 282 shareholders and the ten largest shareholders of the Issuer were:

Shareholder	Shares	% of shares
1. Keva (former name "The Local Government Pensions Institution")	11,975,550	30.66
2. Republic of Finland.....	6,250,000	16.00
3. City of Helsinki.....	4,066,525	10.41
4. City of Espoo	1,547,884	3.96
5. VAV Asunnot Oy (City of Vantaa).....	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	903,125	2.31
8. City of Turku	615,681	1.58
9. City of Kuopio	569,450	1.46
10. City of Lahti.....	502,220	1.29

THE MUNICIPAL SECTOR

Introduction

The local government administration in Finland is administered by a national network of self-governing municipalities, which has evolved over the centuries. The foundation of the present local government was established in the second half of the 19th century when legislation governing the municipal sector was enacted.

In 1917, the Republic of Finland gained its independence from the Russian Empire and the current Constitution was established. The Constitution enshrined a system of local government based on municipalities which are independent of the central government and which enjoy a strong, self-governing status.

Under the Finnish Local Government Act, municipalities are defined by geographic area and cover the entire state such that all land and people in Finland are represented in one of the municipalities. Authority in each municipality rests with a Municipal Council whose members are directly elected by secret and proportional ballot.

The municipal sector in Finland and other Nordic countries plays a more important role in the public sector than elsewhere in Europe. The Finnish municipalities and federations of municipalities employ approximately 426,000 persons, representing about 16 per cent. of the work force.

According to the Association of Finnish Local and Regional Authorities in 2015, total expenditure by municipalities and joint municipal authorities is expected to amount to Euro 46.1 billion, approximately 23 per cent. of Finland's estimated gross domestic product. Measured in terms of personnel, local government is a substantially larger entity than central government.

The total interest-bearing debt portfolio of the Finnish municipalities and joint authorities was Euro 16.6 billion at the end of the year 2014. The Issuer believes the municipal sector debt will increase in the coming years. "**Municipal sector**" refers to municipalities, joint authorities and the municipally owned joint stock companies and other entities under the control of a municipality. "**Local authorities**" refers only to municipalities and joint authorities.

The local authorities' financing requirement for 2015 is estimated by the Association of Finnish Local and Regional Authorities to be approximately Euro 3.4 billion.

The government is also implementing adjustment measures to balance central and local government sectors which are currently suffering from deficit. During the 2012-2015 electoral term, the government introduced big savings decisions which are expected to amount to 2.8 per cent. of GDP at an annual level in 2018. They included both tax increases as well as expenditure cuts, including cuts in central government transfers to local government sectors. As a result, this year the central government transfers will decrease and municipalities have been forced to increase their tax rates to compensate for the loss of the revenue.

The aim of the Government's housing policy is to ensure a socially and regionally balanced and stable housing market, to eliminate homelessness and to improve the quality of housing.

In order for housing to be available at reasonable cost, the Government needs to ensure sufficient social housing production. In 2014, approximately 6,500 units were built and approximately 2,400 units were renovated with state interest subsidies. Currently, the Government is trying to find solutions to increase the production with a special focus on growth centres with high demand for housing. Loans and interest subsidies will be channelled to the Helsinki metropolitan area, major growth centres and other regions with high demand for housing.

In March 2014 the Government announced its plans to restructure the Finnish welfare and healthcare system, with the main reason cited for such plans being to increase the efficiency in the sector and hence to better meet the future challenges. The announcement also suggested new social welfare and health care regions that would be large enough to provide all social welfare and health care services from the primary care level up to the most demanding specialised services. The plan, however is at a very early stage and thus the details and the impacts of the restructuring cannot be estimated yet.

The Role of Municipalities

The Local Government Act and other legislation give the municipalities broad powers and responsibilities. The municipalities have long held primary responsibility for the provision of education and healthcare. In recent years, central government has increased the social welfare responsibilities of the municipalities, and the state grants and subsidies cover some 17 per cent. of the local government total expenditure.

The municipal sector is also an important provider of public transport, telecommunications, power, water and sewerage. Many of these functions are carried out through corporations and companies owned or controlled by municipalities and through municipal federations such as hospitals and educational institutions.

In addition to the provision of utilities and services, municipalities have important regulatory functions. They have a monopoly over building permissions, which gives municipalities effective control over town and land-use planning. They are also direct owners of a large number of public buildings and public service institutions.

Apart from administrative buildings, municipalities own premises devoted to art and culture, sports facilities, schools, hospitals, medical centres, homes for the aged and day-care centres.

Municipalities own industrial and commercial premises, which are leased to the private sector and municipality-owned property companies own most social rental housing units.

Municipal Expenditure and Revenues

Individual municipalities have considerable freedom over their expenditure. In 2014, the estimated spending by the municipality sector on education and culture was Euro 11.9 billion and Euro 21.1 billion on health care and social welfare.

The Local Government Act obliges the municipalities to ensure sufficient revenues to cover their expenditure and, to this end, municipalities have a constitutional right to levy taxes on the income of the residents and the real estate owners within their areas. The municipalities decide on the tax rates on an annual basis. In addition, they receive an annual share of the revenues from corporate taxes collected by the state. An average Finnish municipality funds approximately half of its activities by its own tax revenues. The proportion varies, however, between 78 and 18 per cent. In 2014, the municipalities raised approximately Euro 21.1 billion from taxation.

Municipal income tax is levied at flat rates on the earned income of individuals. For 2015, the average tax rate is approximately 19.84 per cent., ranging from 22.50 to 16.50 per cent. of taxable income. Each municipality decides independently on its income tax rate; no upper limit is set. Municipal tax on real property is levied on real estate situated in Finland. The revenue is received by the municipality in which the property is situated. The average real estate rate based on the assessable value of the property is approximately 0.99 per cent. Municipalities receive presently a 36.26 per cent. share of corporation tax. A municipality's share is assessed by the taxable income of companies within the municipality's area. Municipalities also derive income from fees and charges. In 2014, the municipal sector's income from all different types of operations was approximately Euro 11.7 billion. The largest sources of fee income are fees levied for the use of local energy and water supplies. Other fees are earned, for example from health and social services and local government businesses such as ports, public transport and sewerage.

According to the new Local Government Act, a municipal deficit has to be covered within a timeframe of four years after the financial statement has been authorized (starting from 2015). A municipality has to decide on detailed measures to cover the deficit. According to the new act also a municipal federation is required to cover a deficit. According to Finnish law a municipality (or a municipal federation) cannot be declared bankrupt.

In accordance with the Local Government Act, municipal companies that are active competitively in the markets had to be incorporated until the end of 2014. This applied mainly to energy and harbour companies. Since 1 January 2015 the income of these companies is no longer included in the accounts of municipalities or municipal federations. These said incorporations have had no effect on the accounts of municipal groups.

Municipalities also receive grants from the central Government. Grants are typically given for the provision of social welfare, educational and healthcare services. In 2014, the municipal sector estimates to have received Euro 8.2 billion in grants from the central Government.

According to Association of Finnish Local and Regional Authorities, in 2015, taxes are expected to comprise 47 per cent. of the total revenues of municipalities and joint authorities, grants will comprise 17 per cent. and sales of goods and services will comprise 24 per cent. Other sources of income include rental income, interest income and income from municipally owned corporations.

TAXATION

The following is a general description of certain tax considerations relating to the Securities. It does not purport to be a complete analysis of all tax considerations relating to the Securities. Prospective purchasers of Securities should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Finland of acquiring, holding and disposing of Securities and receiving payments of interest, principal and/or other amounts under the Securities. This summary is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Republic of Finland

The following summary is based on the tax laws of Finland as in effect on the date of this Prospectus, and is subject to changes in Finnish law, including changes that could have a retroactive effect.

A Central Tax Board preliminary ruling (issued on 30 April 2015) has been acquired regarding the taxation of interest paid on the Securities as well as the write-down and reinstatement of the Securities. According to the preliminary ruling, the interest paid on the Securities is tax deductible for the Issuer.

The following summary does not purport to be a comprehensive description of all Finnish tax law considerations that could be relevant for holders of the Securities and does not take into account or discuss the tax laws of any country other than Finland. This summary addresses neither Finnish gift nor inheritance tax consequences.

Finnish Resident Holders

Payments of principal or interest in respect of the Securities to a corporation further defined in the Finnish Income Tax Act residing in Finland (**Finnish Resident Holder**) are not subject to withholding tax.

Interest paid on the Securities to a Finnish Resident Holder is subject to final taxation in accordance with the Finnish Business Income Tax Act (Fi: *laki elinkeinotulon verottamisesta*) (360/1968, as amended) or the Finnish Income Tax Act (Fi: *tulooverolaki*) (1535/1992, as amended). The current corporate income tax rate is 20%.

Capital gains received from the disposal of the Securities by a Finnish Resident Holder are subject to final taxation of the recipient. Currently, the corporate income tax rate is 20%. Generally, a capital loss is deductible from the Finnish Resident Holder's income arising in the same year and during the following ten fiscal years.

Non-Resident Holders

Payments of principal or interest in respect of the Securities to a Holder, who is neither resident in Finland nor engaged in trade or business in Finland through a permanent establishment (Non-Resident Holder), are not subject to withholding tax or final income taxation.

Capital gains received by a Non-Resident Holder are not subject to withholding tax or final income taxation.

Holders of Securities are not deemed to be resident or engaged in a trade or business in Finland through a permanent establishment only because they are holding Securities or receiving income attributable to the Securities.

Transfer tax

Transfer tax is not payable on the Securities, as the Securities are not classified as securities under the Finnish Transfer Tax Act (Fi: *varainsiirtoverolaki*) (29.11.1996/931, as amended) because the yield of the Security is not determined by the profit of the Issuer nor by the amount of dividend nor does the Security otherwise entitle to a share of the annual profit or surplus of the Issuer.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted the Amending Directive on 24 March 2014. The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Securities should, however, be exempt.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Barclays Bank PLC, BNP Paribas, Goldman Sachs International and Nordea Bank Danmark A/S (the "**Joint Lead Managers**") have, in a subscription agreement dated 29 September 2015 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Securities at their issue price of 100 per cent. of their principal amount. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Securities. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities. As part of the distribution of the Securities, a portion may be offered and sold to certain shareholders of the Issuer by Nordea Bank Danmark A/S.

United States of America

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Securities, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Finland

Each Joint Lead Manager has represented and agreed that it will not underwrite the issue of, or offer, sell, advertise or otherwise market or place the Securities or bring the Securities into general circulation in the Republic of Finland other than in compliance with all the applicable provisions of the laws of the Republic of Finland and especially in compliance with the Finnish Securities Market Act (746/2012, as amended) and any regulations issued thereunder and as supplemented and amended from time to time and that the Securities will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances that would constitute an offer of the Securities to the public under the Finnish Securities Markets Act.

GENERAL INFORMATION

1. General

- 1.1 The Issuer, which is domiciled in Helsinki, was entered in the Trade Register on 1 May 2001 under the corporate code 1701683-4. The documents mentioned in this Prospectus may be viewed at the Issuer's head office at P.O. Box 744 (Jaakonkatu 3A, 5th Floor) FI-00101 Helsinki. The Issuer's telephone number is (+358) (0)9 6803 5666.
- 1.2 The Issuer's fully paid-up capital entered in the (Finnish) Trade Register was Euro 43,008,044.20 on 31 December 2014 and the total number of shares was 39,063,798. The Issuer's shares are divided into A 26,331,646 and B 12,732,152 shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. All issued shares have been paid in full.

2. Listing

The Central Bank has approved this document as a prospectus for the purposes of Article 5.3 of the Prospectus Directive. Application has also been made to the Irish Stock Exchange for the Securities to be admitted to trading on the Main Securities Market and to be listed on the Official List. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. The total fees and expenses in connection with the admission of the Securities to trading on the Main Securities Market are expected to be approximately EUR 7,000.

3. Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in connection with the Securities and is not itself seeking admission of Securities to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

4. Authorisation

The creation and issue of the Securities has been authorised by a resolution of the Board of Directors of the Issuer dated 4 June 2015.

5. Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

6. Significant/Material Change

Since 31 December 2014 there has been no material adverse change in the prospects of the Issuer. Since 30 June 2015 there has been no significant change in the financial or trading position of the Issuer.

7. Auditors

The financial statements of the Issuer have been audited without qualification for the years ended 31 December 2014 and 31 December 2013 by KPMG Oy Ab, authorised public accountants. The responsible auditor is Marcus Tötterman, Authorised Public Accountant (the change of responsible auditor was because of KPMG's normal rotation cycle). KPMG Oy Ab is supervised by the Auditing Board of the General Chamber of Commerce of Finland. The office of KPMG Oy Ab and the responsible auditor is at Töölönlahdenkatu 3 A, PL 1037, FIN-00101 Helsinki, Finland.

8. **Documents**

Physical copies (and certified English translations where the documents in question are not in English) of the following documents may be obtained during normal business hours at the offices of the specified office of the Fiscal Agent and the head office of the Issuer, currently at P.O. Box 744 (Jaakonkatu 3A, 5th floor) FI-00101 Helsinki, namely:

- 8.2 this Prospectus;
- 8.3 the Agency Agreement;
- 8.4 the Deed of Covenant; and
- 8.5 the Articles of Association of the Issuer.

9. **Clearing**

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The International Securities Identification Number ("ISIN") of the Securities is XS1299724911 and the common code is 129972491.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg

10. **Joint Lead Managers transacting with the Issuer**

In the ordinary course of their business, the Joint Lead Managers and their respective affiliates have engaged in commercial banking and investment banking transactions with the Issuer and its affiliates and may in the future engage in commercial banking and investment banking transactions with the Issuer and its affiliates.

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REGISTERED AND HEAD OFFICE OF THE ISSUER

Municipality Finance Plc
(Kuntarahoitus Oyj)
P.O. Box 744 Jaakonkatu 3A
5th Floor
FI-00101 Helsinki
Finland

FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

IRISH LISTING AGENT

Arthur Cox Listing Services Limited
Arthur Cox Building
Earlsfort Terrace
Dublin 2

REGISTRAR

Citigroup Global Markets Deutschland AG
Germany Agency and Trust Department
Reuterweg 16
60323 Frankfurt
Germany

STRUCTURING ADVISER

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

JOINT LEAD MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Nordea Bank Danmark A/S
Christiansbro, Strandgade 3
1401 Copenhagen K
Denmark

LEGAL ADVISER TO THE ISSUER

(as to Finnish law)

Castrén & Snellman Attorneys Ltd
PO Box 233 (Eteläesplanadi 14)
FI-00131 Helsinki
Finland

LEGAL ADVISER TO THE JOINT LEAD MANAGERS

(as to English law)

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

AUDITORS TO THE ISSUER

KPMG Oy Ab
Töölönlahdenkatu 3 A
PL 1037, FIN-00101 Helsinki
Finland