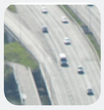
Annual Report 2011

Kuntarahoitus
MUNICIPALITY FINANCE

Contents



Duty to ensure
competitive funding

Pictures: Länsimetro

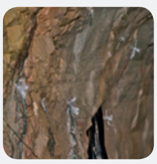
Municipality Finance Plc is a credit institution owned by municipalities, Keva and Finnish state with a duty to ensure the availability of competitive funding for the municipal sector and subsidised housing production under all market conditions. Through its duty, Municipality Finance forms a central part of the basic financial structure of the Finnish society.

The company operates efficiently and grows profitably. The company aims to build the capital needed for growth through profits and thereby ensure good capital adequacy and operational preconditions in the future.

The company's competitive pricing is based on excellent credit ratings for long-term funding, i.e. Aaa from Moody's and AAA from Standard & Poor's. Funding is acquired from both international and domestic capital markets. The company's funding is guaranteed by the Municipal Guarantee Board.

A significant portion of lending by Municipality Finance is used for various socially important investments. Funding is used among others for schools, day care centres, care homes for the elderly, hospitals, health care centres and rental housing.

"Municipality Finance **forms a central part** of Finland's basic financial structure."



Länsimetro proceeds with loans from Municipality Finance

Municipality Finance won the public tender for the first EUR 100 million loan batch for the financing of the west metro project. The loan is guaranteed by the cities of Espoo (72%) and Helsinki (28%). The loan period is 30 years.

The west metro is a joint project of the cities of Helsinki and Espoo, combining southern Espoo to the regional rail transport system.

The construction of the west metro provides employment for thousands of people and is the largest infrastructure project in Finland. Amongst other things, the project includes the construction of two parallel tunnels each almost 14 kilometres in length as well as the construction of seven new stations. The west metro is scheduled to be completed at the end of 2015. It is expected to transport more than 100,000 passengers daily.

The state has committed to participate in the planning and construction costs of the project with a share of 30 per cent. Each loan batch of the construction of the west metro is subjected to a separate tender process.

The municipal sector's

leading financial institution

Municipality Finance focuses completely on the offering of market-based funding to municipalities and municipal federations, to municipality-controlled entities and non-profit housing corporations. Being the only financial institution specialised in its customer segment, Municipality Finance has an in-depth understanding of its customers' special needs and operating environment. The goal of its operations is to support competition in the lending market and ensure the availability of competitive funding under all circumstances.

Municipality Finance is the leading lender of its customer segment and it continuously invests in the development of new financing products and solutions. The company also acts as a consultant in the planning of financing for its customers and develops, for example, the risk management of financing and diversifies the financing options available to its customers. The company specialises particularly in long-term funding arrangements used especially in the financing of subsidised housing construction.

Municipality Finance places great priority on customer-responsiveness, active co-operation and reliable partnership. This ensures meeting the clients' needs in an equitable, open and transparent manner.

The success of the company is based on operations reflecting regeneration, initiative and creativity, resulting in the most suitable financing solutions for customers.

The strategy of Municipality Finance is to invest in customer relationships in an active and focused manner and to develop them in a way that best serves the company's customers. In order to offer the most suitable solutions for the customers, the company invests in developing its staff and broad-based expertise and ensures the effectiveness of its internal systems. The key factors in the company's operations are reliability, an active approach, innovation and the expertise of its personnel.

2011 in brief

Municipality Finance's business continued to grow in 2011 in terms of both lending and funding acquisition. The Group's net interest income grew by 20 per cent to EUR 94.2 million. The Group's operating profit grew by 12 per cent to EUR 65.3 million. The balance sheet total increased by 19 per cent to EUR 23,842 million. The Group's capital adequacy was 24.13 per cent at the end of the year (minimum requirement 8 per cent).

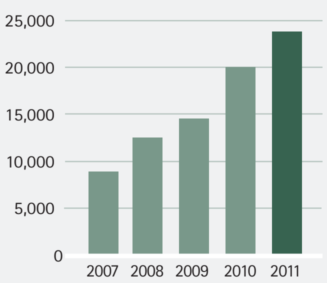
The lending grew by 17 per cent to EUR 13,655 million. New loans granted amounted to EUR 2,780 million.

Funding acquisition was highly successful in 2011. In addition to operating in the traditional funding market, the company issued its first benchmark-sized bond of USD 1.5 billion. The company concluded a total of 222 funding arrangements with an aggregate value of EUR 6,655 million on the international funding markets. In the domestic market, 7 Municipal Bonds were issued with an aggregate value of EUR 18 million.

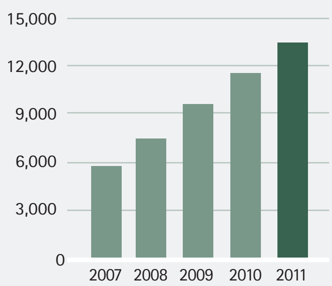
"Municipality Finance plays an **important role as an operator** increasing the stability of society."

Key figures (Group)	31 Dec 2011	31 Dec 2010	Change, %
Net interest income (MEUR)	94.2	78.7	20%
Net operating profit (MEUR)	65.3	58.3	12%
Lending portfolio (MEUR)	13,625	11,698	16%
Total funding acquired (MEUR)	20,092	17,162	17%
Balance sheet total (MEUR)	23,842	20,047	19%
Capital adequacy ratio, %	24.13%	19.28%	25%
Own Funds (MEUR)	288.4	245.9	17%

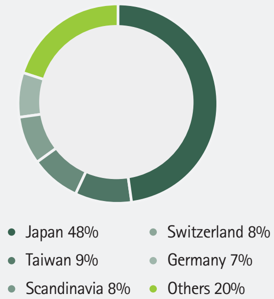
Balance sheet total 2007–2011 (MEUR)



Lending portfolio 2007–2011 (MEUR)



Funding by country in 2011



CEO's Review

Fewer and fewer safe havens in Europe

The year 2011 was one of the most eventful years in the history of the European economy. The hopeful atmosphere building new growth at the beginning of the year nearly faded into recession in the latter half of the year with no clear way out in sight at the turn of 2012. A new feature for us Finns in the development of the European economy was that Finnish political decision-makers strongly disagreed with the central euro countries in matters concerning the Greek loan arrangements and the creation of the European Financial Stability Fund. The extended crisis also increased uncertainty in financing and significantly impaired the trust between banks.

Finland's active role in the Greek loan arrangements prompted lots of questions amongst international investors as to whether Finland's previous positive attitude towards the euro was beginning to take a more negative turn. We had to discuss and defend Finland's basically stable and uniform pro-euro position in many meeting with investors at the end of the year. This position makes us one of few European countries with the best credit rating.

The turbulence of the capital markets was especially reflected in the acquisition of funding by European countries. By autumn, Europe had already become such a high risk to many international investors that they started to categorically decrease their investments in the eurozone. This led to increased costs for state bonds and, at least temporarily, made the acquisition of funding more difficult even in the core of Europe, in Germany and in France. The crisis did not have a significant effect on the acquisition of funding by the Finnish state. Finland was still one of the few safe havens for investors in Europe, but the interest rates of state loans were also increasing here.

The crisis had no serious effects on the operations of Municipal Finance either. We issued the first benchmark-sized bond this spring that succeeded beyond expectations. Before summer, we had already acquired more than 80% of the funding required during the entire year, and the fact that the market was becoming more difficult during the autumn did not affect our funding acquisition much at all.

Standard & Poor's placed the ratings of all eurozone states under monitoring at the end of the year, and as a result, also the ratings of operators such as Municipality Finance were also put under a watch list. It was, however, interpreted that the changes in credit ratings for Finland and Municipality Finance were caused by general European reasons, not by the economic development of the country or company itself.

Our other credit rating agency, Moody's, reconfirmed the best possible rating, Aaa, for us again immediately after the turn of the year. This sent a new, strong message of the confidence on Municipality Finance and the Finnish public sector to the international funding market. Later in January, also Standard & Poor's rated Municipality Finance AAA, like the Finnish state.

Municipality Finance's important position as an operator enhancing the stability of the society is even more clear in times of an European financial crisis. Municipality Finance has been able to provide its customers with long-term funding, even loans of 20–40 years, at very competitive terms throughout the entire crisis. The clear increase in the cost of long-term financing for banks has led to margins required by banks being too high for municipalities and housing corporations. Our competitive position is therefore very good, which is explained by our good credit rating, our focusing on the needs of our customer segment and our transparent, reliable and efficient methods of operation.

Investments by municipalities and municipal enterprises and the resulting funding requirements of the municipal sector remained almost at the same level as in 2010. The volume of housing loans, on the other hand, was higher in 2011. Housing funding was largely used for the construction of housing and care homes for groups with special needs.

New financing models offer more opportunities

During the year, Municipality Finance's subsidiary, Financial Advisory Services Inspira Ltd confirmed its position as a trusted partner for its customer base. Inspira participated in several nationally important infrastructure projects by planning optimal funding solutions for its customers and by designing other arrangements for the public sector. Inspira's expertise is continuously utilised both in the municipal sector and in state administration.

Municipality Finance's own product development also continued strongly. A good example of this is the financial leasing service intro-

"Municipality Finance also offers **very long-term** funding."

duced in 2010 as an option for funding investments in capital assets. The service was further developed in 2011 and the operations were received very well by the customers. Municipality Finance is a new actor in the financial leasing services market with excellent growth opportunities in the future.

Despite the uncertain market conditions, Municipality Finance's business outlook for 2012 is good. The funding requirements of the customer base are expected to be significant, and Municipality Finance is in a strong position as a trusted operator offering competitive funding solutions.

We also believe that the conversation that started in 2011 on Municipality Finance's role as a public sector financier will finally end with an understanding of the company's meaning and a strengthening of its operating model. The funding model used in Finland based on the independent acquisition of funding by municipalities continues to cause interest abroad. Finland is generally considered an excellent example of how the funding of the municipal sector can be arranged. Great Britain, Japan, China, Korea, France, New Zealand and Estonia, amongst others, have come to Municipality Finance to learn how similar systems could be constructed in those countries.

I would like to extend my warm thanks to our customers, personnel and partners for the successful co-operation over the past year. As the year 2011 ends, Municipality Finance is implementing several important development projects that will further improve our competitiveness and the efficiency of our operations. This provides a good basis for responding to the challenges presented to us by the development of our customer base.

President and CEO
Pekka Averio

First benchmark-sized bond issue successed beyond expectations

More than 99 per cent of Municipality Finance's funding is sourced from international investors typically looking for risk-free or very low-risk, long-term investment opportunities. Only less than one per cent is acquired from Finnish investors, in practice by means of Municipal Bonds.

The acquisition of funding for Municipality Finance was successful in 2011. The company acquired a total of EUR 6,673 million of funding through 229 funding arrangements. A significant portion of the company's funding still comes from Asia and especially from Japan. The availability of funding in Japan remained steady throughout the year in spite of the regrettable earthquake.

Asia's share of Municipality Finance's funding for the entire year was, however, still 62 per cent, that of Nordic investors 8 per cent and that of other European investors 24 per cent. During the year, the funding of Municipality Finance was focused more on long-term loans. The average expected maturity of the loan portfolio was at the end of the year 5.3 years.

The biggest funding arrangement, and a very important one for Municipality Finance's funding profile, was the company's first benchmark-sized bond issue worth approximately USD 1.5 billion. Finnish borrowers are highly appreciated internationally, and the demand for the bond exceeded expectations. The bond was oversubscribed within a short time, and its original value of USD 1.0 billion was raised to USD 1.5 billion. Because of the strong demand, the bond was priced at the bottom of its original pricing range at 0.32% above the 5 year swap interest. More than half of the bond was subscribed by central banks, and a third of the investors were Asian and almost half European. Scandinavian investors were responsible for approximately a fifth of the subscriptions.

The success of the benchmark issue was a significant achievement, and also its timing in the spring 2011 was good. Europe fell into a very difficult situation in terms of economic policy quite soon after the funding arrangement, and the uncertainty concerning the future of the eurozone drove a large number of investors away from the European debt market. This development led to a significant rise in borrowing costs in several countries. This was also reflected in the private sector during the autumn, and the availability of financing started to get more difficult especially for companies operating with the help of financing from banks.

Thanks to the benchmark issues, Municipality Finance is able to spread its acquisition of funding even more widely in the future both in terms of geography and groups of investors. This reduces the financial risk related to funding on its part. Thanks to the sufficiently large arrangement, Municipality Finance is also a more desired partner on the international market than before.

The uncertainty will continue in 2012

The most significant risks for Municipality Finance's funding in 2012 are related to the general development of the European economy. The attitudes of non-European investors towards European issuers changed in a clearly more critical direction at the end of 2011. Should the European financial crisis deepen, the cost of acquiring funding might rise considerably.

Municipality Finance aims for front-loaded funding and continuous safeguarding of its liquidity corresponding to the requirements of at least six months of undisturbed operation. At the end of 2011, the liquidity buffer was approximately 10 months.

The international position of Finland is good in terms of funding. After Germany, Finland is still considered the second best investment opportunity in the eurozone, being able to offer investments at a very low risk. In addition to the state of Finland, Municipality Finance holds a strong position in the competition for such investments.

Funding by currency in 2011

- Japanese yen (JPY) 33%
- US dollar (USD) 28%
- Euro (EUR) 8%
- Swiss franc (CHF) 7%
- Turkish lira (TRY) 6%
- Other currencies 18%

Funding by country in 2011

- Japan 48%
- Taiwan 9%
- Scandinavia 8%
- Switzerland 8%
- Germany 7%
- Others 20%

"Municipality Finance has issued its **first benchmark-sized** bond amounting to USD 1.5 billion."

When investing liquidity security is of prime importance

The objective of investment operations is to manage the company's investment assets by investing them profitably and as securely as possible. Investment assets comprise the company's own funds and acquired funding. The company maintains a liquidity portfolio that satisfies the liquidity needs corresponding to a minimum of six months of uninterrupted operations.

Market uncertainty regarding the eurozone increased considerably in 2011. In response to this development, the company shifted the focus of its investment portfolio further towards investments that were considered more secure. 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. The focus of short-term investments was on Nordic banks and central bank deposits.

The importance of maintaining adequate liquidity has become increasingly highlighted and one of the aims of investment operations is to ensure that the company's liquidity enables it to continue flexible lending operations under all market conditions. As a result, the company maintains a high proportion of liquid funds.

At the end of 2011, the total amount of investments stood at EUR 5,055 million. The average credit rating of all investments was AA+ and the average remaining life of the portfolio was 2.72 years.

Competitive and flexible funding solutions for **customers**

Confidential and customer-oriented cooperation with customers forms the basis of Municipality Finance's funding for its customers. Municipality Finance's lending is used entirely for the various investments made by municipalities, municipally controlled corporations and non-profit organisations. The majority of the lending portfolio is long-term loans, which increased by 16 per cent in 2011.

Long-term loans are typically used to finance investments made by municipalities, municipal federations and corporations owned by them. The majority of the funding from Municipality Finance is used for the maintenance and development of the basic structures of the Finnish society, such as construction projects in the fields of education, social services and health care as well as infrastructure and energy projects.

Funding for housing construction is provided for municipally-owned housing corporations as well as non-profit organisations for the production of state-subsidised social rental housing and housing construction for special groups such as the elderly, the disabled and the students.

Municipality Finance's share of the financing of its customers has been high in the recent years. In 2011, its market share of lending to municipalities and social housing amounted to almost 80 per cent.

Significant municipal funding requirements

The increased uncertainty of the economy has had no significant effect on the Finnish municipalities. Despite expectations to the contrary, tax income continued to grow in 2011. The confidence on the Finnish municipal sector's ability to carry its responsibility is strong and mainly based on the relatively low debt ratios of municipalities compared to international levels.

Income of municipalities was increased by the temporarily elevated share of corporate taxes, 32% instead of 22%, in 2009–2011. Also the income tax base of municipal tax revenue increased slightly and increased limits on real estate taxes resulted in higher real estate tax revenue. Another reason for the development of the municipal economy was the decreased growth rate of operating expenses made possible by costs having a lower growth rate than before.

In spite of the internationally strong economic position the financing requirements of municipal groups in Finland are significant in the long term because of several reasons. The legal duties of municipalities require significant investments also in the future. The greatest investments are in health care, social care and education. Renovation needs in child care centres, schools, retirement homes and health centres,

> "The millionth apartment to be built **with a state subsidy** is being built at Jätkäsaari."

Picture: HOAS

The 41 year loan period sealed the bidding for the funding of Jätkäsaari's student houses

Four new HOAS student houses are being constructed in Helsinki's Jätkäsaari. Municipality Finance won the bidding by offering a long, 41 year loan period for the EUR 22 million loan.

Also the millionth apartment built with the state's subsidy will be completed in the houses being built at Jätkäsaari's Välimerenkatu street. The houses represent a new style of architecture: three-storey buildings are built as bases for the eight-storey towers, and green yards will be built on the roofs of the lower buildings. The houses will comprise at total of 206 apartments, housing 400 students.

Municipality Finance has recently become the most important lender of HOAS's subsidised loans. Municipality Finance provides funding for HOAS for several new construction locations as well as renovation locations.

Flexible loan instalment reduce interest costs for Seinäjoki Y-house

Municipality Finance is funding the Seinäjoki Y-house providing facilities for the South Ostrobothnia Hospital District, Seinäjoki Health Centre and Seinäjoki University of Applied Sciences. The funding tender occurred at the same time as the financial crisis, but Municipality Finance was still able to grant a long, 33 year loan for the construction of the building with competitive terms.

Thanks to flexible loan instalments, interest costs during construction are reduced as the construction period is long. The Y-house being built next to the Seinäjoki Central Hospital is the largest construction project in the hospital area for decades.

Picture: Heikki Hakanen

for example, create a significant need for investment and financing in the future.

In addition to investment requirements resulting from Finnish requirements, also the increase of EU legislation causes a significant need for additional investments. Some of the most current examples include several energy and environment projects, like the renewal of street lighting systems as a result of the EU's energy efficiency directive. This is a very large investment throughout Finland and municipalities are mainly responsible for its costs. Also new legislation related to waste management and the use of landfill sites cause considerable investment requirements in the form of waste-burning facilities to be built.

Despite of the growing trend of the loan portfolio, the demand for funding by municipalities was lower than expected in 2011. This was caused by the good municipal economy in 2011, the aforementioned development of the municipal economy exceeding expectations in 2011 and also the increased caution in borrowing caused by the economic uncertainty.

Loans to municipally-owned companies, however, increased faster than expected. This was due to the fact that operations requiring investments have been incorporated into separate companies with independent financial management, such as energy companies. Also more and more municipal federations have been turned into companies.

The amount of housing loans also increased more rapidly than expected. The construction of housing for special groups and right-of-occupancy homes was particularly dynamic.

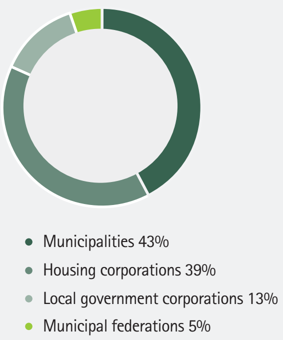
More hedging, emphasis on responsibility

With the growing debt of municipalities, hedging the loan portfolios in order to reduce interest rate risks has become more and more important. Interest rate hedging aims to reduce fluctuations in cash flow and improve the predictability of financing cost. Hedging options are always considered on a customer-specific basis and the managed derivatives of interest risks are created according to the underlying risk.

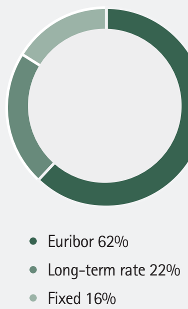
As a result of the European financial crisis, municipal customers have also become increasingly concerned about insuring the financing of the municipal sector should the crisis deepen to a critical extent. During its history, Municipality Finance has ensured the availability of funding for municipalities both during the recession of the early 1990s and the financial crisis in 2008. In both cases, banks withdrew from the municipal loan market almost entirely.

It is the duty of Municipality Finance to ensure the availability of competitive funding for its customers in under all market conditions. This requires responsible acquisition of funding and a conservative investment policy allowing Municipality Finance to minimise its own financial risks and maintain sufficient liquidity buffers in case of disturbances in the market.

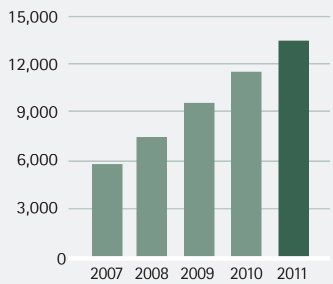
Lending portfolio by customer type



Lending portfolio by rate type



Lending portfolio 2007–2011 (MEUR)



Popularity of leasing growing rapidly

The financial leasing market in the Finnish municipal sector is growing strongly. As a new operator in the market, Municipality Finance is a contender. Its aim is to introduce new, innovative solutions to facilitate the investment needs of municipalities without compromising the level of service.

The key principles of Municipality Finance's financial leasing services are transparency and making solutions easy to understand. In practice the competitiveness of Municipality Finance's leasing solutions is based on all expenses of the agreement known to the customer and therefore being predictable throughout the term of the agreement. Leasing as a financing solution can help customers better match the economic and technical usable life of an asset. The predictability of expenses also makes budgeting and financial planning easier. As the assets are owned by the financing party, the customer's capital is not tied up in their ownership.

Year 2011 was the first full year of operations for Municipality Finance's financial leasing services.

The customers showed a clear interest in financial leasing services throughout the year. Several customers have framework agreements, allowing them to utilise leasing financing for the acquisition of capital assets flexibly within the predetermined limit.

During the year, movable facility elements became an important leasing financing application. These elements were used as, for example, child care centres and school buildings where there was acute need for new facilities or it was required that the facilities were movable. Such element solutions are also suited to applications where the required operating time is estimated to be considerably shorter than that of a fixed building. The assets requirement in property solutions based on leasing is usually lower than in the case of constructing entirely new buildings.

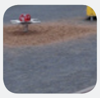
The leasing system of Municipality Finance was further developed in order to include new added value services. Supplementary services include, for example, asset life cycle management planning, maintaining technical and economic information for use in equipment registers and detailed reporting concerning the leased assets base.

The City of Turku and Municipality Finance signed a three-category leasing framework agreement

The City of Turku has extensive experience of leasing, having used it as a financing solution since 1994. The city's offices and institutions use leasing to finance just about all machinery and equipment purchases exceeding EUR 10,000 in value.

In autumn 2011, the city began cooperating with Municipality Finance by signing a framework agreement for leasing. The four-year agreement was tailored to Turku's requirements and has a total value of approximately EUR 50 million. The agreement covers three categories: leasing for small machinery and equipment, leasing for vehicles and leasing for individual larger purchases.

"All expenses incurred by **our leasing solutions** are predictable throughout the term of the agreement."



Picture: Mauritz Hellström

Orivesi acquired a movable day care centre by means of leasing financing

Municipality Finance's leasing option solved the acute need for day care centre in the city of Orivesi. The movable premises element was quick to erect and after five years, the city can decide whether to keep the building permanently in the ownership of the city or move it to another location or return it to the supplier for recycling.

Municipal officials from near and far have visited the Vuokkokuja day care centre. Municipality Finance's leasing model offered several benefits: the funding is municipality-friendly, pricing is transparent and margins reasonable. In addition, leasing turned out to be a competitive option even when compared with a loan.

The acquisition of the day care centre was subjected to a tender process. The price was EUR 1.5 million. The implementation was cost-efficient; the price per square metre was approximately EUR 1,950. The house was supplied by Teijo-Talot. The day care centre was delivered in place as prefabricated modules and the house was erected in a couple of days. After a few weeks of installations, the building was ready for use.

Customer work
the strength of experts

Municipality Finance is an expert organisation focused on serving its customer segment, a very precisely defined one. The employees of the group are skilled professionals in their own fields, in the planning of demanding funding solutions. In 2011, the staff of the group continued to grow with the growing business and amounted to 67 people.

The development of Municipality Finance's personnel is undergoing a phase of powerful development, including the development of HR operations, HR systems and, first and foremost, further development of the expertise of the staff. A HR development project was launched in 2009. This project has created the required policies in the growing organisation to support the implementation of the business strategy in the future.

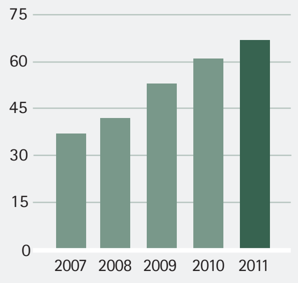
One of the most important areas of development during the year was increasing capabilities related to customer work for experts continuously working with customers. The company aims at a continued development of customer work in order to maintain its excellent reputation amongst customers in the future.

As the organisation has grown, Municipality Finance has also focused on the development of managerial work. Managerial work is considered very important for the well-being of the organisation and its capacity to develop. The strong growth of the organisation and continuously more varied areas of expertise bringing versatility in the organisation create challenges for this work. In 2011, additional burden was caused in the work community by several development projects implemented simultaneously in several operations.

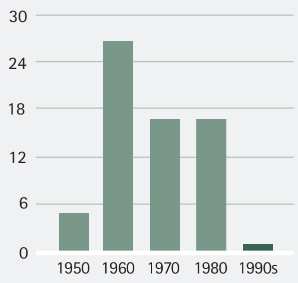
In the long run, Municipality Finance aims to become one of the most desirable employers in its industry. This requires determined improvement of employer image and continuous work for the development of organisational capacities.

The company also focuses on cooperation with schools and universities and offers financing, for example, for students' thesis subjects in Municipality Finance's area of expertise. The ongoing trainee programme is an important mean of developing the employer image. This programme has already led to the recruitment of promising young experts.

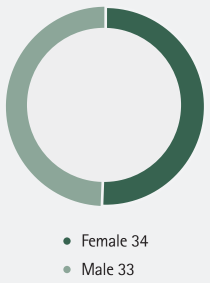
Number of employees 2007–2011



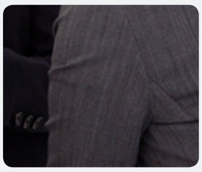
Employees by age



Employees by gender



"An innovative and creative expert organisation formed by **top class professionals** from various fields."



The extensively knowledgeable experts at Municipality Finance

Municipality Finance's operating environment has changed a great deal in recent years and further changes lie ahead. The Finnish local government sector is going through a major shift and the international financial markets are faced with tremendous challenges. This will mean changes to the customer interface and financial products as well as EU regulation. The changes will result in an urgent need to develop information systems, operating processes and professional expertise. While many processes are partly automated, at the very centre of all changes lie Municipality Finance's employees, the professionals that crystallise our operations and services.

Although Municipality Finance has a special purpose as the local government sector's own channel for funding acquisition, the company is a credit institution and all regulatory revisions and amendments also apply to us. As a result, the 67 professionals employed by Municipality Finance Group must possess a broad range of expertise. The Group's operations involve many different tasks that require in-depth industry knowledge combined with the ability to see and manage the big picture. We recognise this and continuously invest in the expertise, motivation and occupational wellbeing of our personnel. A motivated team of top professionals is a resource that will help us face future challenges.

Financial consultancy services
needed more and more

Financial Advisory Services Inspira Ltd is an expert advisor specialised in public sector financing solutions. The company acts as an independent expert and advisor in investment projects and restructuring arrangements. The company's mission is to help the public sector carry out financial arrangements with more versatility and in a more cost-effective manner, with higher quality and on a faster schedule.

Inspira's expertise is typically utilised in the planning of various financing models and the acquisition of financing providers. Additionally, Inspira has assisted in different reorganisations of operations, such as incorporations and establishing joint enterprises. The company co-operates closely with companies specialising in law, taxation and the planning of infrastructure projects.

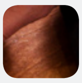
Services included in Inspira's specialities are required more and more in the public sector. In 2011, Inspira participated in dozens of investment projects. The largest project in terms of investment value was the Kotka-Koskenkylä E18 motorway project in which Inspira acted as the financial consultant for the Finnish Transport Agency. Earlier in the year Inspira acted as consultant in the Kokkola-Ylivieska railway project and in several restructuring arrangements, such as the Fimlab joint laboratory project of the Pirkanmaa and Häme hospital districts.

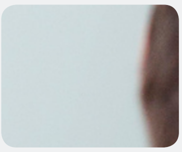
In Jyväskylä, Inspira was an advisor for the city of Jyväskylä in the Public Private Partnership agreement of the Huhtasuo school and day care centre. This was a unique application of the PPP model in the construction of a municipal property in cooperation with private sector.

Planning of Public Private Partnerships is included in Inspira's expertise. The company also participated in the "Käytännön kumppanuusmallit" (Practical partnership models) project aiming at the development of an established method of operations for the implementation of partnership arrangements in Finland.

In 2011, Inspira's operations were developed by forming even more clearly specialised units for the company's central services. The units so formed, Project financing and investments and Restructuring arrangements, will serve customers as specialised teams in the future. Also a Board of Management was established in the organisation and common concepts of operation were created for the development of the profitability of operations and reporting.

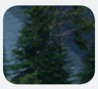
In 2012, central areas of development are the development of customer work and the expansion of customer interface. Inspira's aim is to continue growing by means of expanding its services and creating new opportunities for cooperation with other operators in the field and the parent company Municipality Finance.





> Inspira is a financial
> **consultant**
> in public investment projects."

Kuva: Finnish Transport Agency



Inspira consulting in the Public Private Partnership of the E18 Koskenkylä-Kotka motorway

Inspira was responsible for the financial and funding-related consulting in the E18 Koskenkylä-Kotka motorway project being implemented according to the Public Private Partnership model (PPP). In this project, the Finnish Transport Agency agreed to acquire the funding, construction and maintenance of the motorway from Tieyhtiö Valtatie 7 Ltd.

The financial and legal consulting services related to the project included, amongst other things, financial modelling, an assessment of risks and the preparation of tender and contract documentation.

The E18 motorway project being implemented according to the PPP model is one of Finland's largest infrastructure projects, comprising the planning, construction and long-term maintenance of the 53 kilometre motorway. The term of agreement continues until 2026. The service agreement was signed on 8 December 2011, and the total value of the agreement is approximately EUR 623 million.

Tieyhtiö Valtatie 7 Ltd. is funded by European Investment Bank, Nordic Investment Bank and Pohjola Bank Plc.

Municipality Finance Corporate Governance Statement 2011

The following statement on Municipality Finance's Corporate Governance in 2011 is in compliance with Chapter 2, Section 6 of the Finnish Securities Markets Act. This statement is provided here as a comprehensive description of Municipality Finance's Corporate Governance, separate from the Report of the Board of Directors.

Corporate governance

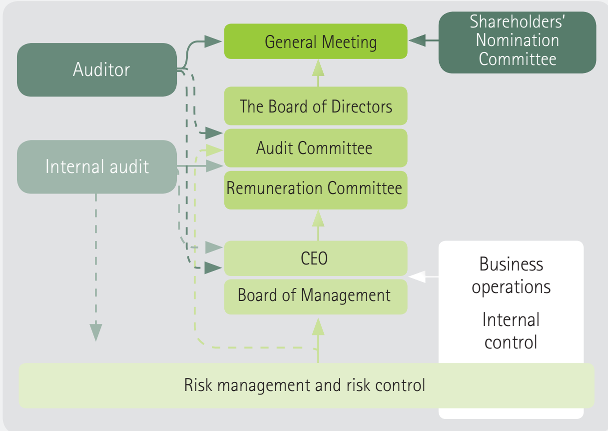
Corporate Governance Policy

The Board of Directors of the parent company confirmed Municipality Finance's internal Corporate Governance Policy in 2005. The Policy was last updated in autumn 2011. In addition to the Corporate Governance Policy, the company has a number of other policies pertaining to governance, financial reporting, internal control and risk management.

The Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. As Municipality Finance is solely an issuer of bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies directly in its entirety is not appropriate. Nevertheless, the company has decided to use the Corporate Governance Code as the basis for preparing its own Corporate Governance Policy.

In addition to the Finnish Corporate Governance Code for listed companies, the Corporate Governance Policy of Municipality Finance has been prepared in compliance with Finnish Financial Supervisory Authority Standard 1.3 on "Internal Governance and Organisation of Activities". The Finnish Corporate Governance Code for listed companies is available at www.cgfinland.fi and the Financial Supervisory Authority standard at www.finanssivalvonta.fi. Municipality Finance's Corporate Governance Policy is available in Finnish, English and Swedish on the company's Internet website at www.munifin.fi.

The following chart is a general illustration of the administrative structure of Municipality Finance. Solid arrows indicate specific reporting obligations while dotted arrows indicate other reporting relationships.



Shareholders' Nomination Committee

The Shareholders' Nomination Committee was originally established by a decision of the Annual General Meeting of 2010. The following Annual General Meeting held on 23 March 2011 decided to establish the Shareholders' Nomination Committee as a permanent body. The Shareholders' Nomination Committee is charged with making a proposal to the Annual General Meeting on the number of the members of the Board of Directors, candidates for the members of the Board of Directors and their remuneration. In addition, the Shareholders' Nomination Committee makes a proposal to the Board of Directors on the Chairman and Vice Chairman of the Board of Directors to be elected in the Annual General Meeting.

According to the decision of the General Meeting, the Shareholders' Nomination Committee is comprised of four members. The company's three largest shareholders each nominate one member and the Association of Finnish Local and Regional Authorities nominates one member. The three largest shareholders in 2010 and 2011 were Keva, the Finnish state and the City of Helsinki. Following representatives were nominated to the Shareholders' Nomination Committee for the 2011 Annual General Meeting:

- Merja Ailus (CEO, Keva), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Seppo Olli (City Treasurer, City of Helsinki)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities)

Following representatives were nominated to the Shareholders' Nomination Committee for the 2012 Annual General Meeting:

- Sampsa Kataja (Member of Parliament, Chairman of the Board of Directors, Keva), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Seppo Olli (City Treasurer, City of Helsinki)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities)

The Shareholders' Nomination Committee convened for the 2011 Annual General Meeting made the required proposals to the General Meeting and the General Meeting approved the proposals as submitted.

The proposals made to the 2012 Annual General Meeting and the Board of Directors elected at the meeting will be published as an appendix to the invitation to the 2012 Annual General Meeting and made available on the company's Internet website.

The Board of Directors

From left to right: Ossi Repo, Juha Yli-Rajala, Asta Tolonen, Eva Liljeblom, Sirpa Louhevirta, Teppo Koivisto and Fredrik Forssell
Missing from the picture: Tapio Korhonen

The duties of the Board of Directors

The Board is responsible for the company's management and the proper arrangement of its operations. The Board is responsible for the duties specified for it in the Companies Act, the Articles of Association and other legislative provisions and regulations issued by the authorities. The main duties of the Board include confirming the company's strategy, annual operating plan and budget, monitoring the company's financial situation and ensuring through supervision that the company's management, and risk management in particular, are properly arranged by management. The Board also maintains adequate contact with the internal audit and the auditor. The Board confirms the company's values and ethical operating principles and other policies that guide operations. The Board is responsible for the appointment and termination of the CEO and Deputy to the CEO and decides on the principles of the remuneration and incentive systems of management and staff.

Composition of the Board of Directors

Under the Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes.

The 2011 Annual General Meeting elected the following members to the Board of Directors in accordance with the proposal of the Shareholders' Nomination Committee:

Eva Liljeblom, Chairman
on the Board of Directors since 2003

- Education: D.Sc. (Econ)
- Year of birth: 1958
- Primary occupation: Rector, Professor, Hanken School of Economics in Helsinki
- Independence: independent of the company and its significant shareholders

Fredrik Forssell, Vice Chairman
on the Board of Directors since 2011

- Education: M.Sc. (Econ)
- Year of birth: 1968
- Primary occupation: CIO, Internal Equity & FI Management, Keva
- Independence: independent of the company

Teppo Koivisto
on the Board of Directors since 2011

- Education: M.A. (Pol. Sci.)
- Year of birth: 1966
- Primary occupation: Head of Division, State Treasury
- Independence: independent of the company

Tapio Korhonen
on the Board of Directors since 2005

- Education: Master of Laws, M.Sc. (Econ)
- Year of birth: 1949
- Primary occupation: Finance Director, City of Helsinki
- Independence: independent of the company

Sirpa Louhevirta
on the Board of Directors since 2011

- Education: M.Sc. (Econ)
- Year of birth: 1964
- Primary occupation: Group Treasurer, Sanoma Oyj
- Independence: independent of the company and its significant shareholders

Ossi Repo
on the Board of Directors since 2011

- Education: Bachelor of Social Services, L.Soc.Sc.
- Year of birth: 1948
- Primary occupation: Mayor, City of Kemi
- Independence: independent of the company and its significant shareholders

Asta Tolonen
on the Board of Directors since 2011

- Education: M.Sc. (Econ.)
- Year of birth: 1960
- Primary occupation: Financial Director, Kainuu Regional Council
- Independence: independent of the company and its significant shareholders

Juha Yli-Rajala
on the Board of Directors since 2011

- Education: M.A. (Adm. Sci)
- Year of birth: 1964
- Primary occupation: Director, Group Administration, City of Tampere
- Independence: independent of the company and its significant shareholders

The composition of the Board of Directors that served until the 2011 Annual General Meeting was as follows:

- Markku Pohjola, Chairman
- Sisko Seppä, Vice Chairman
- Pekka Alanen
- Liisa Linna-Angelvuo
- Tapio Korhonen
- Eva Liljeblom
- Hannes Manninen
- Mikko Pukkinen
- Antti Rantakangas
- Hanna Tainio
- Pekka Timonen

Convocation of the Board of Directors

The company's Board of Directors has confirmed its rules of procedure, which form part of the company's Corporate Governance Policy and are available on Municipality Finance's website at www.munifin.fi. The Board will convene at the summons of the Chairman as often as company business requires. During the 2011 financial year the Board of Directors convened 10 times. The average attendance rate of Board members in these meetings was 93%. The Board conducted an annual independent assessment of the effectiveness of its work and the quality of the performance of its duties in the 2011 financial year.

Board Committees

In order to organise its work as efficiently as possible, the Board has established an Audit Committee and a Remuneration Committee for the preparation of matters. Where necessary, the Board may also establish other committees in addition to the two specified above. The Board appoints from among its number the members and chairmen of committees. Committees regularly report to the Board on their activities, including the submission of minutes of Committee meetings to the Board.

The objective of the Audit Committee is to act as a preparatory body assisting the Board in duties related to financial reporting, internal control and risk management. Within this framework, the Audit Committee also supervises the work of auditors and the internal audit. The rules of procedure of the Audit Committee form part of the company's Corporate Governance Policy.

The members of the Audit Committee at the end of the 2011 financial year were:

- Tapio Korhonen, Chairman
- Fredrik Forssell
- Sirpa Louhevirta

The Audit Committee convened a total of five times during the financial year and the average attendance rate was 100%.

The Remuneration Committee of the Board of Directors is responsible for preparatory work to assist in the Board's decision-making concerning the setting of objectives related to the company's performance-related incentive schemes, assessment of whether the objectives are attained, development of the incentive system and the remuneration and other benefits for the CEO and Deputy to the CEO.

CEO and the Board of Management

From left to right: Marjo Tomminen, Pekka Averio, Esa Kallio, Toni Heikkilä

The members of the Remuneration Committee at the end of the 2011 financial year were:

- Eva Liljeblom, Chairman
- Teppo Koivisto
- Juha Yli-Rajala

The Remuneration Committee convened a total of four times during the financial year and the average attendance rate was 100%.

CEO and the Board of Management

Under the Articles of Association, the company has a CEO appointed by the Board of Directors and a Deputy to the CEO. The CEO's duty is to manage the company's operations in order to implement the resolutions made by the Board of Directors and maintain the company's operations in line with the strategy, risk management principles and limits set by the Board. Supported by the Board of Management, the CEO is responsible for monitoring the effectiveness of the company's day-to-day operations (including internal control, risk management and supervision of regulatory compliance), maintaining an effective organisational structure and reporting to the Board of Directors. More detailed descriptions of the duties of the CEO and the Board of Management are included in the company's Corporate Governance Policy.

CEO and Board of Management at the end of the 2011 financial year:

Pekka Averio, President and CEO

- At Municipality Finance since 1993
- Education: Master of Laws, MBA
- Year of birth: 1956

Esa Kallio, Deputy to the CEO, Executive Vice President

- At Municipality Finance since 2005
- Education: M.Sc. (Econ)
- Year of birth: 1963

Toni Heikkilä, Senior Vice President, Risk Management & IT

- At Municipality Finance since 1997
- Education: Lic.Sc. (Econ), M.Sc. (Finance)
- Year of birth: 1965

Marjo Tomminen, Senior Vice President, Finance and Business Development

- At Municipality Finance since 1992
- Education: vocational qualification in Business Administration, EMBA
- Year of birth: 1962

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control, risk management and reporting

Due to the nature of its operations, Municipality Finance is inevitably exposed to a number of risks and, as such, internal control and risk management are a key aspect of strategic planning and management. Appropriately implemented internal control and risk management are part of day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives.

Management of the balance sheet's risk position related to financing activities is intended to ensure that the risks associated with lending, funding acquisition, investment activities and other business operations are in line with the company's accepted risk profiles. The objective is to minimise open risk positions and maintain the overall risk position at a level that is low enough not to compromise the parent company's strong credit rating. The tasks specified above are the responsibility of the company's treasury department.

Municipality Finance's internal control comprises the financial administration function, which is in charge of financial reporting, the risk management function, responsible for reporting on the company's risk position and changes thereto and operational level internal control, which produces reports that are processed by the managers responsible for the functions in question, the CEO assisted by the Board of Management and the Board of Directors.

Reporting and supervision at the Board level

The Board of Directors is responsible for ensuring that internal control and risk management are sufficiently comprehensive and effective and that the company does not, in its operations, take risks which would fundamentally endanger the capital adequacy of the company. The Board is assisted in this supervision by the Audit Committee. The Board of Directors and the Audit Committee have confirmed, as part of Municipality Finance Plc's Corporate Governance Policy, rules of procedure that also specify the Board's and Audit Committee's duties concerning internal control and risk management in more detail.

The Board of Directors has confirmed the company's operating policies (including liquidity policy) which include the operating principles and limits pertaining to internal control and risk management. The aim of the operating policies is to ensure that the company's risk position is maintained at a level that corresponds with the confirmed risk profile through guiding the company's operations. The operating policies are revised annually, with the latest revision made in autumn 2011.

As part of the effective implementation of internal control and risk management, the Board of Directors has confirmed the company's operating principles for internal control, the annual audit plan for internal control as well as the key principles concerning regulatory compliance (as part of the operating policies), the information security policy, business continuity plan and other guidelines and principles necessary for the management of operational risks. These principles are assessed on a regular basis to ensure that their status is current and they are revised as necessary.

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The latest revision was made in December 2011 and the current plan extends to 2018. The exceptionally long time horizon for capital adequacy planning is related to the changes in the regulation of credit institutions that are currently being planned at the EU level, including the leverage ratio requirement. The possible implementation of the leverage ratio requirement in 2018 has forced the company to begin preparations at this early stage, as the implementation of the leverage ratio would mean that requirements concerning the company's own funds would be multiplied. The leverage ratio requirement is based on comparing total own funds with balance sheet assets without the consideration for the risks related to the assets that are incorporated into capital adequacy calculations. The plan for capital adequacy management also includes a process description for capital adequacy management. Information pertaining to capital adequacy is presented as part of the company's annual reports as required by legislation.

The Group has adopted the Basel II parameters for capital adequacy. The standard approach is applied for calculating the regulatory capital for credit risk and the basic approach for calculating that of operational risk. The capital adequacy calculations for market risk take into account only exchange rate risks, as the Group does not have a trading book or share or commodity positions.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. However, the Senior Vice President responsible for risk management regularly attends meetings of the Audit Committee and the Board of Directors.

Supervision and reporting at the operational level

Internal control plays a part in the duties of each individual belonging to the management or staff of the company and everyone in the organisation is responsible for reporting any observed deficiencies concerning internal control. Internal control is based on an organisation specific to each operational area or department, where everyone involved has their own duties and areas of responsibility.

Decision-making and the implementation of decisions have been divided to different operational areas or individuals.

Reliable and timely reporting on the company's financial performance is a key tool for management. Reporting on financial performance is carried out by the financial administration and risk management, but in part also independently at the operational level to control the accuracy and sufficiency of financial reporting. The basic elements of financial reporting include internally produced reports on a monthly basis and the interim and annual reports required for external reporting.

Financial reporting is based on appropriately prepared bookkeeping and other materials pertaining to business activities. In order to ensure the accuracy of financial reporting, the financial management function has detailed internal instructions on the recording of business activities and other financial management processes, including amongst other things the control principles concerning the approval and implementation of various transactions. These control measures include regular routines pertaining to the balancing of accounts and transactions and payment traffic processes that always follow the four-eye principle. Part of the control measures are automated by the company's information systems while part are based on manual inspection. The Audit Committee is charged with supervising the financial reporting processes.

The company has a risk management function that is independent of the company's business operations and the operational management of the balance sheet's risk position; it maintains, develops and prepares risk management principles for confirmation by the Board of Directors and develops methods for use in the assessment and measurement of risks. The company's various functions are responsible for day-to-day risk management decisions within the established principles, policies, authorisations and limits. The risk management function ensures that risks are maintained within acceptable limits and that the methods used for measuring risks are appropriate. The risk management function reports to the management on a monthly basis on the company's risk position relative to the limits set and, as necessary, on individual risk events of material significance.

The management of operational risks, including information systems critical to the company's operations, and the supervision of operational risks is part of the normal processes of functional areas and departments. In addition to that, the department charged with supervision of overall risk has general responsibility for coordinating the management of operational risks.

The CEO, supported by the Board of Management, is responsible for managing the company's operations and organising risk management and financial reporting. In addition, the company has a separate credit risk group whose duty is to monitor and supervise the company's credit risk and make decisions pertaining to the management of credit risks. The company has also established an IFRS group to ensure the accuracy of financial reporting. The group's task is to develop and monitor the Group's IFRS bookkeeping, taking operational and market changes into consideration. The company has an operational development steering group responsible for managing development projects and the operational risks related to them.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the company's compliance department as part of the company's risk management function. Reports on the compliance function are produced on a monthly basis to the Board of Management and annually to the Board of Directors. The reporting frequency may be increased if necessary.

In addition to the operating policies confirmed by the Board of Directors, the company has operating guidelines specific to functional areas and departments confirmed by the Board of Management. The operating guidelines are supported by process descriptions that are prepared for all essential processes and revised regularly. In addition, each employee has a job description that specifies their key duties and substitute arrangements. The heads of departments also prepare and revise process instructions and other specific guidelines as necessary.

As part of the company's risk management, risk surveys are undertaken on a regular basis to identify risks related to the company's operations and assess the measures used to manage those risks. The company also conducts annual stress testing to evaluate the impact of various scenarios on financial development.

Regular external reporting on the company's operations to the Financial Supervisory Authority, the Bank of Finland, the Tax Administration, Statistics Finland and, where necessary, other authorities is undertaken based on the reporting obligations set forth by the authorities at the times required.

External and internal audit

The company has outsourced the audit work of internal audit to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's compliance department. The tasks of the internal audit function include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. Its tasks also include ensuring that the company has adequate and properly organised manual and IT systems for its operations and that the risks associated with operations are being managed adequately.

The Board of Directors approves the internal audit plan for each financial year and all inspections undertaken by the internal audit during the 2011 financial year have been reported to the company's Board of Management, the Audit Committee and the Board of Directors. The recommendations issued by the internal audit are systematically monitored in the company and their implementation is reported to the company's Board of Management and the Audit Committee and Board of Directors annually. The internal audit function assesses the status of the implementation of recommended measures.

Municipality Finance Plc's auditors during the 2011 financial year were KPMG Oy Ab with Authorised Public Accountant Raija-Leena Hankonen as the responsible auditor.

Municipality Finance

Financial statements

1 Jan–31 Dec 2011

Report of the Board of Directors

Summary of 2011:

- The Group's net operating profit before taxes was EUR 65.3 million (2010: EUR 58.3 million). This represents a 12% increase on the previous year.
- Net interest income grew 20% to EUR 94.2 million (2010: EUR 78.7 million).
- Balance sheet total was EUR 23,842 million (2010: EUR 20,047 million), up 19% from the previous year.
- The Group's risk-bearing capacity remained very strong, with capital adequacy at 24.13% at the year end (2010: 19.28%) and capital adequacy ratio, Tier 1 capital at 19.04% (2010: 13.92%).
- Total funding acquisition for the year 2011 amounted to EUR 6,673 million (2010: EUR 6,504 million). The total amount of funding grew to EUR 20,092 million (2010: EUR 17,162 million).
- The loan portfolio increased to EUR 13,625 million (2010: EUR 11,698 million). New loans issued were close to the previous year's level at EUR 2,780 million (2010: EUR 2,842 million).
- The company has continued the strong development of the financial leasing operations launched in 2010. The leasing portfolio stood at over EUR 30 million at the end of the year (2010: EUR 8 million).
- The Group's investments totalled EUR 5,055 million at the end of the year (2010: EUR 4,839 million).
- The turnover of Municipality Finance's subsidiary, Inspira, was EUR 2.2 million for the year (2010: EUR 2.2 million). Inspira's net operating profit for 2011 was EUR 0.4 million (2010: EUR 0.4 million).

Key figures (Group):

	31 Dec 2011	31 Dec 2010
Net interest income (MEUR)	94.2	78.7
Net operating profit (MEUR)	65.3	58.3
New lending (MEUR)	2,780	2,842
New funding acquisition (MEUR)	6,673	6,504
Balance sheet total (MEUR)	23,842	20,047
Own funds (MEUR)	288.4	245.9
Capital adequacy ratio for Tier 1 capital (%)	19.04	13.92
Capital adequacy ratio (%)	24.13	19.28
Return on equity (%) (ROE)	27.08	28.42
Cost/income ratio	0.23	0.23

The calculation formulas for the key figures are given on page 37.
All figures mentioned in this Report of the Board of Directors are for the Municipality Finance Group unless otherwise mentioned.

Credit ratings

Municipality Finance Plc's credit ratings

Rating agency	Long-term funding	Outlook	Short-term funding	Outlook
Moody's Investors Service	Aaa	Stable	P-1	Stable
Standard & Poor's	AAA	Negative	A-1+	Stable

Municipality Finance's funding is guaranteed by The Municipal Guarantee Board.

The Municipal Guarantee Board's credit ratings

Rating agency	Long-term funding	Outlook	Short-term funding	Outlook
Moody's Investors Service	Aaa	Stable	P-1	Stable
Standard & Poor's	AAA	Negative	A-1+	Stable

In early December 2011, Standard & Poor's (S&P) placed its ratings of 15 euro zone sovereigns and numerous public sector entities, public financial institutions and several major banks on credit watch with negative implications. According to S&P's rating methodology, the credit rating of Municipality Finance and the Municipal Guarantee Board as public sector entities cannot be higher than the rating of the sovereign. As a result, S&P also placed the long term AAA rating of Municipality Finance and the Municipal Guarantee Board on credit watch. However, S&P also noted that there have been no significant changes in the financial position of Municipality Finance and the Municipal Guarantee Board and affirmed their short term A-1+ rating. In January 2012, S&P affirmed the "AAA" long term rating of the Finnish state, Municipality Finance and the Municipal Guarantee Board. The outlook on the long term rating is negative for the Finnish state and, consequently, for Municipality Finance and the Municipal Guarantee Board as well.

Operating environment in 2011

Uncertainty in the financial markets led to a serious crisis in the euro zone in 2011 resulting from worsening problems in the Greek national economy in the late spring and doubts over Italy's ability to implement the required austerity measures. Market uncertainty increased further in the summer as policymakers in the United States barely reached a compromise on raising the debt ceiling before the deadline. The crisis was exacerbated by delayed decisions on common euro zone economic policy throughout the year and the inability to reach a joint solution to the Greek debt situation that would satisfy the markets.

Confidence in the future of the euro zone economies decreased considerably as a consequence of the crisis.

Uncertainty in the markets caused problems in the funding acquisition of several sovereign states and interest rates increased, particularly on loans to the countries experiencing the greatest difficulties. The interest rates on Finnish government loans also increased, but at a considerably more moderate rate than those of many other euro zone countries. There were no problems in the availability of Finnish state funding. The pricing of Municipality Finance's funding followed that of the Finnish state and funding acquisition was successful.

The uncertain market situation was largely not reflected in the Finnish local government sector. As the largest provider of funding to the local government sector, Municipality Finance ensured that the availability of funding for its customers remained normal.

The annual margins of local governments showed a marked increase in 2011 as income growth outpaced operating expenses. Municipal tax revenues in 2011 exceeded 2010 levels. Municipalities also still received a temporarily elevated share of corporate taxes, 32% instead of 22% (effective 2009-2011). The Ministry of Finance has decided on a temporary increase of 5 percentage points for 2012-2013. In 2012, the share for municipalities of corporate taxes is 28.34%. Effective from 2014, the share will decrease to 23.34%.

The funding requirements of local governments remained at the previous year's levels. However, the increased uncertainty was reflected in greater interest in long-term funding and fixed interest rates. Interest hedging also increased considerably, which is evidence of local governments taking a more systematic approach to managing financial risks.

Non-subsidised housing production continued to grow in 2011. State-subsidised housing production fell for the second year running but is still above the long term average. In 2011, the construction of approximately 6,700 new apartments was started for which Municipality Finance was the main lender.

Development of business operations

Group structure

The Municipality Finance Group (hereinafter "the Group") consists of Municipality Finance Plc (hereinafter "Municipality Finance" or "the Company") and Financial Advisory Services Inspira Ltd (hereinafter "Inspira").

The role of Municipality Finance is to offer market-based funding to municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA) by acquiring funding from capital markets at competitive costs.

Inspira offers expert financial services to the public sector. The company's services include analysing alternative forms of funding for public sector investments and the arrangement thereof. In addition, Inspira offers its services for different public sector ownership arrangements by planning them, making value assessments and assisting in contract negotiations. Inspira helps the public sector to arrange its services more effectively and invest more economically.

Net interest income and net operating profit

Considering the challenges in the global operating environment, the Group's net operating profit was very good. The growth of business continued and the net operating profit for the financial year before appropriations and taxes stood at EUR 65.3 million (2010: 58.3 million). The Group's net interest income grew by 20% from the previous year, reaching EUR 94.2 million (2010: EUR 78.7 million).

Municipality Finance's net operating profit was EUR 65.0 million (2010: EUR 58.0 million). The primary factors contributing to the growth in operating profit were increased volume, successful funding acquisition, good balance sheet management and repurchases of the company's own bonds. Income from repurchased bonds totalled EUR 2.3 million (2010: EUR 8.9 million). The results include EUR -11.5 million unrealised fair value changes recorded based on appreciations (2010: EUR -4.3 million).

Municipality Finance's subsidiary, Inspira, recorded an operating profit in 2011 of EUR 0.4 million (2010: EUR 0.4 million).

Expenses

The Group's commission expenses totalled EUR 2.9 million at the end of the year (2010: EUR 2.3 million). Operating expenses increased by 13% reaching EUR 16.9 million fot the year (2010: EUR 14.9 million). The increase in expenses was primarily caused by growth in volume and the resulting need to increase the number of personnel as well as system development projects that are currently underway.

Administrative expenses totalled EUR 12.1 million (2010: EUR 10.2 million), of which personnel expenses represented EUR 8.3 million (2010: EUR 6.9 million). Total depreciation of tangible and intangible assets amounted to EUR 0.8 million (2010: EUR 0.6 million). Other operating expenses for the period were EUR 4.0 million (2010: EUR 4.1 million).

Balance sheet

The Group's balance sheet total continued to grow at considerably rate in 2011, reaching EUR 23,842 million at the end of the period, compared to EUR 20,047 million the year before. This represents an increase of 19%. The balance sheet increase is primarily the result of business growth and valuation changes of derivatives and liabilities as other currencies strengthened against the euro.

Capital adequacy

The equity objectives of Municipality Finance relating to the company's risk taking and operating environment are defined as part of annual planning. The planning horizon has been extended from three years up to 2018 in order to be able to forecast the development of business results, the adequacy of own funds and the requirement for additional financing in relation to the growing equity requirements caused by changes in regulation. The Board of Directors approves the capital adequacy plan and monitors it. The company has updated its capital adequacy plan in December 2011.

Controlling capital adequacy is a part of the company's strategic planning process, covering the setting of strategic goals, specifying development projects and the financial forecasts for the following years. This is done in cooperation with the management and the Board, and the Board of the company approves the final strategy. The management ensures that the operative measures of the company correspond with the principles determined in the strategy approved by the Board. As a part of annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. Also the company's risk position and its effect on the company's financial status is evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring the risks. Based on these, the capital adequacy plan is updated annually and any actions needed to strengthen the capital position are determined. The adequacy of own funds is also followed up in monthly business analyses.

The Group calculates its capital adequacy based on the Basel II regulations. 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. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk factors used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. For capital adequacy calculations of the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by the municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional guarantee 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 own funds of the Municipality Finance Group totalled EUR 288.4 million at the end of the year (2010: EUR 245.9 million). The Group's primary own funds totalled EUR 227.6 million at the end of 2011 (2010: EUR 177.5 million). Based on the Board of Directors' proposal, no provision for dividend distribution was deducted from the primary own funds. The Board of Directors evaluates the amount of dividend paid out each year based on the decision of the Annual General Meeting and gives its proposal on the payment of dividends based on the company's economic situation and the applicable regulations, taking into account the company's structure of ownership. The Group's secondary own funds totalled EUR 60.8 million at the end of the year (2010: EUR 68.3 million). Detailed descriptions of the subordinated loans and debenture loans are included in Section 15 in the notes of the Group.

The Group's capital adequacy saw a marked improvement in 2011. The capital adequacy stood at 24.13% at the end of the year, compared to 19.28% in 2010. The capital adequacy ratio for Tier 1 capital was 19.04% (2010: 13.92%).

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8% pursuant to the Act on Credit Institutions, was EUR 95.6 million (2010: EUR 102.0 million). The capital adequacy ratio for credit risk tied up the largest amount of the Group's

Consolidated own funds, Group

(EUR 1000)	31 Dec 2011	31 Dec 2010
Share capital	42,583	42,583
Minority interest	241	303
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	84,703	51,540
Profit for the financial period	50,731	42,929
Provision for dividend distribution	0	-10,006
Capital loans	11,009	11,009
Intangible assets	-2,273	-1,464
TOTAL PRIMARY OWN FUNDS	**227,637**	**177,537**
Fair value reserve	-14,210	-6,653
Subordinated liabilities included in upper secondary own funds	40,000	40,000
Subordinated liabilities included in lower secondary own funds	35,000	35,000
TOTAL SECONDARY OWN FUNDS	**60,790**	**68,347**
TOTAL OWN FUNDS	**288,427**	**245,884**

Risk-weighed receivables, Group

(EUR 1000)	31 Dec 2011	31 Dec 2010
Credit risk, standard method	**1,098,808**	**1,177,113**
Total minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	45,627	53,240
Covered bonds	9,797	5,036
Securitised items	29,619	33,400
Other items	2,861	2,493
Total credit risk, standard method	87,904	94,169
Market risk	0	0
Operational risk, basic method	7,722	7,839
TOTAL MINIMUM REQUIREMENT FOR OWN FUNDS	**95,627**	**102,008**
CAPITAL ADEQUACY RATIO, TIER 1 CAPITAL, %	19.04%	13.92%
CAPITAL ADEQUACY RATIO, %	**24.13%**	**19.28%**

own funds at EUR 87.9 million (2010: EUR 94.2 million), the most significant items being claims from credit institutions and investment firms as well as securitised items.

Funding

The funding of Municipality Finance is based on reliability, speed, flexibility and operating in the central capital markets. The majority of funding is done as standardised issues under debt programs. Municipality Finance uses the following debt programs:

Euro Medium Term Note (EMTN) programme	MEUR 22,000
Domestic debt programme	MEUR 800
Treasury Bill programme	MEUR 2,000
AUD debt program (Kangaroo)	AUD m 2,000

Municipality Finance's funding is guaranteed by The Municipal Guarantee Board which also has a Aaa/AAA credit rating from the same rating agencies as Municipality Finance. The Municipal Guarantee Board has granted a guarantee for the debt programs and funding arrangements outside the programs; leading to this debt instruments issued by Municipality Finance are classified as zero-risk in calculating the capital adequacy of credit institutions in Finland and, in several European countries.

In 2011, EUR 6,673 million was acquired in long-term funding (2010: EUR 6,504 million), of which Municipal Bonds issued under the domestic debt programme amounted to EUR 18 million (2010: 35 million). The company issued bonds denominated in 16 different currencies in 2011. A total of EUR 3,168 million was issued in short-term debt instruments in 2011 (2010: EUR 1,566 million). Total funding at the end of the year amounted to EUR 20,092 million (2010: EUR 17,162 million). Of this total amount, 16% was denominated in euros (2010: 15%) and 84% in foreign currencies (2010: 85%).

International funding

Municipality Finance is an active participant in the international bond market, and acquires a very significant portion of its funding from the international capital market. Asian markets, particularly Japan and Taiwan, continued to play important roles in Municipality Finance's funding. The largest European market for funding acquisition was Switzerland, with Germany the largest in the euro zone. There has also been interest towards company's bonds in the Nordic countries.

Municipality Finance's funding acquisition, measured in euros, reached a record high in 2011. The company concluded a total of 222 funding arrangements in the international funding market (2010: 229). Nearly 60% of funding arrangements were structured.

In May 2011, Municipality Finance successfully launched its inaugural USD 1.5 billion benchmark issue.The benchmark transaction allowed Municipality Finance to further diversify its funding sources and join the ranks of significant bechmark issuers. With the successful USD benchmark issue, Municipality Finance was able to bring in some of the world's largest and most significant investors. Over 50% of the order book was sold to central banks and over one third of the total was sold to Asia.

The year 2011 was still characterised by continued restlessness on the markets. As the European crisis continued, investors sought safe havens for their assets. Municipality Finance offered investors a safe alternative based on the stable situation and good reputation of the Finnish local government sector. Active cooperation with investors has increased Municipality Finance's reputation in various markets, and diversifying the sources of funding has proven to be a good strategy in the unstable market situation. The company has managed to keep funding costs at a competitive level despite the challenges it has faced.

Domestic funding

A total of 7 Municipal Bonds were issued under the domestic debt program in 2011. Six of them were directed at public investors and one at institutional investors.

Lending

Municipality Finance's customers consist of municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA). Over the years, the company has increased its importance as a financer to its customers and is clearly the largest single operator in its customer segment.

Long-term lending

Demand for loans in the municipal sector remained high in 2011. Investments by municipalities and municipal federations and the resulting need for financing in the local government sector remained at a similar level compared to previus year. The growth in lending for housing production exceeded forecasts made early in the year. Funding in this area was particularly focused on housing production for special groups and assisted-living homes.

In addition to loans, Municipality Finance offers municipalities, municipal federations and municipal enterprises customised derivative agreements for the management of interest risks. The demand for derivatives was good in 2011. As the level of interest rates remained low, customers increased their hedging against any future increase in interest rates.

The total value of loan tenders received increased by 7% compared to 2010 and amounted to EUR 3,988 million (2010: EUR 3,735 million), of which the company won EUR 2,729 million (2010: EUR 2,675 million). The market share was 77% of all competitive bidding for funding among Municipality Finance's customer base in 2011. Tenders worth EUR 1,409 million were won in the municipalities and municipal federations segment (2010: EUR 1,422 million), EUR 433 million in the municipal enterprises category (2010: EUR 326 million) and EUR 887 million in bids to housing corporations (2010: EUR 927 million). The company's long-term loan portfolio at the end of 2011 amounted to EUR 13,625 million (2010: EUR 11,698 million). This represents an increase of 16% on the previous year. New loans granted amounted to EUR 2,780 million, close to the total for the previous year (2010: EUR 2,842 million).

Municipality Finance's market share is still high. As a result of of the debt situation in European countries and insecurity in the financial sector caused by the new bank regulations, the competitive situation is not expected to change significantly in the short term.

Leasing operations

Municipality Finance offers financial leasing services to municipalities, municipal federations and municipally owned or controlled corporations. The leasing services were launched in early 2010.

The aim of Municipality Finance's leasing operations is to increase transparency and the range of alternatives available in the leasing market. The company has concluded a number of framework agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is increasingly seen as viable alternative, particularly for procurement by municipally-owned corporations and hospital districts.

Short-term lending

Municipalities and municipal federations issue municipal papers to cover their short-term financing needs. Companies under the control of municipalities and municipal federations issue municipal commercial papers.

As interest rates remained low throughout 2011, customers continued to actively use short-term financing. At the end of the year, the total value of municipal paper and municipal commercial paper programmes concluded with Municipality Finance was EUR 2,786 million (2010: EUR 2,623 million). At the end of the year, the company had EUR 534 million in municipal papers and municipal commercial papers in its balance sheet (2010: 581 million), and customers acquired financing through short term programmes for a total of EUR 5,758 million (2010: 6,420 million).

Investment operations

Municipality Finance's investment operations comprise the investment of acquired funding in liquid deposits and debt securities with a good credit rating in order to ensure that the company can remain operational under all market conditions. According to the company's liquidity policy, the investment portfolio must be in line with the need of liquidity for the six following months to continue uninterrupted operations.

At the end of 2011, the total amount of investment was EUR 5,055 million (2009: 4,839 million), and the average credit rating of all investments was AA+ (2010: AA+). The average remaining life of the portfolio stood at 2.72 years (2010: 2.99 years).

Thanks to ample funding, the liquidity has stayed good. New investments are mainly done in covered bonds, bonds issued by states and banks and certificates of deposit of less than one year.

The company has no direct investments in bonds issued by South European states.

Inspira

The operations developed as planned during the financial period both in terms of turnover and profitability. Inspira's turnover in 2011 was EUR 2.2 million (2010: EUR 2.2 million). Its net operating profit before taxes was EUR 0.4 million (2010: EUR 0.4 million).

The turnover resulted from several assignments related to public sector financing solutions and various company and asset arrangements in the municipal sector. The demand for expert financial services has grown especially in the financing of investments. During the year, Inspira acted as the public sector operator's adviser in the tender processes concerning lifecycle projects and prepared and implemented several projects concerning the restructuring of operations in the field of health care, amongst others.

Governance

Corporate Governance Policy

The Board of Directors has approved the company's Corporate Governance guidelines in compliance, substantially, with the Finnish Securities Market Association Corporate Governance Code for listed companies in Finland. As Municipality Finance is solely an issuer of bonds and its shares are not subject to public trading, applying the Corporate Governance Code for Finnish listed companies directly in its entirety is not appropriate. Nevertheless, the company has decided to use the Corporate Governance Code as the basis for preparing its own Corporate Governance Policy. In addition to the Corporate Governance Code for Finnish listed companies, the Corporate Governance Policy of Municipality Finance has been prepared in compliance with Finnish Financial Supervisory Authority standard 1.3 on "Internal Governance and Organisation of Activities".

The Board of Directors is responsible for making sure that Municipality Finance complies with the Corporate Governance rules and is committed to developing them further. As a part of the annual report 2011 (as separate section), Municipality Finance publishes a corporate governance statement, including the description of the key characteristics of internal control and risk management systems related to financial reporting processes as required in the Securities Market Act.

The Corporate Governance rules are available online at the company's website (www.munifin.fi).

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 23 March 2011. The Annual General Meeting confirmed the financial statements of 2010 and discharged the members of the Board of Directors, the Managing Director and the Deputy Managing Director from liability. In addition it was decided that a dividend of EUR 0.25 per share is paid from Municipality Finance's distributable own funds, totalling EUR 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 company's economic situation and the applicable regulations, taking into account the company's structure of ownership.

Based on a proposal of the Shareholders' Nomination Committee, the Annual General Meeting decided to change the Articles of Association in such a way that the Board of Directors comprises at least five and at most eight members and that each member's term of office will terminate when the Annual General Meeting following their election concludes. According to the decision of the Annual General Meeting, the Board of Directors of Municipality Finance is comprised eight members for the term of office that started on 23 March 2011.

In addition, the Annual General Meeting decided to establish a permanent Shareholders' Nomination Committee. The three largest shareholders and the Association of Finnish Local and Regional Authorities appoint the members of the Nomination Committee. The Nomination Committee shall prepare a proposal for the Annual General Meeting on the composition of the Board of Directors of Municipality Finance, the numbers thereof and the remuneration paid for the board members.

The meeting also elected KPMG Oy Ab as the auditor of the company with Authorized Public Accountant Raija-Leena Hankonen as the accountable auditor.

Board of Directors

The Annual General Meeting 2009 elected eleven members to the Board of Directors of the company. Each member's term of office will terminate when the second Annual General Meeting following their election concludes. Therefore, the term of office of this Board of Directors ended on 23 March 2011. The members of the Board were: Markku Pohjola (chairman), Sisko Seppä (vice chairman), Pekka Alanen, Tapio Korhonen, Eva Liljeblom, Liisa Linna-Angelvuo, Hannes Manninen, Mikko Pukkinen, Antti Rantakangas, Hanna Tainio and Pekka Timonen.

According to the resolution of the Annual General Meeting of 23 March 2011, the Articles of Association were amended as follows: Under the Articles of Association of Municipality Finance, the Board of Directors has a minimum of five and a maximum of eight members. The Shareholders' Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes. The Annual General Meeting of 23 March 2011 elected eight members to the Board of Directors of Municipality Finance: Eva Liljeblom (chairman), Fredrik Forssell (vice chairman), Teppo Koivisto, Tapio Korhonen, Sirpa Louhevirta, Ossi Repo, Asta Tolonen and Juha Yli-Rajala.

In order to organise its work as efficiently as possible, the Board has established an Audit Committee and a Remuneration Committee for the preparation of matters. The members of the Audit Committee were Tapio Korhonen (chairman), Fredrik Forssell and Sirpa Louhevirta. The members of the Remuneration Committee were Eva Liljeblom (chairman), Teppo Koivisto and Juha Yli-Rajala.

The operation of the company's Board and its Committees is discussed in more detail in the Corporate Governance Statement included in the annual report.

Personnel

The Group's personnel grew by six people in 2011, and at the end of the year, Municipality Finance Group had a total of 67 employees (2010: 61), of which 57 worked for the parent company (2010: 53). Salaries and fees paid to the staff totalled EUR 6.7 million in the Group (2010: 5.6 million).

Pekka Averio is the President and CEO of Municipality Finance. Executive Vice President Esa Kallio acts as deputy to the CEO. In addition, the Board of Management of Municipality Finance includes Senior Vice President Toni Heikkilä and Senior Vice President Marjo Tomminen.

Kimmo Lehto is the CEO of Municipality Finance's subsidiary Inspira.

Salaries and remuneration

The remuneration paid to the management and employees of Municipality Finance consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. The Board of Directors confirms the principles of the remuneration system and these are evaluated annually. The Remuneration Committee of the Board of Directors assists the Board in matters related to the remuneration systems and remunerations.

Internal audit

The audit work of internal audit has been outsourced to Deloitte & Touche Oy. The company's compliance unit is responsible for the coordination of the outsourced auditing. Internal auditing tasks include monitoring the reliability and correctness of Municipality Finance's financial and other management information. The tasks also include making sure that the company has adequate and properly organised manual and IT systems for its operations and that the risks associated with the operations are being managed adequately. The internal audit reports to the Board of Directors and its Audit Committee.

Risk management

Municipality Finance's operations depend on sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors to secure the continuity and development of the company's operations. Municipality Finance applies very conservative principles to its risk management. The aim is to minimise open risk positions and keep the overall risk status at such a low level that the company's good credit rating (Aaa/AAA) is not compromised.

Municipality Finance's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The purpose of risk management is to ensure that the risks associated with lending, funding acquisition, investment and other business operations remain in line with Municipality Finance's low risk profile.

The Investments unit is responsible for the use of counterparty limits in the company's investment operations. The Treasury unit is in charge of the management of the risk position of the balance sheet with regards to market and financial risks. The Middle Office and Compliance units are responsible for the supervision of financial and operational risks, as well as reporting on them. Risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Regular risk analyses of various risk areas are carried out at Municipality Finance. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of analysis results.

In the spring of 2011, comprehensive stress testing was carried out in the company by an external party. The main purpose of the test was to analyse the development of Municipality Finance's capital and its variation in 2011–2015. The test evaluated the market and credit risks related to the business as well as their estimated financial effects in various circumstances. The test also included a so-called reverse stress test, analysing the trends in exceptional circumstances in which the company's capital might fall to a critically low level. The results of the test showed that with the current capital requirements, the level of the company's capital is adequate in the review period even in highly unfavourable circumstances.

There were no material changes in the company's risk standing in 2011. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements set for it.

Strategic risks

Strategic risk means that the company would have chosen the wrong strategy for financially profitable operations or that the company would

Values of credit commitments in the balance sheet and binding credit commitments

31 Dec 2011 (EUR 1000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Total	**21,181,618**	**13,654,934**	**562,007**	**5,588,959**	**1,375,718**
Public sector entities	7,436,100	6,517,541	-	685,680	232,879
Companies and housing corporations	8,182,458	6,981,594	-	58,025	1,142,839
Non-profit organisations	155,799	155,799	-	-	-
Credit institutions	4,827,650	-	562,007	4,265,643	-
Other	579,611	-	-	579,611	-

31 Dec 2010 (EUR 1000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Total	**18,278,135**	**11,706,413**	**36,053**	**5,420,238**	**1,115,431**
Public sector entities	6,435,299	5,568,818	-	752,106	114,375
Companies and housing corporations	7,098,436	6,004,214	-	93,166	1,001,056
Non-profit organisations	133,381	133,381	-	-	-
Credit institutions	3,994,219	-	36,053	3,958,166	-
Other	616,800	-	-	616,800	-

fail to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of the clients' needs, forecasts of market trends, and changes in the competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2018.

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitments to the company. Municipality Finance may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or a state. The amount of the primary pledge must equal 1.2 times the amount of the loan. Because such security is required to reduce the credit risk, all loans granted are classified as zero-risk in calculating capital adequacy. The company does not bear the depreciation risk for the objects of its leasing services. Municipality Finance has not had any non-performing assets during its operations or credit losses in the financing of its customers.

Municipality Finance is also exposed to credit risk from investments in advance funding acquisition and derivative instruments. In the assessment of credit risks, principles and limits that are based on external credit ratings and have been approved by the Board of Directors 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.

The company limits credit risk caused by the derivative agreement with ISDA Credit Support Annexes in case of major derivatives counterparties. The company has 42 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.

Breakdown of derivative agreements by counterparty's credit rating

(EUR 1000)	31 Dec 2011	31 Dec 2010
	Nominal value	Nominal value
Finnish municipalities	772,767	368,826
AAA	0	281,489
AA	16,204,240	19,494,256
A	20,766,187	14,188,922
BBB	2,163,548	442,715
Total	**39,906,742**	**34,776,208**

Market risk

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or market price volatility. Market risks include interest rate, exchange rate, share prices and other price risks.

Municipality Finance uses derivative agreements to hedge against long-term interest rate risks. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other price risks. Derivatives may only be used for hedging purposes.

Breakdown of funding acquisition by denomination (domestic and foreign currency)

31 Dec 2011 (EUR 1000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	1,323,957	403,833	1,727,790
Liabilities to the public and public sector entities	789,918	386,834	1,176,752
Debt securities issued	1,034,850	16,153,092	17,187,942
Total	**3,148,725**	**16,943,759**	**20,092,484**

31 Dec 2010 (EUR 1000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	920,264	377,675	1,297,939
Liabilities to the public and public sector entities	631,700	352,901	984,601
Debt securities issued	1,106,931	13,772,329	14,879,261
Total	**2,658,895**	**14,502,905**	**17,161,801**

The Board has specified limits for the following market risks:

- currency position
- interest rate risk
  - duration
  - Value-at-Risk
  - Economic Value
  - income risk

Currency position

The currency position is calculated as the difference between receivables and debts in various currencies in euros.

Duration

Duration refers to an interest rate risk over time, describing the average remaining maturity at the current level of interest rates.

Value-at-Risk

The VaR figure describes the maximum negative change in the market value of the balance sheet during 10 days at a probability of 99 % in euros. In 2010, the VaR calculation was developed to better describe the interest rate sensitivity of the balance sheet.

Economic Value

Economic Value describes the rate sensitivity of the balance sheet. It is measured by calculating the change in the current value of cash flows sensitive to interest rates at variable changes. The basic scenario is a 200 point increase and decrease of the interest rate curve.

Income risk

Income risk refers to the harmful effect of interest rate changes in the company's net interest income. The effect is evaluated in proportion to the company's profitability and own funds.

In addition to these market risk parameters, management receives monthly reports on the parent company's interest rate sensitivity analyses and the calculation of changes in the balance sheet market value.

Currency position

(EUR 1000)	Currency	Currency position
31 Dec 2011	USD	-5
31 Dec 2010	USD	-5

Duration

	Receivables	Liabilities	Difference
31 Dec 2011	1.685 years	1.599 years	31 days
31 Dec 2010	1.627 years	1.654 years	-10 days

Value-at-risk

(EUR 1000)	31 Dec	Years average	Years lowest	Years highest
2011	820	938	100	1,580
2010	990	1,078	840	1,290

Liquidity risk

Liquidity risk means the risk of the company not being able to perform on the due date its payment obligations arising from the implementation of funding agreements or other funding activities. The Board of Directors of Municipality Finance has set the following limits on liquidity risks:

- refinancing gap
- sufficiency of liquid assets measured as a minimum of time
- maximum amount of liquid assets

As back-up liquidity, Municipality Finance has access to a total of EUR 140 million in the form of credit limit arrangements from other banks.

Market liquidity risk

Market liquidity risk means that the company would fail to realise or cover its position at the market price, because the market lacks depth or is not functioning due to disruption.

The company 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.

The company has been approved as a counterparty of financial policy of the Bank of Finland.

Operational risks

Operational risk means 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 company'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 each function/department. In addition, the compliance department supports functions/departments in this and has general responsibility at the company level for coordinating the management of operational risks.

Municipality Finance uses various methods for managing operational risks. The company 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 company 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. Municipality Finance maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help company 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 company's continuity planning.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company'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 company's compliance operations. The company has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the company's internal compliance operations (incl. reporting, evaluation of effects).

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

Share capital and owners

At the end of the 2011 financial year, Municipality Finance's paid share capital registered in the Trade Register was EUR 43.0 million and the number of shares was 39,063,798. Each share has one vote in the shareholders' meetings.

At the end of 2011, Municipality Finance had 296 shareholders (31.12.2010: 299).

10 largest shareholders 31 December 2011

	No. shares	%
1. Keva	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	841,825	2.16
8. City of Turku	615,681	1.58
9. City of Kuopio	552,200	1.41
10. City of Lahti	502,220	1.29

Events after the financial statements

The Board of the Directors is not aware of any issues having taken place after the end of the financial period that would have a relevant effect on the company's financial situation.

Prospects for 2012

The uncertainty in the international financial markets is set to continue in 2012. Interest rates are expected to remain low. Anticipating market trends is very challenging under the prevailing circumstances.

Finland is one of only four euro zone countries to maintain the highest possible credit rating. The economic situation of Finnish municipalities is perceived by the financial markets to be as reliable as the national economy, based on low debt ratios compared to international levels and our highly developed support system for municipal economies. Nevertheless, extended uncertainty on the markets is likely to impact the Finnish economy through its effects on the export sector.

The government programme published by the Finnish Cabinet in June 2011 states that a large-scale municipal reform will be implemented in the coming years. According to the programme, a strong primary municipality comprises a natural area of employment and is large enough to independently provide basic services with the expection of demanding and specialised medical care and social welfare services. The municipal reform will have a significant impact on local government operations going forward. The most important objective of the reform is to ensure the availability on municipal services and to improve the resilience of municipal economies to create a municipal structure with a high level of vitality and operating capacity built on the foundation of strong primary municipalities. The municipal reform is a follow-up to the "Paras" project.

The Government Programme specifically mentions the importance of securing Municipality Finance's position as a provider of financing for municipalities and state-subsidised housing production. This reflects genuine concern over the need to ensure local government and social housing production under all circumstances and the importance of competitive local government funding.

Investment needs in the local government sector are still significant. New investment projects initiated by municipalities are expected to remain stable or decrease slightly as the general economic uncertainty increases. The current municipal reforms may also postpone local government investment decisions in the coming years.

The primary financing needs in the municipal corporations segment are in the energy sector as well as water management and infrastructe projects. Under the national budget, state-subsidised housing production in 2012 is set to increase by slightly over 5% compared to 2011. It is likely that the subsidies will be used in their entirety, as they have been in recent years, but production is likely to be focused on segments other than rental housing.

Despite the uncertainty of the capital market and the problems of state economies in the euro zone, Municipality Finance expects to maintain its strong position and ability to serve the financing needs of municipal sector.

The upcoming changes in regulations concerning capital adequacy are likely to affect the company's operations in many ways. Municipality Finance actively monitors the progress of the regulatory work while promoting measures to ensure the company's operating conditions after the implementation of the CRD IV regulation. From the company's perspective, the most problematic aspect of the proposed changes is the leverage ratio requirement based on comparing total own funds with balance sheet assets without the consideration for the risks related to the assets that are incorporated into capital adequacy calculations. In the event that the leverage ratio will be implemented in its current form in 2018, Municipality Finance will need to increase its own primary funds considerably.

Municipality Finance began implementing an action plan based on the company's IT-strategy in the first half of 2011. According to the plan, the company initiated significant system development projects in autumn 2011. The projects will continue throughout 2012.

The operations of Financial Advisory Services Inspira Ltd are expected to grow further 2012. Inpira's operating environment is influenced by Finland's economic prospects and uncertainties related to the municipal structure. It is expected that there will be increasing pressure in the public sector to improve efficiency, particularly in the context of restructuring local government sector operations. The resulting changes in the operating environment and service structure of municipalities and the public sector will result in increased demand for Inspira's services.

The Group's profitability is expected to remain at the current strong level in 2012.

The Group's development

Key figures describing the financial development of the Municipality Finance Group

	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
Turnover (MEUR)	319.0	198.9	285.3	443.2	308.0
Net interest income (MEUR)	94.2	78.7	50.6	29.5	21.3
% of turnover	29.5%	39.6%	17.7%	6.7%	6.9%
Net operating profit (MEUR)	65.3	58.3	33.7	2.7	8.8
% of turnover	20.45%	29.32%	11.82%	0.60%	2.9%
Cost/income ratio	0.23	0.23	0.31	0.80	0.56
Loan portfolio (MEUR)	13,625	11,698	9,741	7,567	5,849
Funding portfolio (MEUR)	20,092	17,162	13,218	11,336	7,550
Balance sheet total (MEUR)	23,842	20,047	14,557	12,512	8,913
Return on equity (%) (ROE)	27.08%	28.42%	27.84%	6.20%	15.20%
Return on assets (%) (ROA)	0.23%	0.42%	0.31%	0.03%	0.13%
Equity ratio (%)	0.86%	0.85%	0.91%	0.37%	0.73%
Own funds (MEUR)	288.4	245.9	207.7	132.8	108.3
Capital adequacy ratio, Tier 1 capital (%)	19.04%	13.92%	14.12%	9.29%	19.50%
Capital adequacy ratio (%)	24.13%	19.28%	20.17%	13.60%	23.84%

Basis for calculating the key figures

Turnover

Interest income + commission income + net income from the securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income

Cost/income ratio

$$\frac{\text{Commission expenses + administrative expenses + depreciations + other operating expenses}}{\text{Net interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income}} * 100$$

Return on equity (%) (ROE)

$$\frac{\text{Net operating profit - taxes}}{\text{Equity and non-controlling interest (average year beginning and year end)}} * 100$$

Return on assets (%) (ROA)

$$\frac{\text{Net operating profit - taxes}}{\text{Balance sheet total (average year beginning and year end)}} * 100$$

Equity ratio (%)

$$\frac{\text{Equity and non-controlling interest + approriations less deferred tax liabilities}}{\text{Balance sheet total}} * 100$$

Capital adequacy ratio, Tier 1 capital (%)

$$\frac{\text{Tier 1 capital total}}{\text{Minimum requirement of own funds total}} * 8$$

Capital adequacy ratio (%)

$$\frac{\text{Own funds total}}{\text{Minimum requirement of own funds total}} * 8$$

Consolidated statement of financial position

EUR	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Liquid assets		26,507,291.80	35,502,783.31
Loans and advances to credit institutions	(2)	562,006,830.73	36,053,182.53
Loans and advances to the public and public sector entities		13,654,934,443.96	11,706,412,906.27
Debt securities	(3)	5,588,958,735.18	5,420,237,793.92
Shares and participations	(4)	27,219.06	27,219.06
Derivative contracts	(5)	3,750,333,786.73	2,634,014,984.96
Intangible assets	(6,8)	2,273,072.18	1,464,145.81
Tangible assets	(7,8)	2,460,149.10	1,485,462.47
Other assets	(9)	1,742,655.66	1,984,763.93
Accrued income and prepayments	(10)	247,761,352.13	207,555,556.99
Deferred tax assets	(11)	4,611,171.00	2,337,550.00
TOTAL ASSETS		**23,841,616,707.53**	**20,047,076,349.25**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		3,533,230,091.21	2,613,258,982.50
Liabilities to the public and public sector entities		1,176,752,432.59	984,601,185.13
Debt securities issued	(12)	17,187,942,326.47	14,879,260,808.75
Derivative contracts	(5)	1,253,255,710.82	916,708,857.67
Other liabilities	(13)	2,529,600.82	1,223,063.43
Accrued expenses and deferred income	(14)	349,695,135.86	362,293,397.17
Subordinated liabilities	(15)	89,915,861.74	88,971,777.74
Deferred tax liabilities	(11)	43,605,100.00	29,413,800.00
TOTAL LIABILITIES		**23,636,926,259.51**	**19,875,731,872.39**
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(16)	42,583,195.49	42,583,195.49
Reserve fund	(16)	276,711.01	276,711.01
Fair value reserve		-14,209,934.69	-6,653,025.18
Reserve for invested non-restricted equity		40,366,099.60	40,366,099.60
Retained earnings		135,433,584.54	94,468,599.24
Total equity attributable to parent company equity holders		**204,449,655.95**	**171,041,580.16**
Non-controlling interest		**240,792.07**	**302,896.70**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**204,690,448.02**	**171,344,476.86**
TOTAL LIABILITIES AND EQUITY		**23,841,616,707.53**	**20,047,076,349.25**

Consolidated income statement

EUR	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Interest income		328,299,977.25	201,187,397.20
Interest expense		-234,051,397.85	-122,472,786.52
NET INTEREST INCOME	(21)	**94,248,579.40**	**78,714,610.68**
Commission income	(22)	2,184,693.73	2,248,794.07
Commission expense	(23)	-2,864,764.97	-2,315,363.60
Net income from securities and foreign exchange transactions	(24)	-7,982,924.96	-8,062,474.13
Net income from available-for-sale financial assets	(25)	-216,237.02	-141,504.61
Net income from hedge accounting	(26)	-3,348,590.28	3,586,465.17
Other operating income	(27)	103,697.49	62,229.79
Administrative expenses	(28)	-12,123,380.20	-10,225,078.93
Depreciation and impairment on tangible and intangible assets	(8)	-765,234.52	-574,324.65
Other operating expenses	(29)	-3,983,360.62	-4,091,058.51
Impairment losses on other financial assets	(30)	0.00	-900,000.00
OPERATING PROFIT		**65,252,478.05**	**58,302,295.28**
Income taxes	(31)	-14,343,647.88	-15,192,579.83
PROFIT FOR THE PERIOD		**50,908,830.17**	**43,109,715.45**
Profit attributable to:			
Equity holders of the parent company		50,730,934.80	42,928,838.09
Non-controlling interest		177,895.37	180,877.36

Statement of comprehensive income

EUR	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Profit for the financial period	50,908,830.17	43,109,715.45
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	-10,554,141.21	7,497,027.36
Net amount transferred to profit or loss	71,903.70	-93,279.94
IAS 39 reclassification adjustment	651,707.00	765,110.00
Taxes relating to other components of comprehensive income	2,273,620.97	-2,123,902.93
TOTAL COMPREHENSIVE INCOME	**43,351,920.63**	**49,154,669.94**
Total comprehensive income attributable to:		
Equity holders of the parent company	43,174,025.26	48,973,792.58
Non-controlling interest	177,895.37	180,877.36

Consolidated statement of cash flows

EUR	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
CASH FLOW FROM OPERATING ACTIVITIES	**273,711,545.42**	**902,839,169.32**
Change in long-term funding	1,877,905,282.13	2,626,765,265.24
Change in short-term funding	100,564,662.70	-347,360,937.41
Change in long-term loans	-1,876,808,796.02	-1,974,895,560.74
Change in short-term loans	47,070,269.80	-64,503,185.68
Change in investments	-446,529,759.78	-619,793,352.01
Change in collaterals	490,120,000.00	1,233,120,000.00
Interest paid	-213,939,974.62	-120,216,305.59
Interest received	309,557,574.47	191,407,185.72
Other income	4,584,162.17	2,205,739.50
Payments of operating expenses	-15,207,011.80	-17,808,815.72
Taxes paid	-3,604,863.63	-6,080,863.99
CASH FLOW FROM INVESTING ACTIVITIES	**-2,498,746.23**	**-1,497,056.91**
Acquisition of tangible items	-1,137,852.01	-396,170.35
Acquisition of intangible items	-1,360,894.22	-1,100,886.56
CASH FLOW FROM FINANCING ACTIVITIES	**-10,005,949.50**	**-9,990,737.43**
Change in capital loans	0.00	-168,187.93
Dividends paid	-10,005,949.50	-9,822,549.50
NET INCREASE IN CASH FUNDS	**261,206,849.69**	**891,351,374.98**
CASH FUNDS AT 1 JANUARY	**2,214,237,323.84**	**1,322,885,948.86**
CASH FUNDS AT 31 DECEMBER	**2,475,444,173.53**	**2,214,237,323.84**

Cash funds include the following balance sheet items:
Liquid assets, loans and advances to credit institutions and debt securities maturing within three months.

Cash funds, EUR	31 Dec 2011	31 Dec 2010
Liquid assets	26,507,291.80	35,502,783.31
Loans and advances to credit institutions	562,006,830.73	36,053,182.53
Debt securities maturing within three months	1,886,930,051.00	2,142,681,358.00

Consolidated statement of changes in equity

(EUR 1 000)	Attributable to equity holders of the parent company						Non-controlling interest	Total equity
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
EQUITY AT 31 DECEMBER 2009	**42,583**	**277**	**-12,698**	**40,366**	**61,306**	**131,834**	**178**	**132,012**
Dividends paid for 2009					-9,766	-9,766	-57	-9,823
Comprehensive income for the period			6,045		42,929	48,974	182	49,156
EQUITY AT 31 DECEMBER 2010	**42,583**	**277**	**-6,653**	**40,366**	**94,469**	**171,042**	**303**	**171,345**
Dividends paid for 2010					-9,766	-9,766	-240	-10,006
Comprehensive income for the period			-7,557		50,731	43,174	178	43,352
EQUITY AT 31 DECEMBER 2011	**42,583**	**277**	**-14,210**	**40,366**	**135,434**	**204,450**	**241**	**204,691**

Notes to the consolidated financial statements

Basic information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (referred to as Municipality Finance or the company) and Financial Advisory Services Inspira Ltd (subsidiary). Municipality Finance is a financial institution owned by the state and the local government sector. Its objective is to secure economical financial services for the local government sector.

The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domiciled in Helsinki with the registered address Jaakonkatu 3 A, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Jaakonkatu 3 A, 00100 Helsinki.

A copy of the consolidated financial statements is available on the Internet at www.munifin.fi or at the registered address of the Group's parent company, Jaakonkatu 3 A, 00100 Helsinki.

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 14 February 2012. Under the Finnish Limited Liability Companies Act, the shareholders may accept or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also alter the financial statements.

Accounting policies applied to the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2011. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) no. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS rules.

The consolidated financial statements have been prepared based on original cost, except for available-for-sale financial assets, financial assets and liabilities recorded at fair value through profit or loss, derivative contracts and hedged items in fair value hedging.

Capital adequacy information according to Financial Supervisory Authority standard 4.5 (Pillar 3) is presented as part of these financial statements and, where applicable, in the Report of the Board of Directors.

The following IFRS standards and IFRIC interpretations that have been published after the previous financial statements have been adopted but have not influenced Municipality Finance's financial statements:

- IAS 24 (revised) Related Party Disclosures
- IFRS 7 (amended) Financial Instruments: Disclosures, amended provisions are related to transfers of financial assets

Municipality Finance Group's line of business is credit institution operations and offering financial services. The company operates in a single segment.

Amendments to the IAS 39 and IFRS 7 standards have influenced the presentation of financial statements from 1 July 2008 onwards.

Municipality Finance reclassified some of the debt securities used for acquiring funding in advance. Based on the amendments to IAS 39 and IFRS 7, debt securities recorded as available for sale were transferred under the section investments held to maturity on 1 July 2008. In addition, debt securities entered as available for sale were reclassified as investments held to maturity on 1 January 2008. The transfers are itemised in Note 3.

Group management, in preparing the financial statements under IFRS, is required to make certain estimates and use its judgement in the application of the accounting policies. The section "Accounting policies requiring management judgement and key uncertainty factors related to estimates" under "Accounting principles" provides information on the sub-sections in which the figures presented may be most affected by management consideration or uncertainty factors.

The Group's functional currency is the euro and the notes to the financial statements are presented in thousands of euros. All figures in the notes have been rounded, so the total of individual figures may differ from the total figure presented.

Consolidation principles

The consolidated financial statements contain the financial statements of Municipality Finance Plc, the parent company, and Financial Advisory Services Inspira Ltd, a subsidiary directly owned by it.

Inter-company share ownerships have been eliminated by means of the acquisition cost method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement. Non-controlling interest is presented in the balance sheet as a separate item under "Equity".

Foreign currency denominated items

Business transactions denominated in a foreign currency have been recorded in euro using the exchange rate of the transaction date.

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 balance sheet date. Gains and losses resulting from foreign exchange measurements are included in the income statement under "Net income from foreign exchange transactions".

Classification of financial instruments and measurement principles

On the basis of IAS 39 Financial Instruments: Recognition and Measurement the company's financial assets and liabilities have been classified and measured as follows:

Loans and other receivables

The item includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. The items are initially recognised at fair value adjusted by transaction costs and subsequently measured at amortised cost. However, loans covered by hedge accounting are measured at fair value for the risk hedged.

Available-for-sale financial assets

The item includes investment of advance funding in debt securities.

Debt securities are measured at fair value, and the change in fair value is recognised in items under "Other comprehensive income" and presented in the fair value reserve taking the tax effect into account. The realised capital gains and losses as well as impairment recognised through profit or loss are recognised in the income statement under "Net income from available-for-sale financial assets".

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

Investments held to maturity

This item comprises investments in debt securities that will be held to maturity. These financial assets are recorded at amortised costs using the effective interest rate method.

Financial assets and liabilities at fair value through profit or loss

Derivatives are measured at fair value through profit or loss, and derivative contracts are recognised in the balance sheet. The positive changes in the fair values of derivative contracts that are recorded in the balance sheet are recognised in balance sheet assets under "Derivative contracts" and negative fair value changes in balance sheet liabilities under the corresponding item "Derivatives contracts". Fair value changes of assets other than derivatives included in fair value hedge accounting are recognised in the income statement under "Net income from securities and foreign exchange transactions".

The item also includes debt securities for which the interest risk is hedged with interest rate derivatives as well as certain floating rate loans and certificates of deposit. Changes in their fair values are recognised in the income statement under "Net income from securities and foreign exchange transactions".

Financial liabilities

The items are measured at effectively amortised cost. Funding covered by hedge accounting is measured at fair value for the risk hedged.

All loans to businesses, to public sector and non-profit organisations have been given a deficiency guarantee by a municipality, municipal federation, or a state. The values of loans and other receivables are not impaired, and the Group has no non-performing assets, so no write-downs have been made.

Recognition of borrowing commissions: if the amount of debt on the subscription date is lower or higher than the amount the company is required to repay, under the loan terms and conditions, the amount of debt on maturity subscribed, adjusted by direct borrowing commissions, is recognised in the balance sheet. Differences between the issue price and the nominal value are broken down on a time basis over the maturity of the debt.

The difference between annual interest received and interest paid on derivative contracts is recognised as an adjustment to interest expenses of the hedged liability or as an adjustment to interest income on a hedged asset for the financing year in which they are accrued.

Determination of fair value

The fair values of financial instruments are determined on the basis of either price quotations obtained from functioning markets or, if such markets do not exist, by applying measurement methods. A market is deemed to be functioning if price quotations are readily and consistently available, and they reflect real market transactions executed in a consistent manner between mutually independent parties.

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying the Group's own measurement methods. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates as well as measurement practices established on the market.

The company has financial assets and liabilities in which the financial characteristics of the embedded derivatives are not closely connected with the financial characteristics of the principal contract. Derivatives linked to such hybrid instruments are recognised in the balance sheet, and changes in the fair value of the derivative are recognised through profit or loss. The balance sheet value of the principal instrument is calculated in accordance with the instrument classification laid out in IAS 39. The company has, in its funding, concluded a derivative contract providing full hedging coverage for each hybrid instrument that requires separation.

Hedge accounting

In addition to derivative contracts, items measured at fair value through profit or loss under hedge accounting include lending at fixed rates, lending tied to long-term reference rates, lending based on structured interest rate terms and conditions, financial leasing, funding hedged with derivative contracts as well as part of the fixed rate debt securities which interest rate risk is hedged with derivatives. Hedging performance is calculated as a ratio of the change in the hedging instrument value to the change in the hedged instrument value. Hedging is effective when the performance ratio is at least 80% and at the most

Financial assets and liabilities measured at fair value

31 Dec 2011	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	2,018,411	120,957	-	2,139,368
Loans and advances to the public	-	5,698,204	-	5,698,204
Derivative contracts	-	450,465	-	450,465
Hedging derivatives	-	3,299,869	-	3,299,869
Available-for-sale assets				
Debt securities	2,674,214	101,682	-	2,775,896
Total assets measured at fair value	**4,692,625**	**9,671,177**	**-**	**14,363,802**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	1,451,612	-	1,451,612
Liabilities to the public and public sector entities	-	986,709	-	986,709
Debt instruments issued	-	13,579,433	-	13,579,433
Subordinated liabilities	-	38,907	-	38,907
Derivative contracts	-	476,807	500	477,307
Hedging derivatives	-	775,949	-	775,949
Total liabilities measured at fair value	**-**	**17,309,417**	**500**	**17,309,917**

31 Dec 2010	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	1,838,721	-	-	1,838,721
Loans and advances to the public	-	5,776,420	-	5,776,420
Derivative contracts	-	220,512	-	220,512
Hedging derivatives	-	2,413,503	-	2,413,503
Available-for-sale assets				
Debt securities	2,767,253	60,604	-	2,827,857
Total assets measured at fair value	**4,605,974**	**8,471,039**	**-**	**13,077,013**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	1,025,934	-	1,025,934
Liabilities to the public and public sector entities	-	803,092	-	803,092
Debt instruments issued	-	12,138,831	-	12,138,831
Subordinated liabilities	-	37,963	-	37,963
Derivative contracts	-	223,713	580	224,293
Hedging derivatives	-	692,416	-	692,416
Total liabilities measured at fair value	**-**	**14,921,949**	**580**	**14,922,529**

Level 1 Measurement is based on values quoted for identical assets or liabilities on active and functioning markets.

Level 2 Measurement is based on input data other than Level 1 quoted prices. Prices can be verified either directly or indirectly.

Level 3 Measurement is based on input data that is not based on verifiable market prices.

During the 2010 financial year, one debt security was reclassified from Level 3 to Level 1. The transfer did not have a material effect on profit/loss.
During the 2011 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

125%. The effectiveness of hedging is verified when an agreement is recognised in fair value hedge accounting and at least every six months thereafter.

Changes in the fair values of derivative contracts covered by hedge accounting, and the balance sheet items hedged with these contracts, are recognised in the income statement under "Net income from hedge accounting".

Recognition and derecognition of financial assets and liabilities

Loans and other receivables are recognised in the balance sheet upon the customer withdrawing the loan, available-for-sale assets and derivative contracts on the settlement day and financial liabilities when the consideration is received. Financial assets are derecognised when the contractual right to the assets expires or when the rights have been transferred to another party. Financial liabilities are derecognised when the obligations have been fulfilled.

Leases

Leases are classified as financial leases and other leases depending on whether the essential risks and benefits of ownership are transferred to the lessee.

Financial leasing agreements where Municipality Finance is the lessor are recorded on the balance sheet as an asset at an amount corresponding to the net investment in the lease agreement. The proceeds from the lease are divided into repayment and interest income. Interest income is recognised over the term of the lease to have the return on the remaining net investment match the corresponding rate of return for the period of the lease. Financial leasing agreements are recorded under "Loans and other receivables" on the balance sheet. Interest is recorded under "Interest income" on the income statement.

In the case of other leases, Municipality Finance is the lessee. Other leases are primarily related to operating premises. The rents payable on the basis of lease agreements are recognised as expenses on the balance sheet in equal instalments over the duration of the lease.

Intangible and tangible assets

Intangible and tangible assets are recognised in the balance sheet at the original cost, net of accumulated depreciation and impairment.

Machinery and equipment are depreciated according to plan on a straight-line basis over five years. Capitalised IT hardware is depreciated on a straight-line basis over four years and capitalised software based on estimated useful life over four, seven or ten years. Office renovation costs are depreciated on a straight-line basis by the expiry of the fixed-term lease of the office in question. Real estate is depreciated on a straight-line basis over 25 years.

Impairment of intangible and tangible fixed assets

The company assesses at each balance sheet date whether there is any evidence of intangible assets or tangible fixed assets being impaired. If evidence of impairment is identified, the recoverable amount is assessed for the given assets. If the book value of an asset item is greater than the recoverable amount, an impairment loss is recorded in the income statement.

Recognition of income and expenses

Net interest income

The effective interest method is applied to interest income and interest expenses. 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.

Commission income and expenses

Commission income includes the commissions and fees received for financial advisory services. Commission expenses include paid guarantee fees, custody fees and debt programme fees and costs. Commission income and expenses are primarily recognised when the service is provided.

Net income from hedge accounting

Net income from hedge accounting includes the net income from the measurement at fair value of the financial assets and liabilities and the derivatives hedging them.

Employee benefits

The company's remuneration system is contribution based. The system is described in the Report of the Board of Directors. Pension coverage has been arranged via an outside pension insurance company. Pension plans are classified as defined contribution plans. The contributions payable are recognised as expenses in the income statement of the period to which the payments relate.

Voluntary credit loss allowance

The voluntary credit loss allowance recognised under the Finnish Accounting Standards does not meet the recognition criteria laid out in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and the allowance is thus released in the consolidated financial statements and transferred to equity. A deferred tax liability has been recorded for released credit loss allowance in accordance with IAS 12 "Income Tax".

Income taxes

"Income taxes" in the consolidated financial statements comprise accrual-based taxes that are determined based on the profits generated by the Group companies, and changes in deferred taxes in accordance with IAS 12 "Income Taxes". Taxes have been adjusted by taxes related to previous years.

The tax effect on items recognised directly in equity has been recognised under equity.

Deferred taxes are recorded for temporary differences between the book value and the taxable value.

Deferred tax assets comprise negative changes in the fair value of financial instruments. Deferred tax liabilities comprise positive changes in the fair value of financial instruments and the release and transfer to equity of the voluntary credit loss allowance recorded by the parent company.

Accounting policies requiring management judgement and key uncertainty factors related to estimates

Preparation of the accounts in accordance with the 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 of the date of closing 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 principles applied to the determination of fair value are discussed in the section "Determination of fair value".

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.

The risk management principles applied are discussed in the Report of the Board of Directors.

Application of new standards

The standards and interpretations that enter into force in 2012 are not believed to have a significant effect on the consolidated financial statements of Municipality Finance.

The IASB has issued a new standard, IFRS 9, which is still pending EU approval. The company will monitor the timetable and effects of the standard's implementation in 2012.

Notes to the balance sheet

1. Classification of financial assets and liabilities

31 Dec 2011 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	26,507	-	-	-	-	26,507	26,507
Loans and advances to credit institutions	562,007	-	-	-	-	562,007	562,007
Loans and advances to the public and public sector entities	7,956,731	-	-	5,698,204	-	13,654,935	14,027,930
Debt securities	533,794	2,775,897	139,900	2,139,368	-	5,588,959	5,570,638
Shares and participations	-	27	-	-	-	27	27
Derivative contracts	-	-	-	450,465	3,299,869	3,750,334	3,750,334
Total	**9,079 039**	**2,775,924**	**139,900**	**8,288,037**	**3,299,869**	**23,582,769**	**23,937,443**

31 Dec 2011 Financial liabilities	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	2,081,618	1,451,612	-	3,533,230	3,532,809
Liabilities to the public and public sector entities	190,043	986,709	-	1,176,752	1,172,712
Debt securities issued	3,608,510	13,579,432	-	17,187,942	17,183,941
Derivative contracts	-	477,307	775,949	1,253,256	1,253,256
Subordinated liabilities	51,009	38,907	-	89,916	89,172
Total	**5,931,180**	**16,533,967**	**775,949**	**23,241,096**	**23,231,890**

Loans and advances to the public and public sector entities includes EUR 30,279 thousand in receivables based on leasing agreements.

31 Dec 2010 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liquid assets	35,503	-	-	-	-	35,503	35,503
Loans and advances to credit institutions	36,053	-	-	-	-	36,053	36,053
Loans and advances to the public and public sector entities	5,929,992	-	-	5,776,420	-	11,706,413	11,966,619
Debt securities	580,436	2,827,857	173,224	1,838,721	-	5,420,238	5,398,175
Shares and participations	-	27	-	-	-	27	27
Derivative contracts	-	-	-	220,512	2,413,503	2,634,015	2,634,015
Total	**6,581,894**	**2,827,884**	**173,224**	**7,835,653**	**2,413,503**	**19,832,249**	**20,070,392**

31 Dec 2010 Financial liabilities	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	1,587,325	1,025,934	-	2,613,259	2,612,959
Liabilities to the public and public sector entities	181,509	803,092	-	984,601	981,048
Debt securities issued	2,740,430	12,138,831	-	14,879,261	14,860,821
Derivative contracts	-	224,293	692,416	916,709	916,709
Subordinated liabilities	51,009	37,963	-	88,972	87,759
Total	**4,560,273**	**14,230,113**	**692,416**	**19,482,802**	**19,459,296**

Loans and advances to the public and public sector entities includes EUR 8,365 thousand in receivables based on leasing agreements.

2. Loans and advances to credit institutions

31 Dec 2011	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	561,520	3,524	557,996
Foreign credit institutions	487	487	-
Total	**562,007**	**4,011**	**557,996**

31 Dec 2010	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	35,273	989	34,284
Foreign credit institutions	780	780	-
Total	**36,053**	**1,769**	**34,284**

Loans and advances to credit institutions includes bank deposits and fixed-term deposits.

3. Debt securities

31 Dec 2011	Publicly quoted	Other	Total
Debt securities issued by public sector entities	209,911	475,769	685,680
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available-for-sale	209,911	475,769	685,680
Municipal commercial papers	-	475,769	475,769
Government bonds	43,993	-	43,993
Bonds issued by other public sector entities	165,918	-	165,918
Debt securities issued by other than public sector entities	3,764,023	1,139,255	4,903,278
Held to maturity	139,900	-	139,900
Bank bonds	7,988	-	7,988
Other debt securities	131,912	-	131,912
Available-for-sale	3,624,123	1,139,255	4,763,378
Bank certificates of deposit	-	858,591	858,591
Commercial papers	-	58,025	58,025
Bank bonds	3,251,261	147,802	3,399,063
Other debt securities	372,862	74,836	447,699
Total debt securities	**3,973,934**	**1,615,024**	**5,588,959**
Eligible for central bank refinancing	3,405,617	152,495	3,558,112
Total non-interest bearing	4,998	2,948	7,946

31 Dec 2010	Publicly quoted	Other	Total
Debt securities issued by public sector entities	264,837	487,269	752,106
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available-for-sale	264,837	487,269	752,106
Municipal commercial papers	-	487,269	487,269
Government bonds	129,888	-	129,888
Bonds issued by other public sector entities	134,949	-	134,949
Debt securities issued by other than public sector entities	3,420,995	1,247,137	4,668,131
Held to maturity	173,224	-	173,224
Bank bonds	17,897	-	17,897
Other debt securities	155,326	-	155,326
Available-for-sale	3,247,771	1,247,137	4,494,908
Bank certificates of deposit	-	1,093,366	1,093,366
Commercial papers	-	93,166	93,166
Bank bonds	2,826,024	20,877	2,846,902
Other debt securities	421,747	39,727	461,474
Total debt securities	**3,685,832**	**1,734,406**	**5,420,238**
Eligible for central bank refinancing	2,990,500	46,104	3,036,604
Total non-interest bearing	5,238	13,792	19,030

Reclassification: Transferred from available-for-sale investments to investments held to maturity	Fair value of investments on the date of transfer
1 January 2008	171,935
1 July 2008	34,967
Total	**206,902**

Without this reclassification, changes in fair value of investments would have had the following effect on the fair value reserve:

2011	5,238
2010	3,903
2009	- 3,487
2008	- 22,319
Cumulatively	- 16 665

The valuation difference resulting from the transferring of debt securities to investments held to maturity has been released from the fair value reserve as follows:

2011	652
2010	765
2009	953
2008	852

4. Shares and participations

31 Dec 2011	Publicly quoted	Other	In credit institutions
Available-for-sale	-	27	-
Total	**-**	**27**	**-**

31 Dec 2010	Publicly quoted	Other	In credit institutions
Available-for-sale	-	27	-
Total	**-**	**27**	**-**

5. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2011	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts made for other than hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	640,000	3,515,880	1,306,928	5,462,807	27,513	55,088
Currency derivatives Interest rate and currency swaps	-	57,219	21,123	78,342	466	456
Equity derivatives	163,032	2,773,285	176,996	3,113,313	375,534	375,534
Other derivatives	54,104	200,657	49,960	306,721	46,952	46,229
Total	**859,136**	**6,547,041**	**1,555,007**	**8,961,183**	**450,465**	**477,307**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	307,975	4,599,751	11,401,496	16,309,222	308,436	221,969
Currency derivatives Interest rate and currency swaps	3,156,333	6,663,142	4,816,861	14,636,337	2,991,433	553,979
Total	**3,464,308**	**11,262,893**	**16,218,357**	**30,945,559**	**3,299,869**	**775,949**
All total	**4,323,444**	**17,809,934**	**17,773,364**	**39,906,742**	**3,750,334**	**1,253,256**

31 Dec 2010	Nominal value of underlying instrument Remaining maturity				Fair value	
	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts made for other than hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	359,200	2,452,079	765,461	3,576,740	16,931	21,551
Currency derivatives Interest rate and currency swaps	-	27,973	53,081	81,054	419	403
Equity derivatives	101,982	1,782,285	191,841	2,076,108	158,179	158,179
Other derivatives	-	214,729	114,217	328,945	44,983	44,159
Total	**461,182**	**4,477,066**	**1,124,599**	**6,062,847**	**220,512**	**224,293**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	431,986	1,765,056	13,473,419	15,670,461	121,267	164,934
Currency derivatives Interest rate and currency swaps	3,609,539	5,459,309	3,974,054	13,042,902	2,292,236	527,482
Total	**4,041,525**	**7,224,365**	**17,447,473**	**28,713,363**	**2,413,503**	**692,416**
All total	**4,502,708**	**11,701,431**	**18,572,072**	**34,776,210**	**2,634,015**	**916,709**

6. Intangible assets

	31 Dec 2011	31 Dec 2010
IT expenditures	2,273	1,333
Other intangible assets	-	131
Total	**2,273**	**1,464**

7. Tangible assets

	31 Dec 2011	31 Dec 2010
Real estate	912	937
Office renovation expenses	1,063	-
Other tangible assets	485	549
Total	**2,460**	**1,485**

8. Changes in intangible and tangible assets during the financial year

31 Dec 2011	Intangible assets	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	3,160	1,155	1,587	2,742
+ Increase for financial year	1,361	12	1,450	1,462
– Decrease for financial year	-366	-	- 149	- 149
Acquisition cost 31 Dec	4,156	1,167	2,888	4,055
Accumulated depreciation 1 Jan	1,696	218	1,038	1,256
– Accumulated depreciation on decrease	- 234	-	- 6	- 6
+ Depreciation for the financial year	421	36	308	344
Accumulated depreciation on 31 Dec	1,882	254	1,340	1,594
Book value 31 Dec	**2,273**	**912**	**1,548**	**2,460**

31 Dec 2010	Intangible assets	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	2,059	1,155	1,191	2,346
+ Increase for financial year	1 101	-	396	396
– Decrease for financial year	-	-	-	-
Acquisition cost 31 Dec	3,160	1,155	1,587	2,742
Accumulated depreciation 1 January	1,351	182	845	1,027
– Accumulated depreciation on decrease	-	-	-	-
+ Depreciation for the financial year	345	36	193	229
Accumulated depreciation 31 Dec	1,696	218	1,038	1,256
Book value 31 Dec	**1,464**	**937**	**549**	**1,485**

9. Other assets

	31 Dec 2011	31 Dec 2010
Leasing receivables	1,035	208
Other	708	1,777
Total	**1,743**	**1,985**

10. Accured income and prepayments

	31 Dec 2011	31 Dec 2010
Interest	243,547	207,134
Other	4,214	422
Total	**247,761**	**207,556**

11. Deferred tax assets and liabilities

	31 Dec 2010	Recognised in income statement	Recognised in equity	31 Dec 2011
Deferred tax assets				
On fair value reserve	2,338	-	2,273	4,611
On impairment	-	-	-	-
On net income from securities transactions	-	-	-	-
On net income from hedge accounting	-	-	-	-
Total	**2,338**	**-**	**2,273**	**4,611**
Deferred tax liabilities				
On net income from securities transactions	-	-	-	-
On change in voluntary provisions	29,414	14,191	-	43,605
On other items	-	-	-	-
Total	**29,414**	**14,191**	**-**	**43,605**

	31 Dec 2009	Recognised in income statement	Recognised in equity	31 Dec 2010
Deferred tax assets				
On fair value reserve	4,461	-	-2,124	2,338
On impairment	-	-	-	-
On net income from securities transactions	-	-	-	-
On net income from hedge accounting	-	-	-	-
Total	**4,461**	**-**	**- 2,124**	**2,338**
Deferred tax liabilities				
On net income from securities transactions	-	-	-	-
On change in voluntary provisions	17,787	11,627	-	29,414
On other items	-	-	-	-
Total	**17,787**	**11,627**	**-**	**29,414**

12. Debt securities

	31 Dec 2011		31 Dec 2010	
	Book value	Nominal value	Book value	Nominal value
Bonds	16,925,978	21,663,857	14,717,813	22,110,332
Other	261,965	262,000	161,447	161,500
Total	**17,187,942**	**21,925,857**	**14,879,261**	**22,271,832**

The parent company's funding is fully guaranteed by the Municipal Guarantee Board.

13. Other liabilities

	31 Dec 2011	31 Dec 2010
Payment transfer	-	117
Other	2,530	1,106
Total	**2,530**	**1,223**

14. Accrued expenses and deferred income

	31 Dec 2011	31 Dec 2010
Interest	345,200	359,168
Other	4,495	3,126
Total	**349,695**	**362,293**

15. Subordinated liabilities

31 Dec 2011	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	38,907	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 March 2013
Total		**86,009**	**89,916**		

31 Dec 2010	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,963	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 March 2013
Total		**86,009**	**88,972**		

Loan terms and conditions:

1) The maturity date of the loan is 9 May 2021. The company has the right to prematurely repay the loan principal and accumulated interest as of 9 May 2016 or earlier only with written consent from the Finnish Financial Supervisory Authority. In dissolution procedures and bankruptcy, the debenture loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as any debenture loan with a maturity date and equivalent commitments potentially issued or subscribed by the company in the future.

2) The loan does not have a maturity date. The company has agreed to pay interest only if the sum to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervisory Authority grants permission to repay the loan. Under the terms of the loan, the company has the right on 10 December 2010, and each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise said right to repay the loan in the 2011 financial year. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.
   In dissolution procedures and bankruptcy, the capital loan principal and accumulated interest are subordinated to all other debts. The company's capital loan has the same priority status as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loan has priority over the company's shares.

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors of the credit institution approves. Entitlement to pay interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2011.

4) The loan does not have a maturity date. The company has the right to repay the loan principal with accumulated interest prematurely with written consent from the Finnish Financial Supervisory Authority as of 31 March 2013. The company has the right to delay the payment of interest on the loan if the company's capital adequacy does not meet the requirements laid out by the law, the company has no distributable funds or the company is otherwise unable to distribute a dividend.
   In dissolution procedures and bankruptcy, the loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as the company's other corresponding perpetual loans and any corresponding perpetual loans potentially issued or subscribed in the future. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

16. Notes on equity

There were no changes to the number of shares:

	Number of shares	Share capital	Reserve fund	Reserve for invested non-restricted equity	Total
1 Jan 2010	39,063,798	42,583	277	40,366	83,226
31 Dec 2010	39,063,798	42,583	277	40,366	83,226
31 Dec 2011	39,063,798	42,583	277	40,366	83,226

The shares in the parent company are divided into A and B 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. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

Equity reserves:

- The reserve fund comes under the restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act.
- The fair value reserve comprises changes in the values of available-for-sale financial assets.
- The proportion of payment made for shares that is not recorded in equity is recognised in the reserve for invested non-restricted equity. Under the terms of the parent company's 2009 share issue the funds collected through the share issue are recorded in the reserve for invested non-restricted equity.

17. Contingent assets

As a consequence of the financial crisis, the Group has claims amounting to EUR 13,838 thousand related to the insolvency proceedings of various credit institutions. The outcome of debt collection is contingent on the post-bankruptcy solvency of the credit institutions in question and the result of their bankruptcy proceedings. Impairment has been recorded for the full amount of the original claims.

18. Liabilities and collateral

Liabilities and collateral	31 Dec 2011	31 Dec 2010
Loans pledged to the central bank	1,119,103	-
Bonds pledged to the Municipal Guarantee Board	12,292,246	11,557,902
Debt securities pledged to the Municipal Guarantee Board	5,044,995	4,852,991
Total	**18,456,344**	**16,410,893**

Off-balance-sheet commitments	31 Dec 2011	31 Dec 2010
Binding credit commitments	1,375,718	1,115,431
Total	**1,375,718**	**1,115,431**

19. Lease commitments

Commitments	31 Dec 2011	31 Dec 2010
Maturing within one year	1,285	1,007
Maturing in one to five years	4,328	4,107
Maturing in more than five years	-	658
Total	**5,613**	**5,772**

20. Related parties

Municipality Finance's related parties are shareholders whose ownership and corresponding voting rights in the company exceed 20%, the CEO, the Deputy to the CEO, members of the Board of Directors, the responsible auditor, the spouses and minor children of these persons and corporations controlled by them. Municipality Finance's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stipulated by law (municipalities, municipal federations, corporations that are wholly owned by municipalities or under their control and corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds). Municipality Finance has not carried out any business transactions with related parties with the exception of employment-based remuneration. Municipality Finance does not have loan or financial receivables from related parties.

Municipality Finance's related parties also include its subsidiary Inspira. Transactions with Inspira comprise fees related to administrative services.

Transactions with, receivables from and liabilities to the subsidiary	2011	2010
Sales	37	39
Purchases	-	-
Receivables	-	-
Liabilities	-	-

Salaries and remuneration paid to management in Municipality Finance	2011	2010
CEO	546	351
Deputy to the CEO	406	265

In the event of termination at the company's initiative, the CEO and the Deputy to the CEO are entitled to six months' severance pay.

The term of notice for termination of the CEO or the Deputy to the CEO is six months. The retirement age of the CEO and the Deputy to the CEO is determined by the Employees' Pensions Act.

In the event of termination at the company's initiative, the CEO is entitled to continue living in company-owned housing for a period of 24 months from the date of termination. If the CEO resigns on his own initiative, the right to continue living in company-owned housing is limited to 12 months from the date of resignation.

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting. The annual remunerations are EUR 24,000 for the Chairman of the Board, EUR 14,400 for the Vice Chairman and EUR 12,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 400 per meeting for the other members.

The remuneration paid to the parent company Board of Directors that served until the Annual General Meeting of 23 March 2011 is reported in Municipality Finance Plc's Annual Report 2010, which is available on the company website at www.munifin.fi.

Notes to the income statement

21. Breakdown of net interest income

Interest income	2011	2010
Loans and advances to credit institutions and central banks	1,907	926
Loans and advances to the public and public sector entities	313,435	249,142
Debt securities	100,425	63,660
Derivative contracts	- 90,165	-114,753
Leasing operations	346	11
Other interest income	2,352	2,200
Total	**328,300**	**201,187**

Interest expense	2011	2010
Liabilities to the public	30,677	28,631
Liabilities to credit institutions and central banks	44,778	36,350
Debt securities issued	413,821	563,532
Derivative contracts	- 258,396	-509,319
Subordinated liabilities	2,746	2,504
Other interest expense	425	776
Total	**234,051**	**122,473**

22. Commission income

	2011	2010
Financial advisory services	2,185	2,249
Total	**2,185**	**2,249**

23. Commission expense

	2011	2010
Commission fees paid	81	65
Other	2,784	2,250
Total	**2,865**	**2,315**

"Other" includes paid guarantee fees, custody fees and debt programme update costs.

24. Net income from securities and foreign exchange transactions

2011	Capital gains and losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	- 234	14,671	14,437
Derivative contracts	391	- 23,062	- 22,671
Other financial assets	-	264	264
Total net income from securities transactions	157	- 8,127	- 7,970
Net income from foreign exchange transactions	8	- 21	- 13
Total	**165**	**– 8,148**	**– 7,983**

2010	Capital gains and losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	64	- 5,268	- 5,205
Derivative contracts	-	- 2,162	- 2,162
Other financial assets	-	- 495	- 495
Total net income from securities transactions	64	- 7,925	- 7,862
Net income from foreign exchange transactions	- 5	- 196	- 201
Total	**59**	**– 8,121**	**– 8,062**

25. Net income from available-for-sale financial assets

	2011	2010
Disposal of financial assets	- 182	- 257
Impairment	38	22
Transfers from fair value reserve	- 72	93
Total	**– 216**	**– 142**

26. Net income from hedge accounting

	2011	2010
Net income from hedging instruments	325,926	35,770
Net income from hedged items	- 329,275	- 32,184
Total	**–3,349**	**3,586**

27. Other operating income

	2011	2010
Other income from actual credit institution operations	104	62
Total	**104**	**62**

28. Administrative expenses

	2011	2010
Personnel expenses		
Wages and salaries	6,685	5,571
Pension costs	1,287	1,071
Other personnel related costs	338	246
Total	8,310	6,889
Other administrative expenses	3,813	3,336
Total	**12,123**	**10,225**

	2011		2010	
Personnel	Average	End of year	Average	End of year
Permanent full-time	59	59	60	60
Permanent part-time	2	2	1	1
Fixed term	3	6	-	-
Total	**64**	**67**	**61**	**61**

29. Other operating expenses

	2011	2010
Rental expenses	1,620	1,273
Other expenses from actual credit institution operations	2,363	2,818
Total	**3,983**	**4,091**

30. Impairment losses on other financial assets

31 Dec 2011	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity	-	-
Total	**-**	**-**

31 Dec 2010	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity	-	-
Glitnir Bank hf.	800	800
Landsbanki Islands hf.	100	100
Total	**900**	**900**

31. Income taxes

	2011	2010
Tax based on the profit for the financial year	152	3,566
Deferred tax items	14,191	11,627
Total	**14,344**	**15,193**
Profit before tax	65,252	58,302
Taxes at domestic tax rate	16,966	15,159
Non-deductible expenses	48	34
Change in corporate tax rate	- 2,670	-
Taxes in income statement	14,344	15,193

32. Post balance sheet events

There were no events after the final day of the reporting period that would have a material effect on the information presented in the financial statements.

Balance sheet

EUR	Note	31 Dec 2011		31 Dec 2010	
ASSETS					
Liquid assets					
Cash			2,281.45		2,271.70
Cash reserve deposit			0.00		35,500,511.61
Central bank receivables payable on demand			26,505,010.35		0.00
Debt securities eligible for central bank refinancing	(3)		3,558,111,815.34		3,036,603,723.47
Loans and advances to credit institutions	(1)				
Payable on demand		3,496,548.57		1,062,734.51	
Other		557,995,723.44	561,492,272.01	34,283,994.77	35,346,729.28
Loans and advances to the public and public sector entities	(2)		13,624,655,231.28		11,698,048,383.92
Leasing assets	(4)		30,279,212.68		8,364,522.35
Debt securities	(3)				
From public sector entities		480,769,286.74		492,269,451.63	
From others		1,550,077,633.10	2,030,846,919.84	1,891,364,618.82	2,383,634,070.45
Shares and participations	(5)		27,219.06		27,219.06
Shares and participations in Group companies	(5)		100,000.00		100,000.00
Derivative contracts	(6)		3,750,333,786.73		2,634,014,984.96
Intangible assets	(7,9)		3,287,372.40		1,464,145.81
Tangible assets	(8,9)				
Other tangible assets			1,396,894.38		1,485,462.47
Other assets	(10)		1,458,438.00		1,716,403.45
Accrued income and prepayments	(11)		247,732,741.07		207,555,556.99
Deferred tax assets	(12)		4,611,171.00		2,337,550.00
TOTAL ASSETS	(17–19)		**23,840,840,365.59**		**20,046,201,535.52**

EUR	Note		31 Dec 2011		31 Dec 2010
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities to credit institutions and central banks					
To credit institutions					
Other			3,533,230,091.21		2,613,258,982.50
Liabilities to the public and public sector entities					
Other liabilities			1,176,752,432.59		984,601,185.13
Debt securities issued	(13)				
Bonds		16,925,977,534.53		14,717,813,476.39	
Other		261,964,791.94	17,187,942,326.47	161,447,332.36	14,879,260,808.75
Derivative contracts	(6)		1,253,255,710.82		916,708,857.67
Other liabilities	(14)		2,434,035.48		1,073,601.58
Accrued expenses and deferred income	(15)		349,367,869.84		362,014,712.81
Subordinated liabilities	(16)		89,915,861.74		88,971,777.74
APPROPRIATIONS					
Voluntary provisions			177,980,000.00		113,130,000.00
EQUITY	(20–22)				
Share capital			43,008,044.20		43,008,044.20
Other restricted reserves					
Reserve fund		276,711.01		276,711.01	
Fair value reserve		-14,209,934.69	-13,933,223.68	-6,653,025.18	-6,376,314.17
Non-restricted reserves					
Reserve for invested non-restricted equity			40,742,886.40		40,742,886.40
Retained earnings		41,043.41		33,093.50	
Profit for the financial period		103,287.11	144,330.52	9,773,899.41	9,806,992.91
TOTAL LIABILITIES	(17–19)		**23,840,840,365.59**		**20,046,201,535.52**
OFF-BALANCE-SHEET COMMITMENTS	(37)				
Irrevocable commitments given in favour of customers			1,375,718,336.22		1,115,430,513.90

Income statement

EUR	Note	1 Jan–31 Dec 2011		1 Jan–31 Dec 2010	
Interest income	(23)		327,954,216.28		201,175,961.45
Net income from leasing operations	(24)		345,760.97		11,435.75
Interest expense	(23)		-234,051,397.85		-122,472,786.52
NET INTEREST INCOME			**94,248,579.40**		**78,714,610.68**
Income from equity investments					
in Group companies			135,000.00		43,300.00
Commission expense	(25)		-2,862,520.63		-2,313,612.60
Net income from securities and foreign exchange transactions	(26)				
Net income from securities		-7,970,187.06		-7,861,762.08	
Net income from foreign exchange transactions		-12,737.90	-7,982,924.96	-200,712.05	-8,062,474.13
Net income from available-for-sale financial assets	(27)		-216,237.02		-141,504.61
Net income from hedge accounting	(28)		-3,348,590.28		3,586,465.17
Other operating income	(29)		110,124.89		99,447.03
Administrative expenses					
Personnel expenses					
Salaries and fees		-5,804,901.95		-4,875,706.30	
Personnel-related costs					
Pension costs		-1,122,036.94		-939,314.67	
Other personnel-related costs		-300,724.65		-221,676.97	
Other administrative expenses		-3,616,116.97	-10,843,780.51	-3,141,762.56	-9,178,460.50
Depreciation and impairment on tangible and intangible assets	(31)		-764,087.73		-574,324.65
Other operating expenses	(30)		-3,470,128.51		-3,317,372.91
Impairment losses on other financial assets	(32)		0.00		-900,000.00
OPERATING PROFIT			**65,005,434.65**		**57,956,073.48**
Appropriations			-64,850,000.00		-44,720,000.00
Income taxes			-52,147.54		-3,462,174.07
PROFIT FOR THE PERIOD			**103,287.11**		**9,773,899.41**

Statement of cash flows

EUR	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
CASH FLOW FROM OPERATING ACTIVITIES	**273,612,372.66**	**902,493,773.74**
Change in long-term funding	1,877,905,282.13	2,626,765,265.24
Change in short-term funding	100,564,662.70	-347,360,937.41
Change in long-term loans	-1,876,808,796.02	-1,974,895,560.74
Change in short-term loans	47,070,269.80	-64,503,185.68
Change in investments	-446,529,759.78	-619,793,352.01
Change in collaterals	490,120,000.00	1,233,120,000.00
Interest paid	-213,939,974.62	-120,216,305.59
Interest received	309,557,574.47	191,407,185.72
Other income	2,484,645.56	-592,468.47
Payments of operating expenses	-13,349,360.51	-15,491,140.67
Taxes paid	-3,462,171.07	-5,945,726.65
CASH FLOW FROM INVESTING ACTIVITIES	**-2,447,678.94**	**-1,497,056.91**
Acquisition of tangible assets	-153,445.35	-396,170.35
Acquisition of intangible assets	-2,294,233.59	-1,100,886.56
CASH FLOW FROM FINANCING ACTIVITIES	**-9,765,949.50**	**-9,934,137.43**
Change in capital loans	0.00	-168,187.93
Dividends paid	-9,765,949.50	-9,765,949.50
NET INCREASE IN CASH FUNDS	**261,398,744.22**	**891,062,579.40**
CASH FUNDS AT 1 JANUARY	**2,213,530,870.59**	**1,322,468,291.19**
CASH FUNDS AT 31 DECEMBER	**2,474,929,614.81**	**2,213,530,870.59**

Cash funds include the following balance sheet items:
Liquid assets, loans and advances to credit institutions, debt securities eligible for central bank refinancing maturing within three months and other debt securities maturing within three months.

Cash funds	31 Dec 2011	31 Dec 2010
Liquid assets	26,507,291.80	35,502,783.31
Loans and advances to credit institutions	561,492,272.01	35,346,729.28
Debt securities maturing within three months	**1,886,930,051.00**	**2,142,681,358.00**

Notes to the parent company's financial statements

Accounting principles

Municipality Finance Plc, the parent company of the Municipality Finance Group, presents its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervisory Authority Standard 3.1 Financial statements and management report. The company reports regularly on its operations to the Finnish Financial Supervisory Authority, the Bank of Finland, the European Central Bank, the Municipal Guarantee Board and Statistics Finland.

In 2008, Municipality Finance reclassified some of the debt securities used for acquiring funding in advance based on the amendments to the IAS 39 and IFRS 7 standards. The Finnish Financial Supervision Authority approved the amendments to the IFRS standards as part of the national accounting principles. The transfers are itemised in Note 3.

The parent company's credit loss provisions are made in accordance with tax law.

Other valuation and amortisation principles are described in the notes to the consolidated financial statements.

Notes to the balance sheet

The company has not combined any items in the balance sheet under Chapter 2, Section 14(4) of the Ministry of Finance Decree.

1. Loans and advances to credit institutions

31 Dec 2011	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	561,006	3,010	557,996
Foreign credit institutions	487	487	-
Total	**561,493**	**3,497**	**557,996**

31 Dec 2010	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	34,567	283	34,284
Foreign credit institutions	780	780	-
Total	**35,347**	**1,063**	**34,284**

2. Loans and advances to the public and public sector entities

	31 Dec 2011	31 Dec 2010
Enterprises and housing corporations	6,981,594	6,004,214
Public sector entities	6,487,262	5,560,455
Non-profit organisations	155,799	133,381
Total	**13,624,655**	**11,698,048**

3. Debt securities

31 Dec 2011	Publicly quoted	Other	Total
Debt securities issued by public sector entities	209,911	475,769	685,680
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available-for-sale	209,911	475,769	685,680
Municipal commercial papers	-	475,769	475,769
Government bonds	43,993	-	43,993
Bonds issued by other public sector entities	165,918	-	165,918
Debt securities issued by other than public sector entities	3,764,023	1,139,255	4,903,278
Held to maturity	139,900	-	139,900
Bank bonds	7,988	-	7,988
Other debt securities	131,912	-	131,912
Available-for-sale	3,624,123	1,139,255	4,763,378
Bank certificates of deposit	-	858,591	858,591
Commercial papers	-	58,025	58,025
Bank bonds	3,251,261	147,802	3,399,063
Other debt securities	372,862	74,836	447,699
Total debt securities	**3,973,934**	**1,615,024**	**5,588,959**
Eligible for central bank refinancing	3,405,617	152,495	3,558,112
Total non-interest bearing	4,998	2,948	7,946

Reclassification: Transferred from available-for-sale investments to investments held to maturity	Fair value of investments on the date of transfer
1 January 2008	171,935
1 July 2008	34,967
Total	**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR 5,238 thousand on the fair value reserve.

EUR 652 thousand of the valuation difference resulting from the transferring of debt securities to investments held to maturity has been released from the fair value reserve in 2011.

31 Dec 2010	Publicly quoted	Other	Total
Debt securities issued by public sector entities	264,837	487,269	752,106
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available-for-sale	264,837	487,269	752,106
Municipal commercial papers	-	487,269	487,269
Government bonds	129,888	-	129,888
Bonds issued by other public sector entities	134,949	-	134,949
Debt securities issued by other than public sector entities	3,420,995	1,247,137	4,668,131
Held to maturity	173,224	-	173,224
Bank bonds	17,897	-	17,897
Other debt securities	155,326	-	155,326
Available-for-sale	3,247,771	1,247,137	4,494,908
Bank certificates of deposit	-	1,093,366	1,093,366
Commercial papers	-	93,166	93,166
Bank bonds	2,826,024	20,877	2,846,902
Other debt securities	421,747	39,727	461,474
Total debt securities	**3,685,832**	**1,734,406**	**5,420,238**
Eligible for central bank refinancing	2,990,500	46,104	3,036,604
Total non-interest bearing	5,238	13,792	19,030

Reclassification: Transferred from available-for-sale investments to investments held to maturity	Fair value of investments on the date of transfer
1 January 2008	171,935
1 July 2008	34,967
Total	**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR 3,903 thousand on the fair value reserve.

EUR 765 thousand of the valuation difference resulting from the transferring of debt securities to investments held to maturity was released from the fair value reserve in 2010.

4. Assets leased under finance leases

	31 Dec 2011	31 Dec 2010
Machinery and equipment	29,790	8,320
Other assets	489	46
Total	**30,279**	**8,365**

5. Shares and participations

31 Dec 2011	Publicly quoted	Other	In credit institutions
Available-for-sale	-	27	-
Group companies	-	100	-
Total	**-**	**127**	**-**

31 Dec 2010	Publicly quoted	Other	In credit institutions
Available-for-sale	-	27	-
Group companies	-	100	-
Total	**-**	**127**	**-**

6. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2011	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts made for other than hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	640,000	3,515,880	1,306,928	5,462,807	27,513	55,088
Currency derivatives Interest rate and currency swaps	-	57,219	21,123	78,342	466	456
Equity derivatives	163,032	2,773,285	176,996	3,113,313	375,534	375,534
Other derivatives	56 104	200,657	49,960	306,721	46,952	46,229
Total	**859,136**	**6,547,041**	**1,555,007**	**8,961,183**	**450,465**	**477,307**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	307,975	4,599,751	11,401,496	16,309,222	308,436	221,969
Currency derivatives Interest rate and currency swaps	3,156,333	6,663,142	4,816,861	14,636,337	2,991,433	553,979
Total	**3,464,308**	**11,262,893**	**16,218,357**	**30,945,559**	**3,299,869**	**775,949**
All total	**4,323,444**	**17,809,934**	**17,773,364**	**39,906,742**	**3,750,334**	**1,253,256**

31 Dec 2010	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts made for other than hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	359,200	2,452,079	765,461	3,576,740	16,931	21,551
Currency derivatives Interest rate and currency swaps	-	27,973	53,081	81,054	419	403
Equity derivatives	101,982	1,782,285	191,841	2,076,108	158,179	158,179
Other derivatives	-	214,729	114,217	328,945	44,983	44,159
Total	**461,182**	**4,477,066**	**1,124,599**	**6,062,847**	**220,512**	**224,293**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	431,986	1,765,056	13,473,419	15,670,461	121,267	164,934
Currency derivatives Interest rate and currency swaps	3,609,539	5,459,309	3,974,054	13,042,902	2,292,236	527,482
Total	**4,041,525**	**7,224,365**	**17,447,473**	**28,713,363**	**2,413,503**	**692,416**
All total	**4,502,708**	**11,701,431**	**18,572,072**	**34,776,210**	**2,634,015**	**916,709**

7. Intangible assets

	31 Dec 2011	31 Dec 2010
IT expenditures	2,273	1,333
Other intangible assets	1,014	131
Total	**3,287**	**1,464**

8. Tangible assets

	31 Dec 2011	31 Dec 2010
Real estate		
Buildings	478	503
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	485	549
Total	**1,397**	**1,485**

9. Changes in intangible and tangible assets during the financial year

31 Dec 2011	Intangible assets	Tangible assets		
		Other real estate and real estate corporation shares	Other tangible assets	Total
Acquisition cost 1 January	3,160	1,155	1,587	2,742
+ Increase for financial year	2,345	12	142	153
– Decrease for financial year	- 91	-	- 149	- 149
Acquisition cost 31 December	5,414	1,167	1,579	2,746
Accumulated depreciation 1 January	1,696	218	1,038	1,256
– Accumulated depreciation on decrease	- 91	-	- 148	- 148
+ Depreciation for the financial year	522	36	205	241
Accumulated depreciation 31 December	2,127	254	1,094	1,349
Book value 31 December	**3,287**	**912**	**485**	**1,397**

31 Dec 2010	Intangible assets	Tangible assets		
		Other real estate and real estate corporation shares	Other tangible assets	Total
Acquisition cost 1 January	2,059	1,155	1,191	2,346
+ Increase for financial year	1,101	-	396	396
– Decrease for financial year	-	-	-	-
Acquisition cost 31 December	3,160	1,155	1,587	2,742
Accumulated depreciation 1 January	1,351	182	845	1,027
– Accumulated depreciation on decrease	-	-	-	-
+ Depreciation for the financial year	345	36	193	229
Accumulated depreciation 31 December	1,696	218	1,038	1,256
Book value 31 December	**1,464**	**937**	**549**	**1,485**

10. Other assets

	31 Dec 2011	31 Dec 2010
Other	1,458	1,716
Total	**1,458**	**1,716**

11. Accrued income and prepayments

	31 Dec 2011	31 Dec 2010
Interest	243,547	207,134
Other	4,186	422
Total	**247,733**	**207,556**

12. Deferred tax assets and liabilities

	31 Dec 2010	Recognised in income statement	Recognised in balance sheet	31 Dec 2011
Deferred tax assets				
On fair value reserve	2,338	-	2,273	4,611
On impairment	-	-	-	-
Total	**2,338**	**–**	**2,273**	**4,611**
Deferred tax liabilities				
On valuation of available-for-sale financial assets	-	-	-	-
On valuation of derivative contracts at fair value	-	-	-	-
Total	**–**	**–**	**–**	**–**

Voluntary provisions include EUR 43,605 thousand in non-recognised deferred tax liabilities.

	31 Dec 2009	Recognised in income statement	Recognised in balance sheet	31 Dec 2010
Deferred tax assets				
On fair value reserve	4,461	-	- 2,124	2,338
On impairment	-	-	-	-
Total	**4,461**	**–**	**– 2,124**	**2,338**
Deferred tax liabilities				
On valuation of available-for-sale financial assets	-	-	-	-
On valuation of derivative contracts at fair value	-	-	-	-
Total	**–**	**–**	**–**	**–**

Voluntary provisions include EUR 29,414 thousand in non-recognised deferred tax liabilities.

13. Debt securities issued

	31 Dec 2011		31 Dec 2010	
	Book value	Nominal value	Book value	Nominal value
Bonds	16,925,977	21,663,857	14,717,813	22,110,332
Other	261,965	262,000	161,447	161,500
Total	**17,187,942**	**21,925,857**	**14,879,261**	**22,271,832**

14. Other debts

	31 Dec 2011	31 Dec 2010
Payment transfer	-	117
Other	2,434	957
Total	**2,434**	**1,074**

15. Accrued expenses and deferred income

	31 Dec 2011	31 Dec 2010
Interest	345,200	359,168
Other	4,168	2,847
Total	**349,368**	**362,015**

16. Subordinated liabilities

31 Dec 2011	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	38,907	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 March 2013
Total		**86,009**	**89,916**		

31 Dec 2010	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,963	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 March 2013
Total		**86,009**	**88,972**		

Loan terms and conditions:

1) The maturity date of the loan is 9 May 2021. The company has the right to prematurely repay the loan principal and accumulated interest as of 9 May 2016 or earlier only with written consent from the Finnish Financial Supervisory Authority. In dissolution procedures and bankruptcy, the debenture loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as any debenture loan with a maturity date and equivalent commitments potentially issued or subscribed by the company in the future.

2) The loan does not have a maturity date. The company has agreed to pay interest only if the sum to be paid is distributable according to the balance sheet approved for the company's previous financial year. The loan involves no cumulative right to interest. The loan may be repaid on the condition that the restricted equity and other non-distributable assets in the approved balance sheet for the company's previous financial year provide full coverage and that the Finnish Financial Supervisory Authority grants permission to repay the loan. Under the terms of the loan, the company has the right on 10 December 2010, and each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise said right to repay the loan in the 2011 financial year. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

   In dissolution procedures and bankruptcy, the capital loan principal and accumulated interest are subordinated to all other debts. The company's capital loan has the same priority status as any capital loans and equivalent commitments potentially issued or subscribed in the future. The loan has priority over the company's shares.

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors of the credit institution approves. Entitlement to pay interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not allow payment of interest under the loan terms and conditions for 2011.

4) The loan does not have a maturity date. The company has the right to repay the loan principal with accumulated interest prematurely with written consent from the Finnish Financial Supervisory Authority as of 31 March 2013. The company has the right to delay the payment of interest on the loan if the company's capital adequacy does not meet the requirements laid out by the law, the company has no distributable funds or the company is otherwise unable to distribute a dividend.

   In dissolution procedures and bankruptcy, the loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as the company's other corresponding perpetual loans and any corresponding perpetual loans potentially issued or subscribed in the future. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.

17. Breakdown of financial assets and liabilities by maturity

31 Dec 2011	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	456,931	772,280	2,170,845	112,744	45,312	3,558,113
Loans and advances to credit institutions	561,492	-	-	-	-	561,492
Loans and advances to the public and public sector entities	251,819	904,101	4,441,798	3,532,054	4,494,883	13,624,655
Debt securities	1,429,999	135,353	406,008	24,644	34,843	2,030,847
Total	**2,700,241**	**1,811,734**	**7,018,651**	**3,669,442**	**4,575,038**	**19,775,106**
Liabilities to credit institutions	1,813,364	69,320	463,381	268,504	918,662	3,533,230
Liabilities to the public	16,362	10,194	85,694	606,861	457,642	1,176,752
Debt securities issued	3,320,879	4,984,380	6,478,267	1,706,949	697,466	17,187,942
Subordinated liabilities	-	10,000	78,907	-	1,009	89,916
Total	**5,150,605**	**5,073,894**	**7,106,249**	**2,582,314**	**2,074,779**	**21,987,841**

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 15-25% of its loans in 2012. In 2011, the company called in 39% of its loans.

31 Dec 2010	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	446,696	554,820	1,843,855	139,793	51,440	3,036,604
Loans and advances to credit institutions	35,347	-	-	-	-	35,347
Loans and advances to the public and public sector entities	153,800	722,120	3,815,188	3,334,260	3,672,681	11,698,048
Debt securities	1,695,985	202,415	380,724	56,501	48,008	2,383,634
Total	**2,331,828**	**1,479,355**	**6,039,767**	**3,530,554**	**3,772,128**	**17,153,633**
Liabilities to credit institutions	1,323,092	238,110	285,143	108,257	658,656	2,613,259
Liabilities to the public	15,793	-	53,477	566,476	348,855	984,601
Debt securities issued	3,544,687	4,569,135	5,445,655	1,117,390	202,394	14,879,261
Subordinated liabilities	-	10,000	40,000	37,963	1,009	88,972
Total	**4,883,573**	**4,817,245**	**5,824,275**	**1,830,086**	**1,210,915**	**18,566,093**

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expected to call in 35-45% of its loans in 2011. In 2010, the company called in 34% of its loans.

18. Breakdown of balance sheet items by denomination (domestic and foreign currency)

31 Dec 2011	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	3,558,112	-	3,558,112
Loans and advances to credit institutions	561,467	25	561,492
Loans and advances to the public and public sector entities	13,624,655	-	13,624,655
Debt securities	2,030 847	-	2,030 847
Derivative contracts	3,750,334	-	3,750,334
Other assets including "Liquid assets"	315 400	-	315 400
Total	**23,840,815**	**25**	**23,840,840**
Liabilities to credit institutions	3,129,397	403,833	3,533,230
Liabilities to the public and public sector entities	789,918	386,834	1,176,752
Debt securities issued	1,034,850	16,153,092	17,187,942
Derivative contracts	1,253,256	-	1,253,256
Subordinated liabilities	89,916	-	89,916
Other liabilities	422,994	176,750	599,744
Total	**6,720 331**	**17,120,509**	**23,840,840**

31 Dec 2010	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	3,036,604	-	3,036,604
Loans and advances to credit institutions	35,266	81	35,347
Loans and advances to the public and public sector entities	11,698,048	-	11,698,048
Debt securities	2,383,634	-	2,383,634
Derivative contracts	2,634,015	-	2,634,015
Other assets including "Liquid assets"	258,555	-	258,555
Total	**20,046,121**	**81**	**20,046,202**
Liabilities to credit institutions	2,235,584	377,675	2,613,259
Liabilities to the public and public sector entities	631,700	352,901	984,601
Debt instruments issued	1,106,931	13,772,329	14,879,261
Derivative contracts	916,709	-	916,709
Subordinated liabilities	88,972	-	88,972
Other liabilities	416,803	146,598	563,401
Total	**5,396,699**	**14,649,503**	**20,046,202**

19. Fair values and book values of financial assets and liabilities

	31 Dec 2011		31 Dec 2010	
	Book value	Fair value	Book value	Fair value
Financial assets				
Liquid assets	26,507	26,507	35,503	35,503
Debt securities eligible for central bank refinancing	3,558,112	3,549,772	3,036,604	3,027,307
Loans and advances to credit institutions	561,492	561,492	35,347	35,347
Loans and advances to the public and public sector entities	13,624,655	13,997,650	11,698,048	11,966,619
Debt securities	2,030,847	2,020,866	2,383,634	2,370,868
Shares and participations	27	27	27	27
Shares and participations in Group companies	100	100	100	100
Derivative contracts	3,750,334	3,750,334	2,634,015	2,634,015
Total	**23,552,074**	**23,906,749**	**19,823,278**	**20,069,786**
Financial liabilities				
Liabilities to credit institutions	3,533,230	3,532,809	2,613,259	2,612,959
Liabilities to the public and public sector entities	1,176,752	1,172,712	984,601	981,048
Debt instruments issued	17,187,942	17,183,941	14,879,261	14,860,821
Derivative contracts	1,253,256	1,253,256	916,709	916,709
Subordinated liabilities	89,916	89,172	88,972	87,759
Total	**23,241,096**	**23,231,889**	**19,482,802**	**19,459,295**

20. Equity items

31 Dec 2011	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of FY, 1 January 2011	43,008	277	- 6,653	40,743	9,807	87,182
+ increase	-	-	- 7,627	-	103	- 7,524
– decrease	-	-	-	-	- 9,766	- 9,766
Book value 31 December 2011	**43,008**	**277**	**– 14,280**	**40,743**	**144**	**69,892**

31 Dec 2010	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of FY, 1 January 2010	43,008	277	- 12,698	40,743	9,799	81,129
+ increase	-	-	6,045	-	9,774	15,900
– decrease	-	-	-	-	- 9,766	- 9,766
Book value 31 December 2010	**43,008**	**277**	**– 6,653**	**40,743**	**9,807**	**87,182**

The company has recorded an increase in voluntary provisions of EUR 64,850 thousand, deductible in taxation, in the income statement of the financial statements. In total, the voluntary provisions recorded in the balance sheet amount to EUR 177,980 thousand. The company may release provisions net of taxes calculated in accordance with the valid tax rate applicable to earnings.

21. Share capital

The shares in Municipality Finance Plc are divided into A and B 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. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2011, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798.

22. Largest shareholders

The ten largest shareholders/subscribers in terms of voting rights and the number of shares held/subscribed by these, their portion of all shares in the credit institution and of all votes carried by the shares as well as the total number of shareholders:

31 Dec 2011	Number	Percentage
1. Keva (former name Local Government Pensions Institution)	11,975,550	30.66
2. Finnish state	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 (Vantaa)	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	841,825	2.16
8. City of Turku	615,681	1.58
9. City of Kuopio	552,200	1.41
10. City of Lahti	502,220	1.29

The total number of shareholders is 296.

Notes to the income statement

The company has not combined any items in the balance sheet under Chapter 2, Section 14(4) of the Ministry of Finance Decree.

23. Breakdown of net interest income

Interest income	2011	2010
Loans and advances to credit institutions and central banks	1,907	926
Loans and advances to the public and public sector entities	313,435	249,142
Debt securities	100,425	63,660
Derivative contracts	- 90,165	- 114,753
Other interest income	2,352	2,200
Total	**327,954**	**201,176**

Interest expense	2011	2010
Liabilities to the public	30,677	28,631
Liabilities to credit institutions and central banks	44,778	36,350
Debt securities issued	413,821	563,532
Derivative contracts	- 258,396	509,319
Subordinated liabilities	2,746	2,504
Other interest expense	425	776
Total	**234,051**	**122,473**

24. Net income from leasing operations

	2011	2010
Leasing income	2,118	86
Depreciation of lease assets according to plan	- 1,772	- 75
Total	**346**	**11**

25. Commission expense

	2011	2010
Commission fees paid	79	63
Other	2,784	2,251
Total	**2,863**	**2,314**

26. Net income from securities and foreign exchange transactions

2011	Capital gains and -losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	- 234	14,671	14,437
Derivative contracts	391	- 23,062	- 22,671
Other financial assets	-	264	264
Total net income from securities transactions	157	- 8,127	- 7,970
Net income from foreign exchange transactions	8	- 21	- 13
Total	**165**	**- 8,148**	**- 7,983**

2010	Capital gains and -losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	64	- 5,268	- 5,205
Derivative contracts	-	- 2,162	- 2,162
Other financial assets	-	- 495	- 495
Total net income from securities transactions	64	- 7,925	- 7,862
Net income from foreign exchange transactions	- 5	- 196	- 201
Total	**59**	**- 8,121**	**- 8,062**

27. Net income from available-for-sale financial assets

	2011	2010
Disposal of financial assets	- 182	- 257
Impairment and cancellations of impairment	38	22
Transfers from fair value reserve	- 72	93
Total	**- 216**	**- 142**

28. Net income from hedge accounting

	2011	2010
Net income from hedging instruments	325,926	35,770
Net income from hedged items	- 329,275	- 32,184
Total	**– 3,349**	**3,586**

29. Other operating income

	2011	2010
Other income from actual credit institution operations	110	99
Total	**110**	**99**

30. Other operating expenses

	2011	2010
Rental expenses	1,452	1,130
Other expenses from actual credit institution operations	2,018	2,187
Total	**3,470**	**3,317**

31. Depreciation and impairment on tangible and intangible assets

The item consists of planned depreciation.

32. Impairment losses on other financial assets

31 Dec 2011	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity	-	-
Total	**–**	**–**

31 Dec 2010	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity	900	900
Total	**900**	**900**

33. Municipality Finance Plc's sector of operations consists of credit institution operations and the market area for lending is Finland.

Notes on collateral, contingent liabilities and derivative contracts

34. Collateral given

For own liabilities	31 Dec 2011	31 Dec 2010
Pledges		
Balance sheet item		
Liabilities to credit institutions	3,533,230	2,613,259
Liabilities to the public and public sector entities	1,176,752	984,601
Debt securities issued	17,187,942	14,879,261
Total	**21,897,924**	**18,477,121**

Collateral given is presented in accordance with the balance sheet values on 31 December.

Liabilities and collateral	31 Dec 2011	31 Dec 2010
Loans pledged to the central bank	1,119,103	-
Bonds pledged to the Municipal Guarantee Board	12,292,246	11,557,902
Debt securities pledged to the Municipal Guarantee Board	5,044,995	4,852,991
Total	**18,456,344**	**16,410,893**

35. Pension liabilities

Pension coverage has been arranged via an outside pension insurance company.

36. Leasing and other rental liabilities

	31 Dec 2011	31 Dec 2010
Maturing within one year	1,141	893
Maturing in one to five years	3,908	4,087
Maturing in more than five years	-	658
Total	**5,049**	**5,638**

37. Off-balance-sheet commitments

	31 Dec 2011	31 Dec 2010
Binding credit commitments	1,375,718	1,115,431
Total	**1,375,718**	**1,115,431**

Notes on personnel and management

38. Municipality Finance Plc's personnel

	2011		2010	
	Average	End of year	Average	End of year
Permanent full-time	50	49	51	51
Permanent part-time	2	2	2	2
Fixed term	3	6	-	-
Total	**55**	**57**	**53**	**53**

Salaries and remuneration paid to management	2011	2010
CEO	546	351
Deputy to the CEO	406	265

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting. The annual remunerations are EUR 24,000 for the Chairman of the Board, EUR 14,400 for the Vice Chairman and EUR 12,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 400 per meeting for the other members.

The remuneration paid to the parent company Board of Directors that served until the Annual General Meeting of 23 March 2011 is reported in Municipality Finance Plc's Annual Report 2010, which is available on the company website at www.munifin.fi.

Salaries and remuneration

General principles

The remuneration paid to the management and employees of Municipality Finance consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system.

The remuneration paid as fixed base salary forms a stable basis for basic functions and their development. The variable remuneration is intended to promote the implementation of the company's strategy, improve the efficiency and productivity of work, guarantee satisfaction at work and motivation of employees and ensure the availability of skilled resources and their continued desire to stay with the company.

The Board of Directors confirms the principles of the remuneration system and these are evaluated annually. The Remuneration Committee of the Board of Directors assists the Board in matters related to the remuneration systems and remunerations.

The Board of Directors confirms the salaries and other remunerations of the CEO and the Deputy to the CEO as well as their terms of emloyment. In addition, the Board of Directors confirms the salaries and remunerations of staff reporting directly to the CEO based on CEO's proposal.

The company does not offer any unusual fringe benefits.

Remuneration system

The variable remunerations paid in 2011 were based on the short-term scheme for 2010 included in Municipality Finance's remuneration system approved by the Board of Directors. This means that remunerations were paid from the short-term scheme in the year (2011) following the year of earning (2010). The short-term scheme applies to the entire staff, and remunerations earned are paid annually. For the CEO and the Board of Management, the target remuneration level in the short-term scheme is three months' salary. The maximum remuneration is six months' salary. The maximum remuneration can only be paid on the basis of exceptional performance. The short-term scheme takes into account both the performance of an individual and that of the company. The weight of these factors varies between different personnel groups.

In addition to the short-term scheme, a long-term scheme for the CEO, the Board of Management and key personnel was used in 2011. It consists of three-year schemes starting annually. The first three-year scheme (started in 2010) ends at the end of 2012, and no remunerations were therefore paid from the long-term scheme in 2011. The goals of the long-term schemes are based on Municipality Finance's strategy and are the same for all participants of the scheme. For the CEO and the Board of Management, the target remuneration level paid in the long-term scheme corresponds to four months' salary with a maximum remuneration of eight months' salary. The total annual incentive remuneration including both the short-term and the long-term scheme may then equal 12 months' salary for the CEO and the Board of Management.

According to the Finnish Ministry of the Finance decree on remuneration schemes of credit institutions that came into force at the end of 2010, credit institutions had to amend their remuneration schemes so that they meet the requirements of the decree by the beginning of June 2011, while taking into account the opportunities for company-specific modifications allowed by the principle of proportionality included in the regulation. As a result, the Board of Directors decided to renew the remuneration system in such a way that for remunerations based on 2011, the remunerations paid from the short-term scheme in 2012 will be delayed so that the amount corresponding to the fixed salary of four months is paid in the following year.

In addition, the Board of Directors decided in the summer of 2011 that long-term schemes will be terminated altogether at the end of 2011. The termination of long-term schemes aims to simplify the remuneration system.

At the same time, the Board of Directors decided on a new remuneration system that became applicable at the beginning of 2012. This system is based on one annual scheme in which remunerations are delayed for payment two years after the earning year for the part of remuneration that exceeds the four-month salary of the person in question. If the amount of remuneration is less than the four-month salary of the person in question, the remuneration is paid in the year following the earning year. In this scheme, the maximum and target levels of remuneration vary between different groups of personnel (CEO and the Board of Management, heads of units, key personnel, other employees). The target remuneration of the CEO and member of the Board of Management equals six months' salary of, and the maximum remuneration for an earning year corresponds to the salary of twelve months. The maximum remuneration requires expectional performance by the company as well as the individual.

The new system is based on the evaluation of performance of both the company and the individual on all levels. The evaluation of the company's performance is approved by the Board of Directors, that of a unit's performance by the Board of Management and that of an individual employee by the supervisor of each employee.

As required by regulations, the Board of Directors, however, always has the final say over not paying the remunerations if the payment would endanger the company's capital adequacy or otherwise contradict customary business principles. The remuneration of people working in duties related to risk management is not based on the result of the controlled function.

A variable remuneration may only be paid to a person who is employed by the company at the time of payment.

Variable remunerations are always paid in cash. The company does not have any share or stock option based remuneration systems.

The Company has no supplementary pension arrangements.

Salaries and remunerations paid in 2011

The acting management of the company (CEO and other members of the Board of Management), heads of units responsible for business operations (heads of units responsible for lending, leasing, acquisition of funding, investments and treasury), risk management director (member of the Board of Management) and compliance director were paid a total of EUR 1.77 million in salaries in 2011, and a total of EUR 0.87 million in variable salaries (earned in 2009-2010).

Related party transactions

39. Loans and other financial receivables from the credit institution's related parties

Municipality Finance does not have any loan or financial receivables, or other receivables referred to in Section 140(2) of the Act on Credit Institutions from related parties.

Notes on auditing fees

40. Auditing and other fees paid to auditing corporation

	2011	2010
Auditing	91	79
Tax advice	-	3
Other services	47	175
Total	**138**	**256**

The Board of Directors’ proposal on the use of the profit for the financial year

Municipality Finance Plc’s distributable funds total EUR 144,330.52, of which the profit for the financial year is EUR 103,287.11.
The Board of Directors will propose to the Annual General Meeting that:

- no dividend be paid, and
- the distributable funds totalling EUR 144,330.52 be retained in equity.

Signatures to the report of the Board of Directors and financial statements

In Helsinki on 14 February 2012

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Fredrik Forssell
Vice Chairman of the Board

Teppo Koivisto
Member of the Board

Tapio Korhonen
Member of the Board

Sirpa Louhevirta
Member of the Board

Ossi Repo
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
CEO

Auditor’s note

A report on the audit carried out has been submitted today.
In Helsinki on 14 February 2012
KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

This document is an English translation of the Finnish Auditor's Report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Municipality Finance Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Municipality Finance Plc for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company, the Managing Director or the deputy Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Finnish Credit Institutions Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company, the Managing Director and the deputy Managing Director be discharged from liability for the financial period audited by us.

In Helsinki on 14 February 2012
KPMG OY AB

[signed]
Raija-Leena Hankonen
Authorized Public Accountant

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