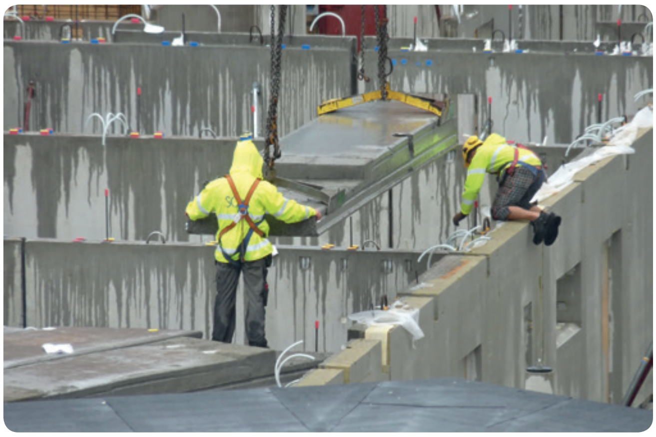





Annual Report 2012

MuniFin
MUNICIPALITY FINANCE

Municipality Finance ensures that the
municipal sector receives financing
under all market conditions.

Municipality Finance is the only financial institution in Finland

specialising in the municipal sector

Municipality Finance Plc is a credit institution owned by municipalities, Keva and the Finnish State with a duty to ensure the availability of competitive financing for the municipal sector and state-subsidised housing production under all market conditions. As a result of its duty, Municipality Finance is an important part of the basic financial structure of Finnish society and the only financial institution exclusively specialising in the municipal sector in Finland.

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

The company has the highest possible credit ratings for its long-term funding: Aaa from Moody's and AAA from Standard & Poor's. These form the foundation for the company's good competitiveness as a provider of financing. Funding is acquired in a diversified manner from both international and domestic capital markets. The company's funding is guaranteed by the Municipal Guarantee Board.

The financing granted by Municipality Finance is used for various social targets and those which are important from a societal point of view. Its financing is used for schools, day care centres, retirement homes, care homes, hospitals, health centres and rental housing.

The municipal sector's own financial institution

Municipality Finance focuses completely on offering market-based financing to municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations. According to the financing model of the Nordic municipal sector, Municipality Finance and corresponding companies in other Nordic countries ensure the financing of their own customers, State Treasury-type operators secure the financing of states and banking sector operators mainly focus on the private sector.

This model has proven to be functional in all of the Nordic countries and is currently considered one of the basic economic structures of a stable society developing in a long-term manner. Similar systems have already been built or are being built in many countries, including France, the UK and New Zealand, for example.

Municipality Finance has in-depth knowledge of the operating environment and the special needs of its customers. The goal of its operations is to support competition in the lending market and ensure the availability of competitive financing under all market conditions.

Municipality Finance invests in the development of new financial products and solutions. The company also acts as an advisor in the planning of its customers' financing, helps them develop their financing risk management and diversifies its customers' financing options. The company specialises in long-term loan arrangements that are used in particular for infrastructure investments and the financing of social housing production.

Municipality Finance places great priority on customer-responsiveness, active co-operation and reliable partnership. This ensures that its operations meet customers' 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.

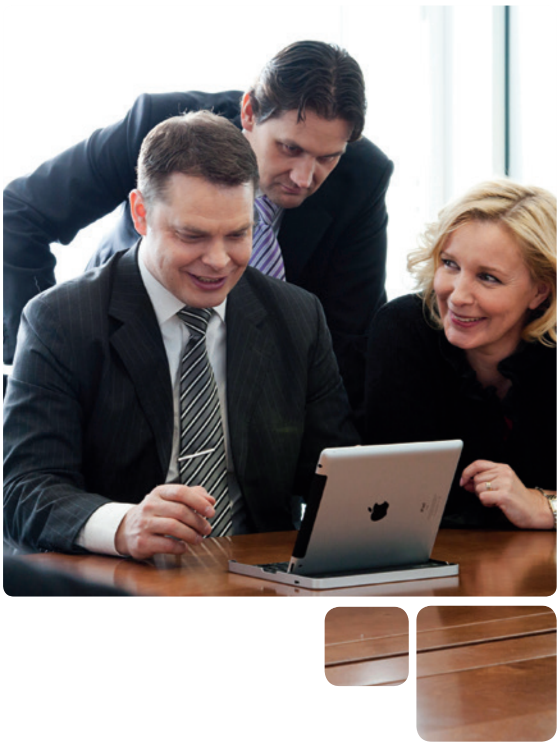
The strategy of Municipality Finance is to invest in customer relationships in an active and focused manner and to develop them in a way that best serves the company's customers. In order to offer the most suitable solutions for customers, the company invests in broad-based expertise, developing its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

2012 in brief

Municipality Finance's business operations continued to grow in 2012. The Group's net interest income grew by 51 per cent to EUR 142.4 million. The Group's operating profit grew by 112 per cent to EUR 138.6 million. The balance sheet total increased by 7 per cent to EUR 25,560 million. The Group's capital adequacy was 33.87 per cent at the end of the year (minimum requirement eight per cent).

The total amount of financing granted by the company grew by 15 per cent to EUR 15,764 million. EUR 3,254 million in new loans were withdrawn during the year.

Funding acquisition was highly successful during the year. The company made its first issue in the pound market through a benchmark bond of GBP 300 million and strengthened its position as an investment target for the central banks of various countries. The largest individual arrangement was a benchmark bond of USD 1 billion. From the point of view of funding, the largest individual market area was still Japan. In funding, a total of 156 arrangements were entered into, their value totalling EUR 6,590 million. In Finland, three Municipal Bonds were issued, their value totalling EUR 8 million.



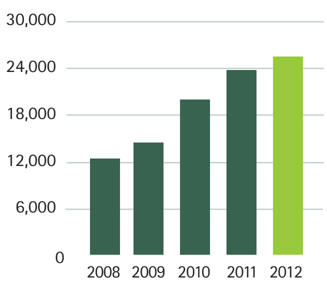
Reliability, an active approach and expertise

ensure competitiveness.

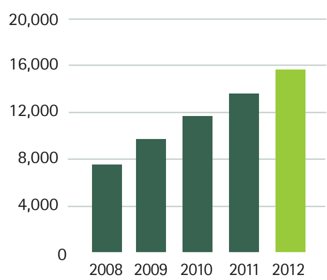
Key figures (Group)

	2012	2011	Change, %
Net interest income (MEUR)	142.4	94.2	51%
Net operating profit (MEUR)	138.6	65.3	112%
Lending portfolio (MEUR)	15,700	13,625	15%
Total funding acquired (MEUR)	22,036	20,092	10%
Balance sheet total (MEUR)	25,560	23,842	7%
Capital adequacy ratio, %	33.87%	24.13%	40%
Own funds (MEUR)	428.9	288.4	49%

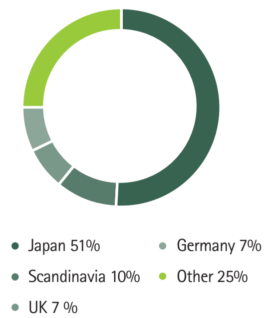
Balance sheet total 2008–2012 (MEUR)



Lending portfolio 2008–2012 (MEUR)



Funding by country in 2012



CEO's Review

During 2012, the economic situation in Finland declined with the general European development. Nevertheless, the Finnish public economy is still in good condition from the perspective of international comparison, which is shown by the highest possible credit ratings from all major rating institutions.

In the financial market, the nervous situation calmed down towards the end of the year after the worst crisis scenarios for the euro area have not currently realised.

The work to develop regulation in the financial sector that began from the financial crisis continued over the course of the year. A number of parallel projects are in progress which, when realised, will tighten the liquidity and capital requirements for the entire banking sector and increase the costs of regulation and control. With these developments, customers' financial expenses will also rise.

The intention is for the regulation to enter into force in phases over the following years. However, with regard to details, negotiations are still unfinished at the EU level and, therefore, the more precise schedule for entry into force continues to be open. The uncertain situation makes it more difficult for operators in the industry to plan their activities.

With the changes, the entire banking and financial sector – including Municipality Finance – will be forced to acquire significantly more own funds to maintain their operations so much as at the current level.

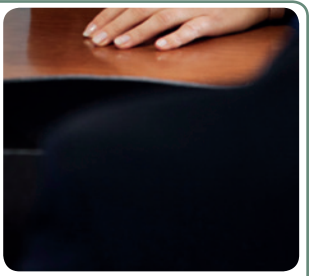
At Municipality Finance, measures were taken during the year with the aim of meeting the new requirements by developing our own operations. The most significant changes were made to the pricing and funding strategies, in addition to which we focused on enhancing the efficiency of our own operations. With these measures, the company's profit development was highly positive. The implemented strategy change is supported by the shareholders.

The change in strategy means that Municipality Finance seeks to increase its own funds required by the regulation using profits from its operations and will not wait around for a special position with regard to the capital requirements. This requires continuous development of our services according to our customers' needs, efficient operations and determined work to support our strong position in the international capital markets.

With regard to international funding acquisition by Municipality Finance, the year was successful. Finland and the Finnish municipality sector are still seen as an attractive investment target among investors seeking long-term and safe investments. We also managed to diversify our funding by extending it to different markets and new types of investors. We considered it particularly positive that the interest taken by the central banks of various countries in our benchmark bonds showed strong growth.

Already during the first half of the year, Municipality Finance accumulated 80% of the funding need for the entire year. The most significant transactions were a benchmark bond of USD 1 billion and our first issue in the pound market, a benchmark bond of GBP 300 million.

In customer financing, the growth of our loan portfolio remained at the level of previous years. The economy of the municipal sector is in relatively good condition, and municipalities are not particularly indebted from an international perspective. The relative indebtedness of municipalities has not increased significantly since 2009, as the available income has also grown.



The goal is to ensure **the best services** to our customers.

However, if the current development continues, the economy of municipalities will weaken and indebtedness may become a problem in the 2020s. The situation is recognised, and the Finnish Government has started a structural reform of municipalities with the aim of strengthening them financially.

We estimate that borrowing by municipalities will continue to grow moderately in the next few years, as municipalities still have a lot of investment needs. In addition, with the municipal reform, investment needs are likely to continue growing. At the same time, maintenance liabilities for the municipal infrastructure will increase.

During the year, Municipality Finance's subsidiary, Financial Advisory Services Inspira Ltd, strengthened its position as an expert in the financing of the energy sector and infrastructure projects, in particular. The need for Inspira's advisory services in the municipal sector grows continuously as various large investment projects and restructuring arrangements increase.

Municipality Finance continues to develop its operations with the aim of ensuring the best services for its customers and its ability for good performance in the future as well. The basic requirement is ensuring efficient operations and the professional skill of our staff.

I thank our customers, the company's staff and our other partners for successful cooperation during 2012.

Pekka Averio
President and CEO
Municipality Finance Plc

The diversification of funding
was increased

Municipality Finance acquires funding from international and domestic investors by issuing various types of bonds. The majority of the funding comes from foreign sources; their share of the entire funding is more than 99%. In practice, the part acquired from domestic investors comes entirely from Municipal Bonds.

The position of Finland is good in terms of international funding. Finland continues to be considered one of the best investment targets in the eurozone after Germany, and its bonds with an extremely low risk are in high demand in the world. In addition to the Finnish State, Municipality Finance holds a strong position when competing for these investors. The company, as the Finnish State, continues to be considered a safe haven among investors investing in public loans.

Municipality Finance's funding acquisition succeeded well in 2012 despite the general uncertainty in the financial market. The availability of funding remained very good throughout the year.

The position as trusted investment target was also reflected in the increased interest shown by institutional investors, such as central banks in benchmark bonds issued by Municipality Finance. Central banks subscribed to both the first pound-denominated benchmark bond in Municipality Finance's history issued in February and the USD 1 billion bond issued later in April.

The company issued a total of 156 separate loans during the year, through which a total of EUR 6.2 billion was acquired for the use of the Finnish municipal sector and state-subsidised housing production. Even though the average maturity of arrangements was kept at the level of the previous year, the costs of funding continue to be record-breakingly low due to the familiarity of the company among international investors and its high credit rating.

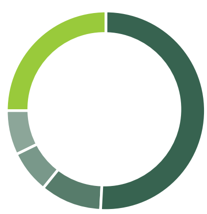
Funding acquisition also focused on further increasing diversification with the aim of entering into new markets and finding new investors. The launch on the pound market in February was the most visible of these operations. Overall, the share of Europe in funding grew slightly, but Japan continued to be the largest source country of funds with a share of 51 per cent. Besides domestic investors, Japanese private investors were provided with the possibility to invest in, for example, the Clean Energy bond directed at financing the Mustasaari waste energy power plant. It was the first bond in the world directed at one environmental investment and issued in two different markets at the same time.

It is Municipality Finance's goal to continuously increase both geographical diversification and diversification between different investor types in its funding. Diversification allows for better control over market risks and thus ensures the availability of funding during potential market disruptions, in accordance with the company's basic duty.

Funding by currency in 2012

- Japanese yen (JPY) 40%
- US dollar (USD) 23%
- Euro (EUR) 8%
- Norwegian krone (NOK) 6%
- UK pound sterling 5%
- Other currencies 18%

Funding by country in 2012



- Japan 51%
- Scandinavia 10%
- UK 7 %
- Germany 7%
- Other 25%

The innovative Clean Energy bond

In the spring of 2012, Municipality Finance issued the first bond focusing on an individual environmental investment simultaneously in Finland and Japan. The Clean Energy bond was used to finance Westenergy's new bio waste energy power plant, which was under construction in Mustasaari.

By subscribing to the Clean Energy bond, private investors could for the first time safely and directly invest in a specific environmental project. The intention was to serve those investors in particular who are interested in ethical investment and who want to choose their investment targets more precisely and certainly.

In Japan, the Clean Energy bond achieved great success among private investors. Due to the high demand, three different Clean Energy bonds in a row were issued there. The Clean Energy bond demonstrates Municipality Finance's innovative approach of arranging financing for various purposes.

Liquidity is invested in a securing manner

Municipality Finance seeks to acquire funding in a front-loaded manner and to continuously secure its liquidity, which ensures the continuity of undisturbed operations for the next six months, including new customer financing. At the end of 2012, the liquidity buffer was approximately 14 months.

In its investment operations, the company follows a conservative policy, according to which funds are invested in liquid fixed-income instruments with high credit ratings. Investments totalled EUR 6.2 billion at the end of 2012 and the average credit rating of investments was at the AA level.

The focus area of investments was shifted in an even lower-risk direction over the course of the year. Investments in covered bonds and debt securities issued by states and other public sector entities in the economically strongest countries were increased. The average maturity of the investment portfolio increased slightly to 2.97 years (2011: 2.7) over the year, mainly due to the increase in covered bonds. From time to time, the company increased central bank deposits according to market conditions to secure the best liquidity.

For Municipality Finance, the most important criterion for investments of liquid funds is the security of the investment and the stability of its valuation. A good indication of this was that during 2012 Municipality Finance was able to retain the average credit rating of its own liquidity investment portfolio unchanged compared with the end of 2011 despite the overall downward trend in the credit ratings of investments. Even though the main goal of the company's investment strategy is the security of investments, the return on the company's portfolio has also met the targets set for it.

The first international safe bond with an **environmental focus.**

Municipality Finance's financing operates under all conditions

Municipality Finance's customer financing comprises the financing of municipalities, municipal federations, municipality-controlled entities and state-subsidised social housing production. The majority of the financing is long-term. The total amount of loans granted by Municipality Finance to its customers totalled EUR 15.7 billion at the end of 2012, which was 15 per cent more than a year previously.

Municipality Finance's strength in customer financing is not only its competitive pricing, but also its ability to offer long-term financing. The longest loan arrangements have been as many as 41 years even under the current uncertain market conditions. Municipality Finance also assists its customers in planning various types of financing arrangements and in loan portfolio interest risk hedging issues.

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

Financing 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 students.

Municipality Finance's share of the financing of its customers has been high in recent years. In 2012, its market share of lending to both municipalities and social housing production amounted to approximately 80 per cent.

Growing investment needs

Municipalities' investment needs have grown rapidly in the 2000s. The main reason for this is the strong increase in municipalities' statutory functions. According to a report by the Ministry of Finance, Finnish municipalities have more than 500 mandatory functions, whose main focus is naturally on health care, social services and education. In addition to this, municipalities bear a significant responsibility for developing and maintaining society's other infrastructure.

Taking this into account, the growing indebtedness of municipalities during the previous decade was inevitable. Despite the growth of debt in absolute terms, municipalities' relative indebtedness has not increased at all since 2009, as the income available to them has also grown correspondingly. However, debt will become a problem in the 2020s if the amount of debt is allowed to increase at the current pace.

In 2012, the total demand for loans was higher than in the previous year. The growth was the highest in the loan demand by municipalities and municipal federations and in housing loans. In housing loans, demand was increased by the conversions of state-subsidised loans to financial institution loans.

In state-subsidised production of new housing, loan demand declined slightly. During the year, construction of both rental housing and housing for special groups was started on the basis of interest subsidy decisions made in the previous year. In 2012, customers applied for decisions concerning only a few rental building projects. If the situation continues unchanged, this predicts an even more severe shortage of reasonably priced rental housing, particularly in the Helsinki metropolitan area and other growth centres.

Loan demand by municipality-owned entities was at the level of the previous year. Infrastructure projects were emphasised in loan demand, such as the construction of traffic routes. Energy sector financing focused on energy-efficient projects utilising domestic fuel.

Certainty for the future

As a result of the European financial crisis, Municipality Finance's customers are also experiencing growing concern about the availability of financing for the municipal sector. During its history, Municipality Finance has secured the availability of financing for municipalities and state-subsidised housing production during both the recession at the beginning of the 1990s and the financial crisis in 2008, despite the fact that banks withdrew from municipalities' loan market almost entirely at both times.

It is the duty of Municipality Finance to ensure the availability of competitive financing for its customers under all market conditions. This requires responsible funding acquisition and a conservative investment policy, due to which Municipality Finance's own financing risks can be minimised. At the same time, liquidity buffers are kept sufficiently large in case of market disturbances.

Municipality Finance financed an award-winning right-of-occupancy building

White art pillars add rhythm to the façade of a residential building located at Kaanaankatu 6 in Helsinki. In 2011, Huttunen-Lipasti-Pakkanen Architects won the Concrete Façade architectural award for these art pillars, which the sculptor Pekka Kauhanen designed to be part of the structure of the façade.

Kaanaankatu 6 is located in the Arabianranta district. The design of the building precisely complied with the aims of the owner of the building, Helsingin Asumisoikeus Oy HASO, according to which new residential areas are built to be magnetic and individual in a manner that is economically, ecologically and socially sustainable.

It was decided to implement the financing of the Kaanaankatu right-of-occupancy site through a long-term interest subsidy loan obtained from Municipality Finance after competitive bidding.

HASO's aims are to increase the supply of housing taking various population groups and situations in life into account, improve housing conditions while committing to the values of sustainable development, balance the housing market and develop financing alternatives. HASO's operations are guided by the Right-of-Occupancy Housing Act and decisions made by city administrative bodies.

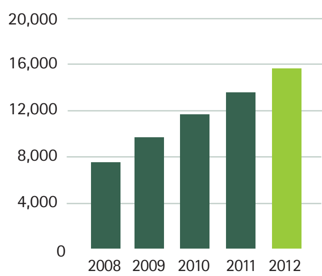
Picture Hannu Koivisto

MuniFin is the **major financier** for special groups' housing.

Lending portfolio by customer type

Lending portfolio by rate type

Lending portfolio 2008–2012 (MEUR)



More leasing options for **municipalities**

Municipality Finance began providing financial leasing services to its customers in the summer of 2010. In 2012, Municipality Finance introduced real property leasing as a new product to the market.

The financial leasing market of the municipal sector in Finland is undergoing a phase of strong development. The key principles of Municipality Finance's financial leasing services are transparency and making solutions easy to understand.

In practice, the competitiveness of a leasing option is based on the fact that, excluding variable interest rates, all other expenses of the agreement are known to the customer and thus predictable throughout the term of the agreement. Leasing as a financing solution can help customers to 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.

Significant objects for financial leasing in the municipal sector are acquisitions of vehicles and information technology, but it is also used for the acquiring of various medical care machinery and equipment. Medical equipment is typically expensive, and acquiring it through leasing is a noteworthy option due to the quick development of the technology.

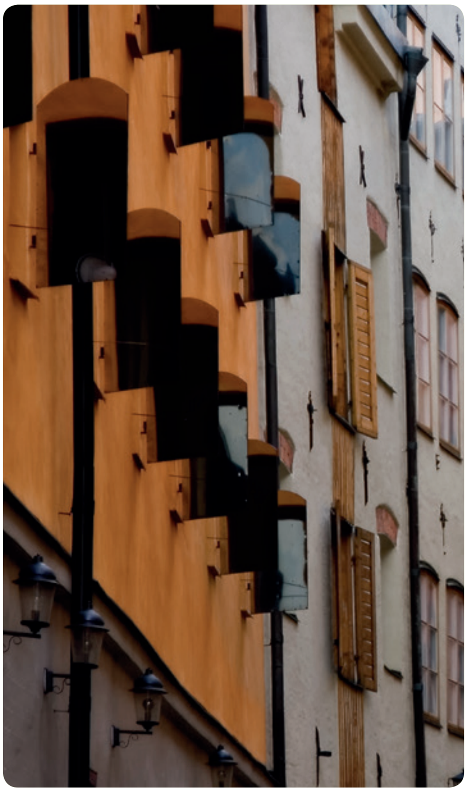
Leasing involved in outsourcing

The trend among municipalities to outsource their services to service providers has also led to changes in the use of leasing. Currently, Municipality Finance may be involved as a third party in outsourcing agreements in the role of a financier. In these agreements, the outsourcing partner offers the actual service, but the municipality may itself acquire the real properties, machinery and equipment needed in the service through lease financing. This enables a more efficient tender process for the outsourcing and, at the same time, the municipality may retain the infrastructure responsibility for the services.

In 2012, there was also high interest in various leasing-based facility agreements for which we received a large number of enquiries. The extensive interest in facility agreements predicts growth in the popularity of leasing in the next few years.

Municipality Finance's goal is still to diversify its supply of leasing services in the future and, among other things, offer services aimed at life cycle management of capital assets. The demand for these is clearly growing in the municipal sector as well.

Leasing services **diversify financing options.**



A bio power plant doubled the use of wood fuel in Kuopio

Kuopio Energy built a new power plant, Haapaniemi 3, which mainly uses domestic, renewable fuels. The main fuel is peat. It is estimated that, during the initial years, approximately 25% of fuel needs will be met by using wood and reed canary grass.

The Haapaniemi 3 plant was introduced in 2012, and the use of wood fuels has more than doubled during its first year of operations. The share of wood may increase up to 70%.

The combustion technology of the heat boiler reduces carbon dioxide emissions by approximately 50%, particulate emissions by approximately 80%, sulphur dioxide emissions by approximately 80% and nitrogen oxides by approximately 60%.

The construction of Haapaniemi 3 was partly financed with the help of Municipality Finance and the European Investment Bank, EIB. Municipality Finance's share was EUR 35 million and the EIB contributed EUR 60 million.

A changing operating environment is a **challenge for the organisation**

Over the past ten years, Municipality Finance's organisation has grown from a close team of approximately 30 people to a company with more than 70 employees composed of top experts in various fields. At the same time, changes in the financial market have significantly altered the operating environment of the organisation.

Guiding an expert organisation that has grown fast is a demanding task. With the strong development of the working community and the rapid changes in the operating environment, it is particularly challenging to quickly create new functioning practices for the various processes and at the same time create an ever closer team spirit. Understanding of process-based operations and clearly defined procedures assist in this challenge.

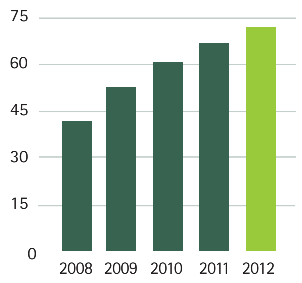
There are also training challenges for staff posed by the many changes related to the actual professional expertise. Changing regulation continuously sets new requirements for risk management experts in particular, and, on the other hand, requires continuous development of processes and information systems. This, in turn, requires extensive and diversified expertise in financial instruments, the company's business operations and regulation.

A particularly significant change in the organisation's expertise requirements will come from the tightening of the regulation of derivatives trading. Municipality Finance continuously uses derivatives to hedge against risks related to the products it uses, and they play a large role in the company's operations. When the derivative clearing practices change in the future, all the company's processes related to these products must be renewed and the staff's know-how must be augmented to correspond to the new regulation and market practices. Municipality Finance has launched a joint Nordic investigation and planning project related to the matter with the aim of creating the necessary abilities in good time in advance.

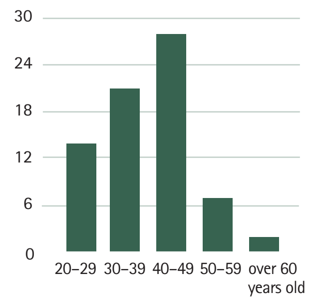
With growth, Municipality Finance has invested in developing human resources administration and building practices that support the changes in the organisation. In 2012, a new human resources management system was introduced, which collects all information on personnel. The system assists both individual managers and more broadly the entire organisation in charting expertise and the related planning of training, for example.

It is important to Municipality Finance that it has motivated staff who enjoy their work. For this reason, the company implemented a work satisfaction survey in the autumn of 2012. Its results will be utilised in the development of managerial work and other human resource practices. The survey will be implemented in the same form three years in a row so that we can obtain sufficiently reliable comparison data on the subjects contained therein, and thereby direct development work to matters experienced to be the most essential.

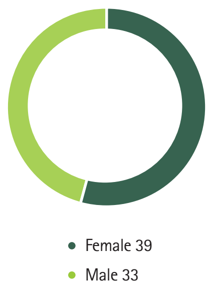
Number of employees 2008–2012



Employees by age



Employees by gender



Changing regulatory
demands
more skills.

Inspira is a financing expert

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 its financial arrangements with more versatility, more cost-effectively, with higher quality and on a faster schedule.

Inspira's strength is knowledge of the special needs of the public sector. The company's experts assist municipalities and cities, state administration, companies and organisations in planning investment projects and restructuring arrangements and in implementing the arrangements. Inspira acts as an advisor for both the public sector and various parties in the private sector.

Inspira has two service areas: it carries out financial restructuring as well as mergers and acquisitions for its clients and acts as a financial advisor in various investment projects.

In project financing, the company produces plans for the arrangement of financing for various projects from feasibility studies to final financing agreements and the necessary after-care. Inspira's experts support their customers throughout the investment project, ensuring the smooth implementation of the project with regard to financing and the related contractual technique. The main customer benefit comes from the competent planning of the actual financing arrangement. As a result of Inspira's expertise, the solutions implemented are typically clearly less expensive for the customer than conventional solutions.

In financial restructuring, mergers and acquisitions, Inspira focuses on public sector clients. Typical projects include, for example, reorganising or incorporating operations, establishing joint enterprises or divesting certain activities. Inspira's experts also act as advisors in organisational reforms and the implementation of ownership arrangements. In these projects, the company assists in the systematic and efficient follow through with the arrangements.

Changes in municipal structure increase demand

The demand for Inspira's services increased during the year particularly with regard to various restructuring arrangements in areas such as the well-being and care sectors, aiming to rationalise activities to achieve higher efficiency. New customers were also gained in the financing arrangements for the energy sector.

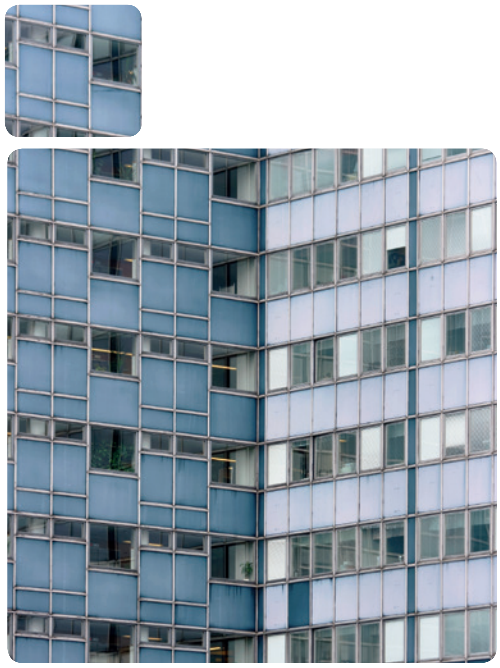
During the year, Inspira also joined the ATRA project financed by TEKES – the Finnish Funding Agency for Technology and Innovation. The project investigates alternative financing models for new regional building in cooperation with Aalto University, the construction company SRV Plc, the municipality of Tuusula and the City of Tampere. The project is led by Professor Kauko Viitanen from Aalto University.

In 2012, an on-going phase of change was clearly seen in Inspira's operations. The key matter related to it is the reform of municipal structure. With the changes, the demand for Inspira's services is expected to increase further.

The efficiency of the public sector's service provision structure must be enhanced in the future, which means major rearrangements. With the change in the municipal structure, municipalities' investment needs are also expected to increase. At the same time, municipalities continuously accumulate more maintenance liabilities for real properties and the water and sewage network, for example. Dealing with these tasks efficiently in terms of financing as well more often requires the use of expert services.

Typical projects

- Reorganisation or incorporation of operations
- Establishing a regional public utility municipal federation or a joint enterprise between municipalities
- Joint enterprises with market operators
- Sales or purchases of property
- Organisational reform
- Restructuring arrangements when a public sector operator is involved



Inspira acts as an advisor in Puhuri's wind power project

Inspira acted as an advisor to Puhuri Oy in a wind park project planned for the village of Kopsa in Raahe. Seven three-megawatt wind power units are under construction for Puhuri's Kopsa1 wind park. After completion, they will annually generate electricity for the needs of approximately 5,000 electrically heated terraced houses or detached houses of 120 square metres.

Inspira was responsible for providing economic and financial advice for the project, including the economic modelling of the project and the coordination of the financial process.

The intention is to complete the construction work for the wind park in the spring of 2013, and all turbines are expected to generate electricity by June 2013. Puhuri Oy's aim is to be a nationally significant wind power company that produces environmentally friendly electricity in order to curb climate change. Puhuri intends to construct wind power in locations that are windy but sensible from the point of view of the environment and people.

Independent advisor

of financial solutions.

Municipality Finance Corporate Governance Statement 2012

The following statement on Municipality Finance's Corporate Governance in 2012 is in compliance with Chapter 2, Section 6, of the 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

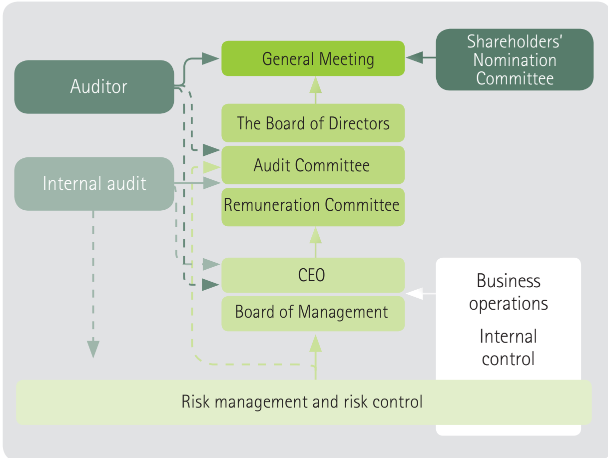
Corporate Governance Policy

The Board of Directors of the parent company confirmed Municipality Finance's internal Corporate Governance Policy in 2005. The Policy was last updated in the summer of 2012. 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, where applicable, 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 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

Municipality Finance has a Shareholders' Nomination Committee established by the Annual General Meeting, which is charged with making a proposal to the Annual General Meeting on the number of members of the Board of Directors, candidates for election to 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 at 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 are Keva, the Finnish state and the City of Helsinki. The three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2012 Annual General Meeting:

- Sampsa Kataja (Member of Parliament, Chairman of the Board of Directors, Keva until 25.1.2013), 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 three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2013 Annual General Meeting:

- Sampsa Kataja (Member of Parliament, Chairman of the Board of Directors, Keva until 25.1.2013), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Jussi Pajunen, Mayor, City of Helsinki)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities).

The Shareholders' Nomination Committee convened for the 2012 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 2013 Annual General Meeting and the Board

The Board of Directors

Top row from left to right: Sirpa Louhevirta, Tapio Korhonen, Teppo Koivisto, Juha Yli-Rajala and Asta Tolonen
Bottom row from left to right: Eva Liljeblom, Fredrik Forssell and Ossi Repo

of Directors to be elected at the meeting will be published as an appendix to the invitation to the 2013 Annual General Meeting and made available on the company's website.

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 Limited Liability 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 contact with the internal audit and the auditor and, in this way, obtains independent information on the company's status. 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 employment of the CEO and Deputy to the CEO and decides on the principles of the remuneration system.

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.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2012 Annual General Meeting elected the same persons to the Board of Directors who were members of the Board of Directors in the 2011–2012 term (from the Annual General Meeting to the next Annual General Meeting):

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: Municipal Manager, Municipality of Suomussalmi
- 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: Group Director, City of Tampere
- Independence: Independent of the company and its significant shareholders

Convocation of the Board of Directors

The company's Board of Directors has confirmed its rules of procedure, which form a 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 2012 financial year the Board of Directors convened eight times. The average attendance rate of Board members at these meetings was 94%. The Board conducts an annual independent assessment of the effectiveness of its work and the quality of the performance of its duties.

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 own members, the chairmen and the members of these 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 2012 financial year were:

- Tapio Korhonen, Chairman
- Fredrik Forssell
- Sirpa Louhevirta

The Audit Committee convened a total of four 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 remuneration system, assessment of whether the objectives are attained, development of the remuneration system and the remuneration and other benefits for the CEO and the Deputy to the CEO.

The members of the Remuneration Committee at the end of the 2012 financial year were:

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

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

Board of Management

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

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 of Directors. 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 2012 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, CRO, Risk management & IT

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

Marjo Tomminen, Senior Vice President, CFO, Finance and Business Development

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

Mari Tyster, Senior Vice President, Administration and Legal Affairs

- At Municipality Finance since 2009
- Education: Master of Laws
- Year of birth: 1975

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

Municipality Finance is, due to the nature of its operations, 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 included in day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives.

Risk 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 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 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 the summer of 2012.

As part of the effective implementation of internal audit and risk management, the Board of Directors has confirmed the company's operating principles for internal audit, the annual audit plan for internal audit as well as the key principles concerning regulatory compliance (as part of the operating policies), the information security policy, the 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 2012, and the current plan extends to 2018. The long term horizon for capital adequacy planning is related to the changes in the regulation of credit institutions that are currently being planned at 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 consideration for 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 trading book or share or commodity positions. However, the company does not have an open exchange rate risk position.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. The company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the director responsible for risk management prepares a broader overall review of the company's risk standing in relation to various risk areas to the Board of Directors every six months.

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 administration 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 procedures include regular routines pertaining to the reconciliation of accounts and transactions and payment traffic processes that always follow the four-eye principle. Some of the control measures are automated by the company's information systems while some 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; 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 are part of the normal processes of functional areas and departments. In addition, the department charged with the supervision of overall risk has the general responsibility of coordinating the management of operational risks. The company conducts an annual survey of operational risks. The survey evaluates risks and their probability of realisation and effects and decides on means of managing the risks in question.

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. Besides the credit risk group, the company has an Asset and Liability Management group, which outlines strategic policies related to market, liquidity and funding risks and, with regard to these, is responsible for risk management principles. 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. In 2012, a business development department was established at the company. Its duty is to manage development projects according to the project model in use at the company.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the company's legal affairs and compliance department. 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.

The company conducts annual stress testing to evaluate the impact of various scenarios on financial development (including the need for capital).

Regular external reporting on the company's operations to the Finnish 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 auditing to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's legal affairs and 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 2012 financial year were 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 2012 financial year were KPMG Oy Ab with Raija-Leena Hankonen, Authorised Public Accountant, as the responsible auditor until the 2012 Annual General Meeting and, after that, Marcus Tötterman, Authorised Public Accountant.

Municipality Finance

Financial statements

1 Jan–31 Dec 2012

Report of the Board of Directors

Summary of 2012:

- The Group's net operating profit totalled EUR 138.6 million (2011: EUR 65.3 million). The growth was 112% year-on-year.
- Net interest income grew by 51% compared with the previous year, totalling EUR 142.4 million (2011: EUR 94.2 million).
- The balance sheet total stood at EUR 25,560 million (2011: EUR 23,842 million). The balance sheet grew by 7% compared with the end of the previous year.
- The Group's risk bearing capacity continued to be very strong, with capital adequacy ratio at 33.87% at year-end (2011: 24.13%) and the capital adequacy ratio for Tier 1 capital at 26.22% (2011: 19.04%).
- Total funding acquisition for 2012 amounted to EUR 6,590 million (2011: EUR 6,673 million). The total amount of funding grew to EUR 22,036 million (2011: EUR 20,092 million).
- Lending increased to EUR 15,700 million (2011: EUR 13,625 million). In total, 17% more loans were withdrawn than in the previous year, amounting to EUR 3,254 million (2011: EUR 2,780 million).
- Focus on the development of financial leasing operations that started in 2010 continued strongly. The leasing portfolio stood at more than EUR 64 million at the end of the year (2011: EUR 30 million).
- Investments totalled EUR 6,224 million at the end of 2012 (2011: EUR 5,640 million).
- The turnover of Municipality Finance's subsidiary, Inspira, stood at EUR 1.8 million (2011: EUR 2.2 million). Net operating profit at the end of 2012 totalled EUR 0.2 million (2011: EUR 0.4 million).

Key figures (Group):

	31 Dec 2012	31 Dec 2011
Net interest income (MEUR)	142.4	94.2
Net operating profit (MEUR)	138.6	65.3
New loans issued (MEUR)	3,254	2,780
New funding acquisition (MEUR)	6,590	6,673
Balance sheet total (MEUR)	25,560	23,842
Own funds (MEUR)	428.9	288.4
Capital adequacy ratio of for Tier 1 capital (%)	26.22	19.04
Capital adequacy ratio (%)	33.87	24.13
Return on equity (%) (ROE)	38.04	27.08
Cost-to-income ratio	0.14	0.23

The calculation formulas for the key figures are given on page 36.
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

The credit ratings of the company's long-term funding are the best possible:

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

In January 2013, Standard & Poor's confirmed Municipality Finance's AAA credit rating and, at the same time, changed the outlook from negative to stable.

The Municipal Guarantee Board's credit ratings

The Municipal Guarantee Board guaranteeing the company's funding has the best possible credit ratings for long-term funding:

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

In January 2013, Standard & Poor's confirmed the Municipal Guarantee Board's AAA credit rating and, at the same time, changed the outlook from negative to stable.

Operating environment in 2012

The uncertain conditions on the international financial markets calmed down somewhat towards the end of the year, despite the lengthening of the European sovereign debt crisis and the decline in the overall economic conditions in many countries. The strong intervention by the European Central Bank through increasing financing to the European banking sector had a significant soothing effect on the financial market.

During the year, companies in the financial and banking sector launched measures to adapt to the Basel III regulation in the future. The most important pressures for change are caused by the tightening requirements for the amount and quality of equity for operators in the industry and the increase in liquidity requirements.

In addition, the financial market tax being planned in a number of EU countries, the bank tax that will enter into force in Finland and the new requirements related to the supervision of banks will significantly increase the operating costs of the financial sector in the next few years. The changes require more efficient operations and may result in banks focusing on the most profitable business in the private sector.

Municipality Finance is an important part of the basic financial structure of Finnish society and the only financial institution exclusively specialising in the municipal sector in Finland. In 2012, Municipality Finance as the largest lender for the municipal sector ensured the availability of financing to its customers in the normal manner. Funding acquisition by Municipality Finance focused on the early part of the year, and the company's liquidity was good throughout the year. The company's strong position and well-performing risk management are also reflected in its credit ratings, which are assessed by rating agencies as the highest possible.

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 financing 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. Its services include the analysis and arrangement of various forms of financing for public sector investments. In addition, Inspira offers its services for different public sector ownership arrangements by planning the services, 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 international operating environment, the Group's net operating profit was excellent. The growth of business continued and net operating profit for the financial year before appropriations and taxes stood at EUR 138.6 million (2011: EUR 65.3 million). Net operating profit grew by 112% year-on-year. The Group's net interest income amounted to EUR 142.4 million (2011: EUR 94.2 million).

Municipality Finance's net operating profit was EUR 138.5 million (2011: EUR 65.0 million). Compared with the previous year, net operating profit was improved by the increase in business volume, the increase in the margins of new loans, excellently performing funding, successful balance sheet management and repurchases of the Company's own bonds. Income from repurchased bonds totalled EUR 9.7 million in 2012 (2011: EUR 2.3 million), which is recognised under net interest income. The result includes EUR 15.8 million of unrealised fair value changes recorded based on valuations (2011: EUR -11.5 million).

The net operating profit of Municipality Finance's subsidiary, Inspira, for 2012 was EUR 0.2 million (2011: EUR 0.4 million).

Expenses

The Group's commission expenses totalled EUR 3.2 million at the end of the year (2011: EUR 2.9 million). Operating expenses increased by 15% during 2012, reaching EUR 19.4 million (2011: EUR 16.9 million). The growth in expenses was mainly due to an increase in personnel resulting from changes in business volume and the Company's operating environment, and on-going system development projects.

Administrative expenses totalled EUR 13.5 million (2011: EUR 12.1 million), of which personnel expenses accounted for EUR 9.2 million (2011: EUR 8.3 million). Depreciation on tangible and intangible assets amounted to EUR 1.1 million (2011: EUR 0.8 million). Other operating expenses stood at EUR 4.9 million (2011: EUR 4.0 million).

Balance sheet

The consolidated balance sheet total amounted to EUR 25,560 million at the end of 2012, compared to EUR 23,842 million at the end of the previous year. The majority of the balance sheet development was due to growth in business volume and changes in the valuation of balance sheet items.

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 was extended from three years to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds in relation to the increasing capital requirements arising from changing regulation and to be able to react to potential additional needs for capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The Company updated its capital adequacy plan in December 2012.

Controlling capital adequacy is continuous and an essential part of the Company's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in cooperation with the management and the Board, and the Board of the Directors approves the final strategy. The management ensures that the Company's operational measures correspond to 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. The Company's risk position and its effect on the Company's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring 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 monitored in monthly business analyses.

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operational 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. As the Company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the Company's currency position is very small and it is not necessary to reserve capital for the currency 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 for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Municipality Finance Group's own funds totalled EUR 428.9 million at the end of the year (2011: EUR 288.4 million). The Group's Tier 1 capital totalled EUR 331.9 million at the end of 2012 (2011: EUR 227.6 million). No provision for dividend distribution was made for Tier 1 capital, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its proposal for 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 Tier 2 capital totalled EUR 96.9 million at the end of the year (2011: EUR 60.8 million). Detailed descriptions of the subordinated loans and debenture loans included in own funds are included in Section 15 in the notes to the Group.

The Board of Municipality Finance applied to the Finnish Financial Supervisory Authority for permission to repay the "Upper Tier II loan 1/2008" bond of EUR 40 million. The Finnish Financial Supervisory Authority granted permission at the end of January 2013, and the Company will repay the loan on 31 March 2013. In the financial statements, the loan is still fully included in own funds and capital adequacy. Without the loan, the Group's capital adequacy would have been 30.71%.

The Group's capital adequacy developed favourably during the year. The capital adequacy ratio stood at 33.87% at the end of 2012, compared to 24.13% in 2011. The capital adequacy ratio for Tier 1 capital was 26.22% (2011: 19.04%).

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8% pursuant to the Act on Credit Institutions, was EUR 101.3 million (2011: EUR 95.6 million). The capital adequacy requirement for credit risk tied up the largest amount of the Group's own funds at EUR 91.0 million (2011: EUR 87.9 million), the most significant items being claims on credit institutions and investment firms, as well as securitised items.

Consolidated own funds, Group

(EUR 1,000)	31 Dec 2012	31 Dec 2011
Share capital	42,583	42,583
Minority interest	168	241
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	135,434	84,703
Profit for the financial period	104,510	50,731
Capital loans	11,009	11,009
Intangible assets	-2,399	-2,273
TOTAL TIER 1 CAPITAL	**331,948**	**227,637**
Fair value reserve	21,927	-14,210
Subordinated liabilities included in upper Tier 2 capital	40,000	40,000
Subordinated liabilities included in lower Tier 2 capital	35,000	35,000
TOTAL TIER 2 CAPITAL	**96,927**	**60,790**
TOTAL OWN FUNDS	**428,875**	**288,427**

Risk-weighted receivables, Group

(EUR 1,000)	31 Dec 2012	31 Dec 2011
Credit risk, standard method	**1,137,809**	**1,098,808**
Minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	45,549	45,627
Covered bonds	13,528	9,797
Securitised items	28,755	29,619
Other items	3,192	2,861
Total credit risk, standard method	91,024	87,904
Market risk	0	0
Operational risk, basic method	10,270	7,722
TOTAL MINIMUM REQUIREMENT OF OWN FUNDS	**101,294**	**95,627**
CAPITAL ADEQUACY RATIO FOR TIER 1 CAPITAL, %	26.22%	19.04%
CAPITAL ADEQUACY RATIO, %	**33.87%**	**24.13%**

Funding

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

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

Municipality Finance's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as Municipality Finance. The Municipal Guarantee Board has granted a guarantee for the debt programmes and funding arrangements outside the programmes; as a result, debt instruments issued by Municipality Finance are classified as zero-risk when calculating the capital adequacy of credit institutions in Finland and several other European countries.

In 2012, EUR 6,590 million was acquired in long-term funding (2011: 6,673 million), of which Municipal Bonds issued under the domestic debt programme amounted to EUR 8 million (2011: EUR 18 million). The Company issued bonds denominated in 16 different currencies in 2012. A total of EUR 4,239 million was issued in short term debt instruments under the Treasury Bill programme in 2012 (2011: EUR 3,168 million). Total funding at the end of the year amounted to EUR 22,036 million (2011: EUR 20,092 million). Of this total amount, 16% was denominated in euros (2011: 16%) and 84% was denominated in foreign currencies (2011: 84%).

International funding

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

The Company concluded a total of 156 arrangements in international funding markets (2011: 222). In February 2012, Municipality Finance concluded its first inaugural arrangement in the sterling market: GBP 300 million. In April 2012, a benchmark-sized bond of USD 1.0 billion was issued successfully. Through these funding arrangements, Municipality Finance further diversified its sources of funding. Both issues were successful despite the challenging market conditions, allowing Municipality Finance to further expand its investor base.

The year 2012 was characterised by continued restlessness on the markets. As the European crisis continued, investors sought safe harbours for their assets. Supported by the stability and solid reputation of the Finnish local government sector, Municipality Finance was seen as a safe alternative by investors. Active work among 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. Despite the challenges, the company has managed to keep funding costs at a competitive level.

Domestic funding

In 2012, three Municipal Bonds were issued under the domestic debt programme (2011: seven). These were issues to the public.

Customer financing

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 financier to its customers and is clearly the largest single operator in its customer segment.

Long-term lending

In 2012, investments by municipalities and municipal federations and the resulting financing requirements of the municipal sector remained at the previous year's level. The growth in housing loans was higher than estimated at the beginning of the year. This increase in the demand for housing financing is largely due to customers looking to refinance their old, expensive state-subsidised housing loans with new market-based loans.

In addition to loans, Municipality Finance offers municipalities, municipal federations and municipal enterprises customised derivative agreements for the management of interest rate risks. During 2012, the demand for derivatives used for hedging was high. As interest rates remained low, customers hedged their loans against interest rates that will possibly rise in the future.

The total number of tender requests received by Municipality Finance in 2012 increased by 13% compared with 2011. The total value of tender requests received was EUR 4,515 million (2011: EUR 3,988 million), of which it won EUR 3,284 million (2011: EUR 2,729 million). Market share was 80% of all competitive bidding for financing among Municipality Finance's customer base in 2012.

Tenders worth EUR 1,822 million were won in the municipalities and municipal federations segment (2011: 1,409 million), EUR 373 million in the municipal enterprises category (2011: EUR 433 million) and EUR 1,089 million in bids to housing corporations (2011: EUR 887 million). The Company's long term loan portfolio at the end of 2012 amounted to EUR 15,700 million (2011: EUR 13,625 million). This represents an increase of 15% on the previous year. New loans withdrawn amounted to 17% more than in 2011, or EUR 3,254 million (2011: EUR 2,780 million).

Municipality Finance's market share remained at a high level. As a result of the debt situation in European countries and insecurity in the financial sector caused by the new bank regulations, the competitive environment 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. Leasing services were launched in 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 facility agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is increasingly seen as a viable alternative, particularly for procurement by municipal corporations engaging in municipal operations and hospital districts. Early in 2012, Municipality Finance also began offering financial real estate leasing services to municipalities as an alternative to traditional modes of financing.

Short-term lending

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

As the interest level stayed low throughout 2012, customers continued to actively use short-term financing. At the end of 2012, the total value of municipal commercial paper and municipal company commercial paper programmes concluded with Municipality Finance was EUR 3,054 million (2011: EUR 2,786 million). At the end of the year, the Company had EUR 753 million in municipal commercial papers and municipal company commercial papers issued by municipalities and municipal corporations on its balance sheet (2011: EUR 534 million), and during the entire year, customers acquired EUR 9,109 million in financing under short-term programmes (2011: EUR 5,758 million).

Investment operations

Municipality Finance's investment operations comprise the investment of funds acquired in advance in liquid financial instruments 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 sufficient to cover the liquidity needs of continued undisturbed operations for at least the six following months. The Company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. In addition, the Company has other investments that are not included in liquidity.

At the end of 2012, security investments totalled EUR 5,895 million (2011: EUR 5,055 million), and their average credit rating was AA (2011: AA+). The average repayment period of the security portfolio stood at 2.97 years at the end of 2012 (2011: 2.72 years). In addition, the Company had EUR 329 million in other investments (2011: EUR 585 million), of which EUR 228 million were in central bank deposits (2011: EUR 556 million), EUR 51 million in money market deposits in credit institutions (2011: EUR 29 million) and EUR 50 million in repurchase agreements (2011: -).

Liquidity remained good throughout 2012. New investments were mainly made in covered bonds, bonds issued by states and banks, certificates of deposit of less than one year and in the central bank as short-term deposits.

The Company has no investments in bonds of Southern European states or other significant investments in Southern Europe.

Inspira

In 2012 Inspira's turnover was EUR 1.8 million (2011: EUR 2.2 million). Net operating profit for the period totalled to EUR 0.2 million (2011: EUR 0.4 million).

Turnover comprised a wide range of assignments related to financing solutions for public sector investments as well as various reorganisations of activities in the municipal sector. Inspira acted as an advisor in 68 assignments during the year. Assignments related to investment financing accounted for 60% of turnover, and assignments related to reorganisation of activities for 40%.

Governance

Corporate Governance Policy

The Board 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 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, where applicable, with Finnish Financial Supervisory Authority Standard 1.3 on "Internal Governance and Organisation of Activities".

The Board 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 2012 (as a 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.

Municipality Finance's Corporate Governance rules are available in Finnish, English and Swedish online on the Company's website (www.munifin.fi).

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 27 March 2012. The Annual General Meeting confirmed the financial statements for 2011 and discharged the members of the Board of Directors, the CEO and the Deputy to the CEO from liability for the said period. In addition, the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 144,330.52 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the Annual General Meeting decided that the Board of Directors shall have eight members during the 2012-2013 term of office and elected the members of the Board of Directors. The Annual General Meeting also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

The meeting also elected KPMG Oy Ab as the auditor of the Company, with Marcus Tötterman, APA, as the accountable auditor.

Board of Directors

At the Annual General Meeting on 27 March 2012, according to the proposal of the Shareholders' Nomination Committee, all members of the then Board of Directors were re-elected for the term that started at the end of the Annual General Meeting of 2012 and terminates at the end of the following Annual General Meeting. The Annual General Meeting elected the following members to the Board of Directors: 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 for the preparation of matters an Audit Committee and a Remuneration Committee. 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

Municipality Finance Group employed 72 people at the end of 2012 (2011: 67), of whom 61 worked for the parent company (2011: 57). Salaries and fees paid to the staff totalled EUR 7.4 million in the Group (2011: 6.7 million).

The President and CEO of Municipality Finance is Pekka Averio. 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, Senior Vice President Marjo Tomminen and Senior Vice President Mari Tyster. Senior Vice President Mari Tyster was appointed as a member of the Board of Management effective 1 June 2012.

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 fixed remuneration (base salary and fringe benefits) and 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 remuneration. A more detailed description of salaries and remuneration is available in Section 38 in the notes to the parent company.

Internal audit

The audit work of internal audit has been outsourced to Deloitte & Touche Ltd. The Company's Legal Affairs and Compliance department 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 require sufficient risk management mechanisms to ensure that the Company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk at such a low level that the Company's strong 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 department is responsible for the use of counterparty limits in the Company's investment operations. The Treasury department is in charge of the management of the risk position of the balance sheet with regard to market and financial risks. The Company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance carries out regular risk analyses of various risk areas. 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.

A comprehensive stress test is conducted at the Company annually by an independent external party. The main aim for the test conducted in the autumn of 2012 was to analyse the development of Municipality Finance's equity and its range in 2012–2017. The test included to operational market and credit risks and their estimated financial impacts under different scenarios. 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 2012. Risks remained within the set limits and, based on the Company's assessment, risk management has met the requirements established for it. The Company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the Company's risk standing in relation to various risk areas every six months.

Strategic risks

Strategic risk means that the Company would have chosen the wrong strategy for financially profitable operations or that the Company would 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 clients' needs, forecasts of market trends and analyses of changes in 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 when 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 the investment portfolio for pre-funding 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.

Liability values of balance sheets and binding loan commitments

31 Dec 2012 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	8,904,446	7,428,634	-	1,391,274	84,539
Enterprises and housing corporations	9,323,201	8,104,843	-	55,309	1,163,049
Non-profit organisations	166,647	166,647	-	-	-
Credit institutions	4,741,026	-	106,828	4,634,198	-
Other	557,050	-	-	557,050	-
Total	**23,692,371**	**15,700,124**	**106,828**	**6,637,831**	**1,247,588**

31 Dec 2011 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	7,436,100	6,517,541	-	685,680	232,879
Enterprises 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	-
Total	**21,181,618**	**13,654,934**	**562,007**	**5,588,959**	**1,375,718**

The Company limits credit risk caused by the derivative contracts 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.

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 price and other price risks.

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. 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 derivative agreements by counterparty's credit rating

(EUR 1,000)	31 Dec 2012	31 Dec 2011
	Nominal value	Nominal value
Finnish municipalities	1,136,356	772,767
AAA	0	0
AA	10,086,480	16,204,240
A	29,999,588	20,766,187
BBB	2,750,112	2,163,548
Total	**43,972,536**	**39,906,742**

Breakdown of funding acquisition by denomination (foreign currency)

31 Dec 2012 (EUR 1,000)	Foreign currency
Liabilities to credit institutions	371,473
Liabilities to the public and public sector entities	343,452
Debt securities issued	17,788,370
Total	**18,503,296**

31 Dec 2011 (EUR 1,000)	Foreign currency
Liabilities to credit institutions	403,833
Liabilities to the public and public sector entities	386,834
Debt securities issued	16,153,092
Total	**16,943,759**

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. The VaR model used by the Company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the Company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

Economic Value

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

Income risk

Income risk refers to the negative impact of interest rate changes on 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 1,000)	Currency	Currency position
31 Dec 2012	USD	-1
31 Dec 2011	USD	-5

Duration

	Receivables	Liabilities	Difference
31 Dec 2012	1.704 years	1.600 years	38 days
31 Dec 2011	1.685 years	1.599 years	31 days

Value-at-Risk

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2012	810	924	470	1,650
2011	820	938	100	1,580

Economic value

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2012	3,100	0.7%
31 Dec 2011	14,900	5.2%

Income risk

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2012	-3,066	3.3%
31 Dec 2011	-2,368	3.4%

Breakdown of financial liabilities by maturity

31 Dec 2012 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	2,049,851	225,297	1,686,581	3,961,729
Liabilities to the public and public sector entities	47,606	216,996	784,875	1,049,477
Debt securities issued	9,019,033	7,422,376	2,356,966	18,798,375
Subordinated liabilities	50,000	39,346	1,009	90,355
Total	**11,166,490**	**7,904,015**	**4,829,431**	**23,899,936**

31 Dec 2011 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	1,882,684	463,381	1,187,166	3,533,231
Liabilities to the public and public sector entities	26,556	85,694	1,064,503	1,176,753
Debt securities issued	8,305,259	6,478,267	2,404,415	17,187,941
Subordinated liabilities	10,000	78,907	1,009	89,916
Total	**10,224,499**	**7,106,249**	**4,657,093**	**21,987,841**

Liabilities that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible call date.

Liquidity risk

Liquidity risk means the risk of the Company not being able to perform its payment obligations on the due date due to the settlement of financing agreements or other financing 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 concluded. 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. The Company has pledged loans to the Bank of Finland (parent company note 34).

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 department and Company-specific level. The management of operational risks is the responsibility of the company's functions / departments in addition risk management supports them and coordinates.

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 accounting 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 the Company to 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 inputs 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 has significant information system projects in progress to enhance the efficiency of 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 any damage reports. No material losses were incurred as a result of operational risks in 2012.

Share capital and owners

At the end of the 2012 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 confers one vote at shareholders' meetings.

At the end of 2012, Municipality Finance had 296 shareholders (31 December 2011: 296).

10 largest shareholders 31 December 2012

		No. of 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 Company is not aware of any issues having taken place after the end of the financial period that would have a material effect on the Company's financial situation.

Prospects for 2013

The uncertainty in the international financial market will continue in 2013. However, on the basis of the autumn of 2012, the worst market fluctuations are expected to have calmed down, but the continuing sovereign debt crisis and the declining economic trend in Europe may cause new disturbances.

Interest rates are expected to remain low, even though a slight rise can be seen at the beginning of 2013.

Despite the weakened economic conditions, the Republic of Finland and the Finnish municipal sector are one of four Eurozone countries to have retained the highest credit rating, so material changes in the availability of financing are not expected.

The investment requirements of the municipal sector are increasing in the long term. However, new investment projects initiated by municipalities are expected to remain stable or decrease slightly as the general economic uncertainty increases. The on-going, still unfinished municipal reform may also postpone municipalities' investment decisions in the next few years.

The primary financing needs in the municipal corporations segment are likely to be seen in energy companies and water management projects. State-subsidised housing production will probably remain at an extremenly low level without any new subsidy schemes intended to launch production.

Municipality Finance will continue to develop its own operations in a systematic manner, investing in developing services that our customers need, in adjusting to changes in the operating environment and regulatory environment, in renewing information systems and in refining our processes, in particular. With regard to services, we will focus on developing our own financing products, particularly leasing services and Inspira's advisory services.

The profitability of Municipality Finance's operations is expected to remain at a strong level in 2013.

The Group's development

Key figures describing the development of the Municipality Finance Group

	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Turnover (MEUR)	292.5	319.0	198.9	285.3	443.2
Net interest income (MEUR)	142.4	94.2	78.7	50.6	29.5
% of turnover	48.7%	29.5%	39.6%	17.7%	6.7%
Net operating profit (MEUR)	138.6	65.3	58.3	33.7	2.7
% of turnover	47.38%	20.45%	29.32%	11.82%	0.60%
Cost/income ratio	0.14	0.23	0.23	0.31	0.80
Loan portfolio (MEUR)	15,700	13,625	11,698	9,741	7,567
Funding portfolio (MEUR)	22,036	20,092	17,162	13,218	11,336
Balance sheet total (MEUR)	25,560	23,842	20,047	14,557	12,512
Return on equity (%) (ROE)	38.04%	27.08%	28.42%	27.84%	6.20%
Return on assets (%) (ROA)	0.42%	0.23%	0.42%	0.31%	0.03%
Equity ratio (%)	1.35%	0.86%	0.85%	0.91%	0.37%
Own funds (MEUR)	428.9	288.4	245.9	207.7	132.8
Capital adequacy ratio, Tier 1 capital (%)	26.22%	19.04%	13.92%	14.12%	9.29%
Capital adequacy ratio (%)	33.87%	24.13%	19.28%	20.17%	13.60%

Basis for calculating the key figures

Turnover

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

Cost-to-income ratio

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

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 (%)

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

Capital adequacy ratio, Tier 1 capital (%)

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

Capital adequacy ratio (%)

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

Municipality Finance Group

Financial statements

Consolidated statement of financial position

EUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Cash and cash equivalents		228,187,577.63	26,507,291.80
Loans and advances to credit institutions	(2)	106,827,960.79	562,006,830.73
Loans and advances to the public and public sector entities		15,764,231,632.51	13,654,934,443.96
Debt securities	(3)	6,637,830,750.68	5,588,958,735.18
Shares and participations	(4)	10,035,087.37	27,219.06
Derivative contracts	(5)	2,551,682,689.75	3,750,333,786.73
Intangible assets	(6,8)	2,399,027.80	2,273,072.18
Tangible assets	(7,8)	2,341,475.06	2,460,149.10
Other assets	(9)	2,410,053.48	1,742,655.66
Accrued income and prepayments	(10)	254,213,722.25	247,761,352.13
Deferred tax assets	(11)	0.00	4,611,171.00
TOTAL ASSETS		**25,560,159,977.32**	**23,841,616,707.53**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		3,961,730,190.03	3,533,230,091.21
Liabilities to the public and public sector entities		1,049,476,634.38	1,176,752,432.59
Debt securities issued	(12)	18,798,374,704.55	17,187,942,326.47
Derivative contracts	(5)	937,983,299.37	1,253,255,710.82
Other liabilities	(13)	1,306,287.44	2,529,600.82
Accrued expenses and deferred income	(14)	297,999,204.21	349,695,135.86
Subordinated liabilities	(15)	90,354,746.57	89,915,861.74
Deferred tax liabilities	(11)	77,670,361,00	43,605,100.00
TOTAL LIABILITIES		**25,214,895,427.55**	**23,636,926,259.51**
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		21,926,619.09	-14,209,934.69
Reserve for invested non-restricted equity	(16)	40,366,099.60	40,366,099.60
Retained earnings		239,943,960.64	135,433,584.54
Total equity attributable to parent company equity holders		**345,096,585.83**	**204,449,655.95**
Non-controlling interest		**167,963.94**	**240,792.07**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**345,264,549.77**	**204,690,448.02**
TOTAL LIABILITIES AND EQUITY		**25,560,159,977.32**	**23,841,616,707.53**

Consolidated income statement

EUR	Note	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Interest income		275,660,476.90	328,299,977.25
Interest expense		-133,258,921.71	-234,051,397.85
NET INTEREST INCOME	(21)	**142,401,555.19**	**94,248,579.40**
Commission income	(22)	1,729,821.41	2,184,693.73
Commission expense	(23)	-3,225,035.25	-2,864,764.97
Net income from securities and foreign exchange transactions	(24)	14,340,421.93	-7,982,924.96
Net income from available-for-sale financial assets	(25)	404,887.74	-216,237.02
Net income from hedge accounting	(26)	339,555.75	-3,348,590.28
Other operating income	(27)	25,628.54	103,697.49
Administrative expenses	(28)	-13,494,661.05	-12,123,380.20
Depreciation and impairment on tangible and intangible assets	(8)	-1,066,883.77	-765,234.52
Other operating expenses	(29)	-4,874,168.23	-3,983,360.62
Impairment losses on other financial assets	(30)	2,020,000.00	0.00
NET OPERATING PROFIT		**138,601,122.26**	**65,252,478.05**
Income tax expense	(31)	-33,990,574.29	-14,343,647.88
PROFIT FOR THE PERIOD		**104,610,547.97**	**50,908,830.17**
Profit attributable to:			
Equity holders of the parent company		104,510,376.10	50,730,934.80
Non-controlling interest		100,171.87	177,895.37

Statement of comprehensive income

EUR	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011
Profit for the period	104,610,547.97	50,908,830.17
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	47,307,526.77	-10,554,141.21
Net amount transferred to profit or loss	283,126.83	71,903.70
IAS 39 reclassification adjustment	272,335.00	651,707.00
Taxes relating to components of other comprehensive income	-11,726,432.21	2,273,620.97
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**140,747,104.36**	**43,351,920.63**
Total comprehensive income attributable to:		
Equity holders of the parent company	140,646,932.49	43,174,025.26
Non-controlling interest	100,171.87	177,895.37

Consolidated statement of cash flows

EUR	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
CASH FLOW FROM OPERATING ACTIVITIES	**–482,694,808.63**	**273,711,545.42**
Change in long-term funding	1,478,271,212.31	1,877,905,282.13
Change in short-term funding	1,127,526,651.07	100,564,662.70
Change in long-term loans	-2,046,141,226.00	-1,876,808,796.02
Change in short-term loans	-219,555,300.40	47,070,269.80
Change in investments	-929,649,762.98	-446,529,759.78
Change in collaterals	-32,890,000.00	490,120,000.00
Interest paid	-172,854,141.28	-213,939,974.62
Interest received	309,769,302.79	309,557,574.47
Other income	9,503,327.04	4,584,162.17
Payments of operating expenses	-10,013,438.30	-15,207,011.80
Taxes paid	3,338,567.12	-3,604,863.63
CASH FLOW FROM INVESTING ACTIVITIES	**–1,128,330,48**	**–2,498,746,23**
Acquisition of tangible assets	-390,145,36	-1,137,852,01
Acquisition of intangible assets	-738,185,12	-1,360,894,22
CASH FLOW FROM FINANCING ACTIVITIES	**–173,000.00**	**–10,005,949.50**
Dividends paid	-173,000.00	-10,005,949.50
CHANGE IN CASH FUNDS	**–483,996,139.11**	**261,206,849.69**
CASH FUNDS AT 1 JANUARY	**2,475,444,173.53**	**2,214,237,323.84**
CASH FUNDS AT 31 DECEMBER	**1,991,448,034.42**	**2,475,444,173.53**

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 2012	31 Dec 2011
Cash and cash equivalents	228,187,577.63	26,507,291.80
Loans and advances to credit institutions	106,827,960.79	562,006,830.73
Debt securities maturing within three months	1,656,432,496.00	1,886,930,051.00

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders							
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
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**
Dividends paid for 2011						0	-173	-173
Comprehensive income for the period			36,137		104,510	140,647	100	140,747
EQUITY AT 31 DECEMBER 2012	**42,583**	**277**	**21,927**	**40,366**	**239,944**	**345,097**	**168**	**345,265**

Notes to the consolidated financial statements

General 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 online at www.munifin.fi or from the Group's parent company at 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 2013. According to the Finnish Limited Liability Companies Act, 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.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS standards and the SIC and IFRIC interpretations in force on December 31 2012. 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 requirements.

The consolidated financial statements have been prepared based on historical cost basis, 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.

No IFRS standards or IFRIC interpretations entered into force in the financial year that would have had a material impact on the consolidated financial statements.

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

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

Municipality Finance reclassified certain 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 to held to maturity at their fair value on 1 July, 2008. In addition, debt securities classified as available-for-sale were also reclassified to held to maturity on 1 January, 2008. The transfers are itemised in Note 3.

In preparing the financial statements under IFRS, Group management 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 "Basis of preparation" provides information on the items 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.

Basis of consolidation

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 ownership has been eliminated by means of the acquisition 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 on the balance sheet as a separate item under "Equity".

Foreign currency denominated items

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 translation 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 into the following categories: loans and receivables, available-for-sale financial assets, held to maturity and financial assets and liabilities at fair value through profit or loss. The classification is made on the basis of the purpose of acquiring the financial assets upon acquisition. The groups are measured as follows:

Loans and receivables

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

Available-for-sale financial assets

These include investment of advance funding in debt securities.

Debt securities are initially measured at fair value, and subsequent changes in fair value are recognised in "Other comprehensive income" and presented in the fair value reserve net of tax. 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 available-for-sale debt securities is recognised when there is objective evidence of impairment.

Held to maturity

This item comprises investments in debt securities that intended to be held to maturity. These financial assets are recorded at amortised cost 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 on the balance sheet. Positive changes in the fair values of derivative contracts that are recorded on 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 "Derivative 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 rate 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".

Impairment of financial assets

All loans to public sector entities and non-profit organisations have been given a guarantee or deficiency guarantee by a municipality or municipal federation, or a state deficiency guarantee. 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.

Financial liabilities

The company's financial liabilities are measured at amortised cost using the effective interest rate method. Funding included in hedge accounting is measured at fair value for the risk hedged. Recognition of transaction costs: If the amount of debt on the issue date is lower or higher than the amount the company is required to repay under the loan terms and conditions, at maturity the debt adjusted by the transaction fees is recognised on the balance sheet. Differences between the issue price and the nominal value are amortised until 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 financial year in which they accrue.

Determination of fair value

The fair value of a financial instrument is determined on the basis of either quoted market prices on active markets or, if such markets do not exist, by applying valuation techniques. 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 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 market. For some investments, the fair value is calculated by applying the Group's own valuation models. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates as well as valuation method widely recognised on the market.

Financial assets and liabilities measured at fair value

31 Dec 2012	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	3,888,688	16,926	-	3,905,614
Loans and advances to the public	-	6,399,702	-	6,399,702
Derivative contracts	-	273,441	-	273,441
Hedging derivatives	-	2,278,242	-	2,278,242
Available-for-sale assets				
Debt securities	1,846,917	-	-	1,846,917
Fund units	10,008	-	-	10,008
Total assets measured at fair value	**5,745,614**	**8,968,310**	**–**	**14,713,924**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	1,928,415	-	1,928,415
Liabilities to the public and public sector entities	-	851,236	-	851,236
Debt instruments issued	-	15,018,143	-	15,018,143
Subordinated liabilities	-	39,346	-	39,346
Derivative contracts	-	321,554	-	321,554
Hedging derivatives	-	616,429	-	616,429
Total liabilities measured at fair value	**–**	**18,775,123**	**–**	**18,775,123**

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**

Level 1 Fair value is based on values quoted for identical assets or liabilities on active markets.
Level 2 Fair value is based on input data other than Level 1 quoted prices. Prices can be verified either directly or indirectly.
Level 3 Fair value is based on input data that is not based on verifiable market prices.

During the 2012 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.
During the 2011 financial year, no reclassifications have been made from Level 3 to other classes or from other classes to Level 3.

The company has financial assets and liabilities in which the financial characteristics of embedded derivatives are not closely related with the financial characteristics of the principal contract. Embedded derivatives in such hybrid instruments are recognised on the balance sheet, and changes in the fair value of the derivative are recognised through profit or loss. The balance sheet value of the host contract is calculated in accordance with the instrument classification in accordance with IAS 39. The company has, in its funding, hedged all embedded derivatives.

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 and funding hedged with derivative contracts, as well as certain fixed rate debt securities where the interest rate risk is hedged with derivatives. Hedging performance is calculated as the ratio of the change in the hedging instrument value to the change in the hedged item value. Hedging is effective when the hedge ratio is at least 80% and at the most 125%. The effectiveness of hedging is verified when an agreement is recognised in fair value hedge accounting and subsequently at least every six months.

Changes in the fair values of derivative contracts included in 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 receivables are recognised on 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 receivables" on the balance sheet. Interest is recorded under "Interest income" in the income statement.

In the case of other leases, Municipality Finance is the lessee. Other leases are primarily related to operating premises. 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 on the balance sheet at acquisition cost, less 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 recognised in the income statement.

Recognition of income and expenses

<u>Net interest income</u>

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.

<u>Commission income and expenses</u>

Commission income includes commission 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.

<u>Net income from hedge accounting</u>

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

Employee benefits

The company's remuneration system is contribution based. The system is described in the Notes to the parent company's financial statements. Pension coverage has been arranged via an external 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 provision

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

Income taxes

"Income taxes" in the consolidated financial statements comprise accrual-based taxes that are calculated 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 book value and 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 at balance sheet date. Concerning amongst others 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 and in Notes to the consolidated financial statements.

Application of new standards

The standards and interpretations that enter into force in 2013 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 2013.

Risk management

Municipality Finance's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk at such a low level that the company's strong 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 department is responsible for the use of counterparty limits in the company's investment operations. The Treasury department is in charge of the management of the risk position of the balance sheet with regard to market and financial risks. The company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance carries out regular risk analyses of various risk areas. 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.

A comprehensive stress test is conducted at the company annually by an independent external party. The main aim for the test conducted in the autumn of 2012 was to analyse the development of Municipality Finance's equity and its range in 2012–2017. The test included to operational market and credit risks and their estimated financial impacts under different scenarios. 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 2012. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements established for it. The company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the company's risk standing in relation to various risk areas every six months.

Strategic risks

Strategic risk means that the company would have chosen the wrong strategy for financially profitable operations or that the company would 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 clients' needs, forecasts of market trends and analyses of changes in 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 when 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 the investment portfolio for pre-funding 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.

Liability values of balance sheets and binding loan commitments

31 Dec 2012 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	8,904,446	7,428,634	-	1,391,274	84,539
Enterprises and housing corporations	9,323,201	8,104,843	-	55,309	1,163,049
Non-profit organisations	166,647	166,647	-	-	-
Credit institutions	4,741,026	-	106,828	4,634,198	-
Other	557,050	-	-	557,050	-
Total	**23,692,371**	**15,700,124**	**106,828**	**6,637,831**	**1,247,588**

31 Dec 2011 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	7,436,100	6,517,541	-	685,680	232,879
Enterprises 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	-
Total	**21,181,618**	**13,654,934**	**562,007**	**5,588,959**	**1,375,718**

The Company limits credit risk caused by the derivative contracts 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.

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 price and other price risks.

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. 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 derivative agreements by counterparty's credit rating

(EUR 1,000)	31 Dec 2012	31 Dec 2011
	Nominal value	Nominal value
Finnish municipalities	1,136,356	772,767
AAA	0	0
AA	10,086,480	16,204,240
A	29,999,588	20,766,187
BBB	2,750,112	2,163,548
Total	**43,972,536**	**39,906,742**

Breakdown of funding acquisition by denomination (foreign currency)

31 Dec 2012 (EUR 1,000)	Foreign currency
Liabilities to credit institutions	371,473
Liabilities to the public and public sector entities	343,452
Debt securities issued	17,788,370
Total	**18,503,296**

31 Dec 2011 (EUR 1,000)	Foreign currency
Liabilities to credit institutions	403,833
Liabilities to the public and public sector entities	386,834
Debt securities issued	16,153,092
Total	**16,943,759**

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. The VaR model used by the Company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the Company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

Economic Value

Economic Value describes the interest 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 different interest rate 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 on 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 1,000)	Currency	Currency position
31 Dec 2012	USD	-1
31 Dec 2011	USD	-5

Duration

	Receivables	Liabilities	Difference
31 Dec 2012	1.704 years	1.600 years	38 days
31 Dec 2011	1.685 years	1.599 years	31 days

Value-at-risk

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2012	810	924	470	1,650
2011	820	938	100	1,580

Economic value

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2012	3,100	0.7%
31 Dec 2011	14,900	5.2%

Income risk

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2012	-3,066	3.3%
31 Dec 2011	-2,368	3.4%

Breakdown of financial liabilities by maturity

31 Dec 2012 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	2,049,851	225,297	1,686,581	3,961,729
Liabilities to the public and public sector entities	47,606	216,996	784,875	1,049,477
Debt securities issued	9,019,033	7,422,376	2,356,966	18,798,375
Subordinated liabilities	50,000	39,346	1,009	90,355
Total	**11,166,490**	**7,904,015**	**4,829,431**	**23,899,936**

31 Dec 2011 (EUR 1,000)	Max. 1 year	1–5 years	Over 5 years	Total
Liabilities to credit institutions	1,882,684	463,381	1,187,166	3,533,231
Liabilities to the public and public sector entities	26,556	85,694	1,064,503	1,176,753
Debt securities issued	8,305,259	6,478,267	2,404,415	17,187,941
Subordinated liabilities	10,000	78,907	1,009	89,916
Total	**10,224,499**	**7,106,249**	**4,657,093**	**21,987,841**

Liabilities that may be called prematurely have been entered in the table in the maturity class corresponding to the first possible call date.

Liquidity risk

Liquidity risk means the risk of the company not being able to perform its payment obligations on the due date due to settlement of financing agreements or other financing 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 concluded. 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. The company has pledged loans to the Bank of Finland (parent company note 34).

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 department and company-specific level. The management of operational risks is the responsibility of the company's functions/departments in addition risk management supports them and coordinates.

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 accounting 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 the company to 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 inputs 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 has significant information system projects in progress to enhance the efficiency of 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 any damage reports. No material losses were incurred as a result of operational risks in 2012.

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 was extended from three years to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds in relation to the increasing capital requirements arising from changing regulation and to be able to react to potential additional needs for capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updated its capital adequacy plan in December 2012.

Controlling capital adequacy is a continuous and an essential part of the company's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in cooperation with the management and the Board, and the Board of the Directors approves the final strategy. The management ensures that the company's operational measures correspond to 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. The company's risk position and its effect on the company's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring 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 monitored in monthly business analyses.

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operational 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. As the company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small and it is not necessary to reserve capital for the currency 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 for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Municipality Finance Group's own funds totalled EUR 428.9 million at the end of the year (2011: EUR 288.4 million). The Group's Tier 1 capital totalled EUR 331.9 million at the end of 2012 (2011: EUR 227.6 million). No provision for dividend distribution was made for Tier 1 capital, as 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 for 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 Tier 2 capital totalled EUR 96.9 million at the end of the year (2011: EUR 60.8 million). Detailed descriptions of the subordinated loans and debenture loans included in own funds are included in Section 15 in the notes to the Group.

The Board of Municipality Finance applied to the Finnish Financial Supervisory Authority for permission to repay the "Upper Tier II loan 1/2008" bond of EUR 40 million. The Finnish Financial Supervisory Authority granted the permission at the end of January 2013, and the company will repay the loan on 31 March 2013. In the financial statements, the loan is still fully included in own funds and capital adequacy. Without the loan, the Group's capital adequacy would have been 30.71%.

The Group's capital adequacy developed favourably during the year. The capital adequacy ratio stood at 33.87% at the end of 2012, compared to 24.13% in 2011. The capital adequacy ratio for Tier 1 capital was 26.22% (2011: 19.04%).

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8% pursuant to the Act on Credit Institutions, was EUR 101.3 million (2011: EUR 95.6 million). The capital adequacy requirement for credit risk tied up the largest amount of the Group's own funds at EUR 91.0 million (2011: EUR 87.9 million), the most significant items being claims on credit institutions and investment firms, as well as securitised items.

Consolidated own funds, Group

(EUR 1,000)	31 Dec 2012	31 Dec 2011
Share capital	42,583	42,583
Minority interest	168	241
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	135,434	84,703
Profit for the financial period	104,510	50,731
Capital loans	11,009	11,009
Intangible assets	-2,399	-2,273
TOTAL TIER 1 CAPITAL	**331,948**	**227,637**
Fair value reserve	21,927	-14,210
Subordinated liabilities included in upper Tier 2 capital	40,000	40,000
Subordinated liabilities included in lower Tier 2 capital	35,000	35,000
TOTAL TIER 2 CAPITAL	**96,927**	**60,790**
TOTAL OWN FUNDS	**428,875**	**288,427**

Risk-weighted receivables, Group

(EUR 1,000)	31 Dec 2012	31 Dec 2011
Credit risk, standard method	**1,137,809**	**1,098,808**
Minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	45,549	45,627
Covered bonds	13,528	9,797
Securitised items	28,755	29,619
Other items	3,192	2,861
Total credit risk, standard method	91,024	87,904
Market risk	0	0
Operational risk, basic method	10,270	7,722
TOTAL MINIMUM REQUIREMENT OF OWN FUNDS	**101,294**	**95,627**
CAPITAL ADEQUACY RATIO FOR TIER 1 CAPITAL, %	26.22%	19.04%
CAPITAL ADEQUACY RATIO, %	**33.87%**	**24.13%**

Notes to the balance sheet

1. Financial assets and liabilities

31 Dec 2012 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through P/L	Hedging derivative contracts	Total	Fair value
Cash and cash equivalents	228,188	-	-	-	-	228,188	228,188
Loans and advances to credit institutions	106,828	-	-	-	-	106,828	106,828
Loans and advances to the public and public sector entities	9,364,530	-	-	6,399,702	-	15,764,232	16,451,001
Debt securities	-	1,846,917	885,299	3,905,614	-	6,637,831	6,622,858
Shares and participations	-	10,035	-	-	-	10,035	10,035
Derivative contracts	-	-	-	273,441	2,278,242	2,551,683	2,551,683
Total	**9,699,546**	**1,856,953**	**885,299**	**10,578,757**	**2,278,242**	**25,298,796**	**25,970,592**

31 Dec 2012 Financial liabilities	Other financial liabilities	Recognised at fair value through P/L	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	2,033,316	1,928,415	-	3,961,730	3,961,513
Liabilities to the public and public sector entities	198,241	851,236	-	1,049,477	1,045,307
Debt securities issued	3,780,231	15,018,143	-	18,798,375	18,795,007
Derivative contracts	-	321,554	616,429	937,983	937,983
Subordinated liabilities	51,009	39,346	-	90,355	91,371
Total	**6,062,797**	**18,158,694**	**616,429**	**24,837,920**	**24,831,182**

Loans and advances to the public and public sector entities includes EUR 64,107 thousand of receivables based on leasing agreements.

Breakdown of financial assets and liabilities by maturity

31 Dec 2012	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Loans and advances to credit institutions	98,828	8,000	-	-	-	106,828
Loans and advances to the public and public sector entities	223,208	1,074,287	5,185,649	3,813,222	5,467,866	15,764,232
Debt securities	1,656,432	1,020,865	3,261,629	517,729	181,174	6,637,831
Total	**1,978,469**	**2,103,152**	**8,447,278**	**4,330,951**	**5,649,040**	**22,508,890**
Liabilities to credit institutions	1,781,880	267,971	225,297	355,912	1,330,669	3,961,730
Liabilities to the public and public sector entities	20,986	26,620	216,996	473,148	311,726	1,049,477
Debt securities issued	2,854,234	6,164,798	7,422,376	1,695,948	661,018	18,798,375
Subordinated liabilities	40,000	10,000	39,346	-	1,009	90,355
Total	**4,697,101**	**6,469,389**	**7,904,016**	**2,525,009**	**2,304,422**	**23,899,936**

Liabilities that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible call date.
The company expects to call 40–50% of its liabilities in 2013. In 2012, the company called 34% of its 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
Cash and cash equivalents	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	5,398,175
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	2,612,959
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**	**19,886,072**

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

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
Loans and advances to credit institutions	562,007	-	-	-	-	562,007
Loans and advances to the public and public sector entities	251,819	904,101	4,472,077	3,532,054	4,494,883	13,654,934
Debt securities	1,886,930	907,633	2,576,853	137,387	80,155	5,588,959
Total	**2,700,756**	**1,811,734**	**7,048,930**	**3,669,442**	**4,575,038**	**19,805,900**
Liabilities to credit institutions	1,813,364	69,320	463,381	268,504	918,662	3,533,230
Liabilities to the public and public sector entities	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**

Liabilities that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible call date.

The company expects to call 15-25% of its liabilities in 2012. In 2011, the company called 39% of its liabilities.

2. Loans and advances to credit institutions

31 Dec 2012	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	56,242	5,144	51,098
Foreign credit institutions	50,586	586	50,000
Total loans and advances to credit institutions	**106,828**	**5,730**	**101,098**

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 loans and advances to credit institutions	**562,007**	**4,011**	**557,996**

3. Debt securities

31 Dec 2012	Publicly quoted	Other	Total
Debt securities issued by public sector entities	693,933	697,341	1,391,274
Held to maturity	-	697,341	697,341
Municipal commercial papers	-	697,341	697,341
Available for sale	693,933	-	693,933
Government bonds	333,618	-	333,618
Bonds issued by other public sector entities	360,315	-	360,315
Debt securities issued by other than public sector entities	4,594,494	652,063	5,246,557
Held to maturity	132,649	55,309	187,958
Bank bonds	4,999	-	4,999
Commercial papers	-	55,309	55,309
Other debt securities	127,650	-	127,650
Available for sale	4,461,844	596,754	5,058,599
Bank certificates of deposit	-	579,828	579,828
Bank bonds	4,049,371	-	4,049,371
Other debt securities	412,474	16,926	429,400
Total debt securities	**5,288,427**	**1,349,404**	**6,637,831**
Eligible for central bank refinancing	4,534,815	70,152	4,604,967
Total non-interest bearing	4,999	-	4,999

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 held to maturity	Fair value of investments on transfer date
1 Jan 2008	171,935
1 Jul 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:

2012	2,182
2011	5,238
2010	3,903
2009	- 3,487
2008	- 22,319
Cumulatively	-14,483

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

2012	272
2011	652
2010	765
2009	953
2008	852

4. Shares and participations

31 Dec 2012	Publicly quoted	Other	Total	In credit institutions
Available for sale	10,008	27	10,035	-
Total	**10,008**	**27**	**10,035**	**-**

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

5. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2012	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	582,000	4,068,764	1,545,619	6,196,383	56,035	-91,858
Currency derivatives Cross currency interest rate swaps	-	35,554	18,304	53,858	329	-323
Forward exchange contracts	927,088	-	-	927,088	592	-13,249
Equity derivatives	1,002,111	2,701,622	86,760	3,790,493	172,391	-172,391
Other derivatives	145,019	164,043	56,500	365,562	44,093	-43,733
Total	**2,656,217**	**6,969,983**	**1,707,184**	**11,333,384**	**273,441**	**-321,554**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	261,784	7,434,418	10,928,828	18,625,030	516,296	-378,058
Currency derivatives Cross currency interest rate swaps	2,483,905	7,587,950	3,969,502	14,041,357	1,761,946	-238,371
Total	**2,745,689**	**15,022,368**	**14,898,329**	**32,666,387**	**2,278,242**	**-616,429**
All total	**5,401,907**	**21,992,351**	**16,605,513**	**43,999,772**	**2,551,683**	**-937,983**

31 Dec 2011	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (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 Cross currency interest rate 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 under hedge accounting (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 Cross currency interest rate swaps	3,156,333	6,663,42	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**

6. Intangible assets

	31 Dec 2012	31 Dec 2011
IT systems	2,399	2,273
Other intangible assets	-	-
Total	**2,399**	**2,273**

7. Tangible assets

	31 Dec 2012	31 Dec 2011
Real estate	914	912
Office renovation expenses	814	1,063
Other tangible assets	614	485
Total	**2,341**	**2,460**

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

	Intangible assets	Tangible assets		
31 Dec 2012	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	4,156	1,167	2,888	4,055
+ Additions	738	40	350	390
- Disposals	-55	-	-	-
Acquisition cost 31 Dec	4,839	1,207	3,238	4,445
Accumulated depreciation 1 Jan	1,882	254	1,340	1,594
- Accumulated depreciation on disposals	-1	-	-	-
+ Depreciation for the financial year	559	39	470	509
Accumulated depreciation 31 Dec	2,440	293	1,810	2,103
Book value 31 Dec	**2,399**	**914**	**1,428**	**2,342**

	Intangible assets	Tangible assets		
31 Dec 2011	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	3,160	1,155	1,587	2,742
+ Additions	1,361	12	1,450	1,462
- Disposals	-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 disposals	-234	-	-6	-6
+ Depreciation for the financial year	421	36	308	344
Accumulated depreciation 31 Dec	1,882	254	1,340	1,594
Book value 31 Dec	**2,273**	**912**	**1,548**	**2,460**

9. Other assets

	31 Dec 2012	31 Dec 2011
Leasing receivables	1,954	1,035
Other	456	708
Total	**2,410**	**1,743**

10. Accrued income and prepayments

	31 Dec 2012	31 Dec 2011
Interest	253,683	243,547
Other	531	4,214
Total	**254,214**	**247,761**

11. Deferred tax assets and liabilities

	31 Dec 2011	Recognised in income statement	Recognised in comprehensive income	31 Dec 2012
Deferred tax assets				
On other temporary differences				
On fair value reserve	4,611	-	-4,611	-
Total	**4,611**	**-**	**-4,611**	**-**
Deferred tax liabilities				
On other temporary differences				
On fair value reserve	-	-	7,115	7,115
On change in voluntary provisions	43,605	26,950	-	70,555
Total	**43,605**	**26,950**	**7,115**	**77,670**

	31 Dec 2010	Recognised in income statement	Recognised in comprehensive income	31 Dec 2011
Deferred tax assets				
On other temporary differences				
On fair value reserve	2,338	-	2,373	4,611
Total	**2,338**	**-**	**2,373**	**4,611**
Deferred tax liabilities				
On other temporary differences				
On fair value reserve	-	-	-	-
On change in voluntary provisions	29,414	14,191	-	43,605
Total	**29,414**	**14,191**	**-**	**43,605**

12. Debt securities issued

	31 Dec 2012		31 Dec 2011	
	Book value	Nominal value	Book value	Nominal value
Bonds	17,434,533	20,045,787	16,925,977	21,663,857
Other	1,363,841	1,377,088	261,965	262,000
Total	**18,798,375**	**21,422,875**	**17,187,942**	**21,925,857**

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

13. Other liabilities

	31 Dec 2012	31 Dec 2011
Payment transfer	1,059	0
Other	247	2,530
Total	**1,306**	**2,530**

14. Accrued expenses and deferred income

	31 Dec 2012	31 Dec 2011
Interest	284,677	345,200
Other	13,222	4,495
Total	**297,999**	**349,695**

15. Subordinated liabilities

31 Dec 2012	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	39,346	Fixed	9/5/16
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10/12/10
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31/3/13
Total		**86,009**	**90,355**		

31 Dec 2011	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	38,907	Fixed	9/5/16
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10/12/10
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31/3/13
Total		**86,009**	**89,916**		

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 funds on the approved balance sheet of the previous financial year are fully provided 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 as of 10 December 2010, to repay the loan on each interest date subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the current 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 required by Finnish laws. 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 approves the interest payment. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not require payment of interest under the loan terms and conditions for 2012.

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 in 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.

   The Board of Municipality Finance applied to the Finnish Financial Supervisory Authority for permission to repay the "Upper Tier II loan 1/2008" bond of EUR 40 million. The Finnish Financial Supervisory Authority granted the permission on 28 January 2013, and the company will repay the loan on 31 March 2013.

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 2011	39,063,798	42,583	277	40,366	83,226
31 Dec 2011	39,063,798	42,583	277	40,366	83,226
31 Dec 2012	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 1,033 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. Contingent liabilities

Liabilities and collateral	**31 Dec 2012**	**31 Dec 2011**
Loans pledged to the central bank	2,036,320	1,119,103
Loans pledged to the Municipal Guarantee Board	13,381,558	12,292,246
Debt securities pledged to the Municipal Guarantee Board	5,738,476	5,044,995
Deposits pledged to the Municipal Guarantee Board	20,000	-
Total	**21,176,354**	**18,456,344**

Off-balance-sheet commitments	**31 Dec 2012**	**31 Dec 2011**
Binding credit commitments	1,247,588	1,375,718
Total	**1,247,588**	**1,375,718**

19. Lease and other rental commitments

	31 Dec 2012	**31 Dec 2011**
Maturing within one year	1,456	1,285
Maturing in one to five years	3,040	4,328
Maturing in more than five years	-	-
Total	**4,496**	**5,613**

20. Related party transactions

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 under-aged 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 the Act on the Municipal Guarantee Board (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:

Transactions with, receivables from and liabilities to the subsidiary	2012	2011
Sales	33	37
Purchases	-75	-
Receivables	-	-
Liabilities	19	-

Salaries and remuneration paid to management	2012	2011
President and CEO	497	546
Deputy to the CEO	389	406

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 remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 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 500 per meeting for the other members.

The remuneration paid to the parent company Board of Directors that served until the Annual General Meeting of 27 March 2012 is reported in Municipality Finance Plc's Annual Report 2011, which is available on the company website at www.munifin.fi.

Notes to the income statement

21. Breakdown of net interest income and expense

Interest income	2012	2011
Loans and advances to credit institutions and central banks	1,422	1,907
Loans and advances to the public and public sector entities	313,775	313,435
Debt securities	91,935	100,425
Derivative contracts	-134,503	-90,165
Leasing operations	1,080	346
Other interest income	1,952	2,352
Total	**275,660**	**328,300**

Interest expense	2012	2011
Liabilities to the public	28,691	30,677
Liabilities to credit institutions and central banks	45,450	44,778
Debt securities issued	519,486	413,821
Derivative contracts	-463,471	-258,396
Subordinated liabilities	2,563	2,746
Other interest expense	540	425
Total	**133,259**	**234,051**

22. Commission income

	2012	2011
Financial advisory services	1,730	2,185
Total	**1,730**	**2,185**

23. Commission expense

	2012	2011
Commission fees paid	128	81
Other	3,097	2,784
Total	**3,225**	**2,865**

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

24. Net income from securities and foreign exchange transactions

2012	Capital gains and losses (net)	Changes in fair value	Total
Measured at fair value through P/L			
Debt securities	-1,162	23,353	22,191
Derivative contracts	-	-7,429	-7,429
Other financial assets	-	-421	-421
Total net income from securities transactions	-1,162	15,503	14,341
Net income from foreign exchange transactions	15	-16	0
Total	**-1,147**	**15,487**	**14,340**

2011	Capital gains and losses (net)	Changes in fair value	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**

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

	2012	2011
Disposal of financial assets	159	-182
Reversals of impairment	529	38
Transfers from fair value reserve	-283	-72
Total	**405**	**-216**

26. Net income from hedge accounting

	2012	2011
Net income from hedging instruments	335,210	325,926
Net income from hedged items	-334,870	-329,275
Total	**340**	**-3,349**

27. Other operating income

	2012	2011
Other income from credit institution operations	26	104
Total	**26**	**104**

28. Administrative expenses

	2012	2011
Personnel expenses		
Wages and salaries	7,416	6,685
Pension costs	1,407	1,287
Other personnel-related costs	363	338
Total	9,186	8,310
Other administrative expenses	4,309	3,813
Total	**13,495**	**12,123**

	2012		2011	
Personnel	Average	End of year	Average	End of year
Permanent full-time	60	65	59	59
Permanent part-time	2	2	2	2
Fixed term	6	5	3	6
Total	**68**	**72**	**64**	**67**

29. Other operating expenses

	2012	2011
Rental expenses	1,918	1,620
Other expenses from credit institution operations	2,956	2,363
Total	**4,874**	**3,983**

30. Impairment losses on other financial assets

2012	Impairment losses per agreement	Decrease	Recognised in income statement
Debt securities held to maturity	-	-2,020	-
Total	**–**	**-2,020**	**–**

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

31. Income taxes

	2012	2011
Tax based on the profit for the financial year	7,041	152
Deferred tax	26,950	14,191
Total	**33,991**	**14,344**
Profit before tax	138,601	65,252
Taxes at domestic tax rate	33,957	16,966
Non-deductible expenses	33	48
Change in corporate tax rate	-	-2,670
Taxes in income statement	33,991	14,344

32. Events after the reporting period

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

Municipality Finance Plc parent company

Financial statements

Balance sheet

EUR	Note	31 Dec 2012		31 Dec 2011	
ASSETS					
Cash and cash equivalents					
Cash			2,662.20		2,281.45
Central bank receivables payable on demand			228,184,915.43		26,505,010.35
Debt securities eligible for central bank refinancing	(3)		4,604,966,668.30		3,558,111,815.34
Loans and advances to credit institutions	(1)				
Payable on demand		5,359,951.85		3,496,548.57	
Other		101,098,112.65	106,458,064.50	557,995,723.44	561,492,272.01
Loans and advances to the public and public sector entities	(2)		15,700,124,356.38		13,624,655,231.28
Leasing assets	(4)		64,107,276.13		30,279,212.68
Debt securities	(3)				
From public sector entities		697,340,666.92		480,769,286.74	
From others		1,335,523,415.46	2,032,864,082.38	1,550,077,633.10	2,030,846,919.84
Shares and participations	(5)		10,035,087.37		27,219.06
Shares and participations in Group companies	(5)		100,000.00		100,000.00
Derivative contracts	(6)		2,551,682,689.75		3,750,333,786.73
Intangible assets	(7,9)		3,174,697.28		3,287,372.40
Tangible assets	(8,9)				
Other tangible assets			1,527,392.38		1,396,894.38
Other assets	(10)		2,167,360.95		1,458,438.00
Accrued income and prepayments	(11)		254,211,844.26		247,732,741.07
Deferred tax assets	(12)		0.00		4,611,171.00
TOTAL ASSETS	(17–19)		**25,559,607,097.31**		**23,840,840,365.59**

EUR	Note	31 Dec 2012		31 Dec 2011	
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities to credit institutions and central banks					
To credit institutions					
Other			3,961,730,190.03		3,533,230,091.21
Liabilities to the public and public sector entities					
Other liabilities			1,049,476,634.38		1,176,752,432.59
Debt securities issued	(13)				
Bonds		17,434,533,316.86		16,925,977,534.53	
Other		1,363,841,387.69	18,798,374,704.55	261,964,791.94	17,187,942,326.47
Derivative contracts	(6)		937,983,299.37		1,253,255,710.82
Other liabilities	(14)		1,227,975.43		2,434,035.48
Accrued expenses and deferred income	(15)		297,768,904.60		349,367,869.84
Subordinated liabilities	(16)		90,354,746.57		89,915,861.74
Deferred tax liabilities	(12)		7,115,261.00		0.00
APPROPRIATIONS					
Voluntary provisions			287,980,000.00		177,980,000.00
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		21,926,619.09	22,203,330.10	-14,209,934.69	-13,933,223.68
Non-restricted reserves					
Reserve for invested non-restricted equity			40,742,886.40		40,742,886.40
Retained earnings		144,330.52		41,043.41	
Profit for the financial period		21,496,790.16	21,641,120.68	103,287.11	144,330.52
TOTAL LIABILITIES	(17–19)		**25,559,607,097.31**		**23,840,840,365.59**
OFF-BALANCE-SHEET COMMITMENTS	(37)				
Irrevocable commitments given in favour of customers			1,247,587,752.94		1,375,718,336.22

Income statement

EUR	Note	1 Jan–31 Dec 2012		1 Jan–31 Dec 2011	
Interest income	(23)		274,580,568.92		327,954,216.28
Net income from leasing operations	(24)		1,079,907.98		345,760.97
Interest expense	(23)		-133,258,921.71		-234,051,397.85
NET INTEREST INCOME			**142,401,555.19**		**94,248,579.40**
Income from equity investments					
in Group companies			101,500.00		135,000.00
Commission income	(25)		333.32		0.00
Commission expense	(25)		-3,222,056.22		-2,862,520.63
Net income from securities and foreign exchange transactions	(26)				
Net income from securities		14,340,710.32		-7,970,187.06	
Net income from foreign exchange transactions		-288.39	14,340,421.93	-12,737.90	-7,982,924.96
Net income from available-for-sale financial assets	(27)		404,887.74		-216,237.02
Net income from hedge accounting	(28)		339,555.75		-3,348,590.28
Other operating income	(29)		63,987.94		110,124.89
Administrative expenses					
Personnel expenses					
Salaries and fees		-6,541,636.97		-5,804,901.95	
Personnel-related costs					
Pension costs		-1,242,899.80		-1,122,036.94	
Other personnel-related costs		-322,210.58		-300,724.65	
Other administrative expenses		-4,130,335.59	-12,237,082.94	-3,616,116.97	-10,843,780.51
Depreciation and impairment on tangible and intangible assets	(31)		-1,056,342.47		-764,087.73
Other operating expenses	(30)		-4,674,183.11		-3,470,128.51
Impairment losses on other financial assets	(32)		2,020,000.00		0.00
OPERATING PROFIT			**138,482,577.13**		**65,005,434.65**
Appropriations			-110,000,000.00		-64,850,000.00
Income taxes			-6,985,786.97		-52,147.54
PROFIT FOR THE PERIOD			**21,496,790.16**		**103,287.11**

Statement of cash flows

EUR	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
CASH FLOW FROM OPERATING ACTIVITIES	**-482,723,146.20**	**273,612,372.66**
Change in long-term funding	1,478,271,212.31	1,877,905,282.13
Change in short-term funding	1,127,526,651.07	100,564,662.70
Change in long-term loans	-2,046,141,226.00	-1,876,808,796.02
Change in short-term loans	-219,555,300.40	47,070,269.80
Change in investments	-929,649,762.98	-446,529,759.78
Change in collaterals	-32,890,000.00	490,120,000.00
Interest paid	-172,854,141.28	-213,939,974.62
Interest received	309,769,302.79	309,557,574.47
Other income	7,754,099.41	2,484,645.56
Payments of operating expenses	-8,338,544.18	-13,349,360.51
Taxes paid	3,384,563.06	-3,462,171.07
CASH FLOW FROM INVESTING ACTIVITIES	**-1,128,330.48**	**-2,447,678.94**
Acquisition of tangible items	-390,145.36	-153,445.35
Acquisition of intangible items	-738,185.12	-2,294,233.59
CASH FLOW FROM FINANCING ACTIVITIES	**0.00**	**-9,765,949.50**
Dividends paid	0.00	-9,765,949.50
CHANGE IN CASH FUNDS	**-483,851,476.68**	**261,398,744.22**
CASH FUNDS AT 1 JANUARY	**2,474,929,614.81**	**2,213,530,870.59**
CASH FUNDS AT 31 DECEMBER	**1,991,078,138.13**	**2,474,929,614.81**

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, EUR	31 Dec 2012	31 Dec 2011
Cash and cash equivalents	228,187,577.63	26,507,291.80
Loans and advances to credit institutions	106,458,064.50	561,492,272.01
Debt securities maturing within three months	1,656,432,496.00	1,886,930,051.00

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 in its pre-funding portfolio based on the amendments to the IAS 39 and IFRS 7 standards. The Finnish Financial Supervisory 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 regulations in force.

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 on the balance sheet under Chapter 2, Section 14(4), of the Ministry of Finance Decree.

1. Loans and advances to credit institutions

31 Dec 2012	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	55,872	4,774	51,098
Foreign credit institutions	50,586	586	50,000
Total loans and advances to credit institutions	**106,458**	**5,360**	**101,098**

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 loans and advances to credit institutions	**561,493**	**3,497**	**557,996**

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

	31 Dec 2012	31 Dec 2011
Enterprises and housing corporations	8,104,843	6,981,594
Public sector entities	7,428,634	6,487,262
Non-profit organisations	166,647	155,799
Total	**15,700,124**	**13,624,655**

3. Debt securities

31 Dec 2012	Publicly quoted	Other	Total
Debt securities issued by public sector entities	693,933	697,341	1,391,274
Held to maturity	-	697,341	697,341
Municipal commercial papers	-	697,341	697,341
Available-for-sale	693,933	-	693,933
Government bonds	333,618	-	333,618
Bonds issued by other public sector entities	360,315	-	360,315
Debt securities issued by other than public sector entities	4,594,494	652,063	5,246,557
Held to maturity	132,649	55,309	187,958
Bank bonds	4,999	-	4,999
Commercial papers	-	55,309	55,309
Other debt securities	127,650	-	127,650
Available for sale	4,461,844	596,754	5,058,599
Bank certificates of deposit	-	579,828	579,828
Bank bonds	4,049,371	-	4,049,371
Other debt securities	412,474	16,926	429,400
Total debt securities	**5,288,427**	**1,349,404**	**6,637,831**
Eligible for central bank refinancing	4,534,815	70,152	4,604,967
Total non-interest bearing	4,999	-	4,999

Reclassification: Transferred from available-for-sale investments to held to maturity	Fair value of investments on transfer date
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 2,182 thousand on the fair value reserve. EUR 272 thousand of the valuation difference resulting from the transfer of debt securities to investments held to maturity was released from the fair value reserve in 2012.

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 held to maturity	Fair value of investments on transfer date
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 transfer of debt securities to investments held to maturity was released from the fair value reserve in 2011.

4. Assets leased under finance leases

	31 Dec 2012	31 Dec 2011
Machinery and equipment	62,843	29,790
Other assets	1,264	489
Total	**64,107**	**30,279**

5. Shares and participations

31 Dec 2012	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	10,008	27	10,035	-
Group companies	-	100	100	-
Total	**10,008**	**127**	**10,135**	**–**

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

6. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2012	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	582,000	4,068,764	1,545,619	6,196,383	56,035	-91,858
Currency derivatives Cross currency interest rate swaps	-	35,554	18,304	53,858	329	-323
Forward exchange contracts	927,088	-	-	927,088	592	-13,249
Equity derivatives	1,002,111	2,701,622	86,760	3,790,493	172,391	-172,391
Other derivatives	145,019	164,043	56,500	365,562	44,093	-43,733
Total	**2,656,217**	**6,969,983**	**1,707,184**	**11,333,384**	**273,441**	**–321,554**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	261,784	7,434,418	10,928,828	18,625,030	516,296	-378,058
Currency derivatives Cross currency interest rate swaps	2,483,905	7,587,950	3,969,502	14,041,357	1,761,946	-238,371
Total	**2,745,689**	**15,022,368**	**14,898,330**	**32,666,387**	**2,278,242**	**–616,429**
All total	**5,401,907**	**21,992,351**	**16,605,513**	**43,999,772**	**2,551,683**	**–937,983**

31 Dec 2011	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (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 Cross currency interest rate 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 under hedge accounting (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 Cross currency interest rate 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**

7. Intangible assets

	31 Dec 2012	31 Dec 2011
IT systems	2,399	2,273
Other intangible assets	776	1,014
Total	**3,175**	**3,287**

8. Tangible assets

	31 Dec 2012	31 Dec 2011
Real estate		
Buildings	480	478
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	614	485
Total	**1,527**	**1,397**

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

	Intangible assets	Tangible assets		
31 Dec 2012	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	5,414	1,167	1,579	2,746
+ Additions	740	40	349	389
- Disposals	-55	-	-	0
Acquisition cost 31 Dec	6,099	1,207	1,928	3,135
Accumulated depreciation 1 Jan	2,127	254	1,094	1,348
- Accumulated depreciation on disposals	-1	-	-	0
+ Depreciation for the financial year	798	39	220	259
Accumulated depreciation 31 Dec	2,924	293	1,314	1,607
Book value 31 Dec	**3,175**	**914**	**614**	**1,528**

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

10. Other assets

	31 Dec 2012	31 Dec 2011
Other	2,167	1,458
Total	**2,167**	**1,458**

11. Accrued income and prepayments

	31 Dec 2012	31 Dec 2011
Interest	253,683	243,547
Other	529	4,186
Total	**254,212**	**247,733**

12. Deferred tax assets and liabilities

	31 Dec 2011	Recognised in income statement	Recognised in equity	31 Dec 2012
Deferred tax assets				
On other than temporary differences				
On fair value reserve	4,611	-	-4,611	-
Total	**4,611**	**-**	**-4,611**	**-**
Deferred tax liabilities				
On other than temporary differences				
On fair value reserve	-	-	7,115	7,115
Total	**-**	**-**	**7,115**	**7,115**

Voluntary provisions include EUR 70,500 thousand in non-recognised deferred tax liabilities.

	31 Dec 2010	Recognised in income statement	Recognised in equity	31 Dec 2011
Deferred tax assets				
On other than temporary differences				
On fair value reserve	2,338	-	2,373	4,611
Total	**2,338**	**-**	**2,373**	**4,611**
Deferred tax liabilities				
On other than temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

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

13. Debt securities issued

	31 Dec 2012		31 Dec 2011	
	Book value	Nominal value	Book value	Nominal value
Bonds	17,434,533	20,045,787	16,925,977	21,663,857
Other	1,363,841	1,377,088	261,965	262,000
Total	**18,798,375**	**21,422,875**	**17,187,942**	**21,925,857**

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

14. Other liabilities

	31 Dec 2012	31 Dec 2011
Payment transfer	1,059	0
Other	169	2,434
Total	**1,228**	**2,434**

15. Accrued expenses and deferred income

	31 Dec 2012	31 Dec 2011
Interest	284,677	345,200
Other	13,092	4,168
Total	**297,769**	**349,368**

16. Subordinated liabilities

31 Dec 2012	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	39,346	Fixed	9/5/16
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10/12/10
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31/3/13
Total		**86,009**	**90,355**		

31 Dec 2011	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	38,907	Fixed	9/5/16
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10/12/10
3) Capital investments	EUR	1,009	1,009	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31/3/13
Total		**86,009**	**89,916**		

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 funds on the approved balance sheet of the previous financial year are fully provided 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 as of 10 December 2010, to repay the loan on each interest date subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the current 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 required by Finnish laws. 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 approves the interest payment. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not require payment of interest under the loan terms and conditions for 2012.

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 in 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.
   The Board of Municipality Finance applied to the Finnish Financial Supervisory Authority for permission to repay the "Upper Tier II loan 1/2008" bond of EUR 40 million. The Finnish Financial Supervisory Authority granted the permission on 28 January 2013, and the company will repay the loan on 31 March 2013.

17. Breakdown of financial assets and liabilities by maturity

31 Dec 2012	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	696,772	473,811	2,824,729	467,693	141,962	4,604,967
Loans and advances to credit institutions	98,458	8,000	-	-	-	106,458
Loans and advances to the public and public sector entities	219,515	1,063,207	5,145,980	3,803,556	5,467,866	15,700,124
Debt securities	959,661	547,054	436,900	50,037	39,212	2,032,864
Total	**1,974,406**	**2,092,072**	**8,407,609**	**4,321,286**	**5,649,040**	**22,444,413**
Liabilities to credit institutions	1,781,880	267,971	225,297	355,912	1,330,669	3,961,729
Liabilities to the public and public sector entities	20,986	26,620	216,996	473,149	311,726	1,049,477
Debt securities issued	2,854,235	6,164,798	7,422,376	1,695,948	661,018	18,798,375
Subordinated liabilities	40,000	10,000	39,346	-	1,009	90,355
Total	**4,697,101**	**6,469,389**	**7,904,015**	**2,525,009**	**2,304,422**	**23,899,936**

Liabilities that may be called prematurely have been entered in the table in the maturity class corresponding to the first possible call date. The company expects to call 40-50% of its liabilities in 2013. In 2012, the company called 34% of its liabilities.

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 and public sector entities	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**

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

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

31 Dec 2012	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	4,604,967	-	4,604,967
Loans and advances to credit institutions	106,120	338	106,458
Loans and advances to the public and public sector entities	15,764,232	-	15,764,232
Debt securities	2,032,864	-	2,032,864
Derivative contracts	2,551,683	-	2,551,683
Other assets incl. cash and cash equivalents	499,404	-	499,404
Total	**25,559,268**	**338**	**25,559,607**
Liabilities to credit institutions	3,590,257	371,473	3,961,730
Liabilities to the public and public sector entities	706,025	343,452	1,049,477
Debt securities issued	1,010,005	17,788,370	18,798,375
Derivative contracts	937,983	-	937,983
Subordinated liabilities	90,355	-	90,355
Other liabilities	545,178	176,509	721,688
Total	**6,879,802**	**18,679,805**	**25,559,607**

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 incl. cash and cash equivalents	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**

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

	31 Dec 2012		31 Dec 2011	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and cash equivalents	228,188	228,188	26,507	26,507
Debt securities eligible for central bank refinancing	4,604,967	4,596,706	3,558,112	3,549,772
Loans and advances to credit institutions	106,458	106,458	561,492	561,492
Loans and advances to the public and public sector entities	15,700,124	16,386,894	13,624,655	13,997,650
Debt securities	2,032,864	2,026,152	2,030,847	2,020,866
Shares and participations	10,035	10,035	27	27
Shares and participations in Group companies	100	100	100	100
Derivative contracts	2,551,683	2,551,683	3,750,334	3,750,334
Total	**25,234,419**	**25,906,216**	**23,552,074**	**23,906,749**
Financial liabilities				
Liabilities to credit institutions	3,961,730	3,961,513	3,533,230	3,532,809
Liabilities to the public and public sector entities	1,049,477	1,045,307	1,176,752	1,172,712
Debt securities issued	18,798,375	18,795,007	17,187,942	17,183,941
Derivative contracts	937,983	937,983	1,253,256	1,253,256
Subordinated liabilities	90,355	91,371	89,916	89,172
Total	**24,837,920**	**24,831,182**	**23,241,096**	**23,231,889**

20. Equity

31 Dec 2012	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 January 2012	43,008	277	-14,280	40,743	144	69,892
+ increase	-	-	36,207	-	21,497	57,704
- decrease	-	-	-	-	-	-
Book value 31 December 2012	**43,008**	**277**	**21,927**	**40,743**	**21,641**	**127,596**

31 Dec 2011	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 January 2011	43,008	277	-6,653	40,743	9,807	87,182
+ increase	-	-	-	-	103	103
- decrease	-	-	-7,627	-	-9,766	-17,393
Book value 31 December 2011	**43,008**	**277**	**-14,280**	**40,743**	**144**	**69,892**

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 2012, 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 in terms of voting rights and the number of shares held 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 2012	Number	Percentage
1. Keva (former name Local Government Pensions Institution)	11,975,550	30.66%
2. Republic of Finland	6,250,000	16.00%
3. City of Helsinki	4,066,525	10.41%
4. City of Espoo	1,547,884	3.96%
5. VAV-Asunnot Oy (City of Vantaa)	963,048	2.47%
6. City of Tampere	919,027	2.35%
7. City of Oulu	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. The total number of shareholders on 1 January 2013 after mergers of municipalities is 284.

Notes to the income statement

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

23. Breakdown of net interest income and expense

Interest income	2012	2011
Loans and advances to credit institutions and central banks	1,422	1,907
Loans and advances to the public and public sector entities	313,775	313,435
Debt securities	91,935	100,425
Derivative contracts	-134,503	-90,165
Other interest income	1,952	2,352
Total	**274,581**	**327,954**

Interest expense	2012	2011
Liabilities to the public	28,691	30,677
Liabilities to credit institutions and central banks	45,450	44,778
Debt securities issued	519,486	413,821
Derivative contracts	-463,471	-258,396
Subordinated liabilities	2,563	2,746
Other interest expense	540	425
Total	**133,259**	**234,051**

24. Net income from leasing operations

	2012	2011
Leasing income	7,600	2,118
Depreciation on lease assets according to plan	-6,561	-1,772
Capital gains and losses on lease assets	41	-
Total	**1,080**	**346**

25. Commission income and expense

Commission income	2012	2011
Lending	0	-
Total	**0**	**-**

Commission expense	2012	2011
Commission fees paid	125	79
Other	3,097	2,784
Total	**3,222**	**2,863**

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

26. Net income from securities and foreign exchange transactions

2012	Capital gains and losses (net)	Changes in fair value	Total
Measured at fair value through P/L			
Debt securities	-1,162	23,353	22,191
Derivative contracts	-	-7,429	-7,429
Other financial assets	-	-421	-421
Net income from securities transactions	-1,162	15,503	14,341
Net income from foreign exchange transactions	15	-16	0
Total	**-1,147**	**15,487**	**14,340**

2011	Capital gains and losses (net)	Changes in fair value	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
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**

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

	2012	2011
Disposal of financial assets	159	-182
Reversals of impairment	529	38
Transfers from fair value reserve	-283	-72
Total	**405**	**-216**

28. Net income from hedge accounting

	2012	2011
Net income from hedging instruments	335,210	325,926
Net income from hedged items	-334,870	-329,275
Total	**340**	**-3,349**

29. Other operating income

	2012	2011
Other income from credit institution operations	64	110
Total	**64**	**110**

30. Other operating expenses

	2012	2011
Rental expenses	1,735	1,452
Other expenses from credit institution operations	2,939	2,018
Total	**4,674**	**3,470**

31. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

32. Impairment losses on other financial assets

2012	Impairment losses per agreement	Decrease	Recognised in income statement
Debt securities held to maturity	-	-2,020	-2,020
Total	**-**	**-2,020**	**-2,020**

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

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

Pledges given for own liabilities	31 Dec 2012	31 Dec 2011
Liabilities to credit institutions	3,961,730	3,533,230
Liabilities to the public and public sector entities	1,049,477	1,176,752
Debt securities issued	18,798,375	17,187,942
Total given for own liabilities	**23,809,582**	**21,897,924**

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

Liabilities and collateral	31 Dec 2012	31 Dec 2011
Loans pledged to the central bank	2,036,320	1,119,103
Loans pledged to the Municipal Guarantee Board	13,381,558	12,292,246
Debt securities pledged to the Municipal Guarantee Board	5,738,476	5,044,995
Deposits pledged to the Municipal Guarantee Board	20,000	-
Total	**21,176,354**	**18,456,344**

35. Pension liabilities

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

36. Leasing and other rental liabilities

	31 Dec 2012	31 Dec 2011
Maturing within one year	1,265	1,141
Maturing in one to five years	2,777	3,908
Maturing in more than five years	-	-
Total	**4,042**	**5,049**

37. Off-balance-sheet commitments

	31 Dec 2012	31 Dec 2011
Binding credit commitments	1,247,588	1,375,718
Total	**1,247,588**	**1,375,718**

Notes on personnel and management

38. Municipality Finance Plc's personnel

	2012		2011	
	Average	End of year	Average	End of year
Permanent full-time	50	54	50	49
Permanent part-time	2	2	2	2
Fixed term	6	5	3	6
Total	**58**	**61**	**55**	**57**

Salaries and remuneration paid to management	**2012**	**2011**
CEO	497	546
Deputy to the CEO	389	406

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 remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 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 500 per meeting for the other members.

The remuneration paid to the parent company Board of Directors that served until the Annual General Meeting of 27 March 2012 is reported in Municipality Finance Plc's Annual Report 2011, 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 fixed remuneration (base salary and fringe benefits) and 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 remuneration.

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

The company does not offer any unusual fringe benefits.

Remuneration system

The variable remuneration paid in 2012 was based on the short-term scheme for 2011 included in Municipality Finance's remuneration system approved by the Board of Directors. At the end of 2011, Municipality Finance decided on a new remuneration system, which became applicable at the beginning of 2012. However, remuneration paid in 2012 was based on performance in 2011 and thus on the remuneration system valid then. The old remuneration system included a short-term scheme that applied to all staff, and the remuneration earned was paid annually. With regard to the CEO and the Board of Management, the target remuneration level in the short-term scheme was equal to three months' salary. The maximum remuneration was six months' salary. The maximum remuneration could only be paid on the basis of exceptional performance. The short-term scheme took into account both the performance of the individual and that of the company. The weight of these factors varied between different personnel groups. Due to the changed regulation concerning remuneration, the Board of Directors decided that payments made on the basis of the short-term scheme will be delayed so that the part of the remuneration that exceeds the four-month salary of the person in question will be paid in 2013.

In addition to the short-term scheme, the old remuneration system included a long-term scheme for the CEO, the Board of Management and key personnel. The long-term scheme consisted of three-year schemes starting annually. When the remuneration system was renewed at the beginning of 2012, it was also decided to terminate the unfinished long-term schemes before their expiry. The aim of the termination of the long-term schemes in the middle of their term was to simplify the remuneration system. Accordingly, in 2012, remuneration accrued for two long-term schemes was paid in proportion to the period that they had been in progress. The three-year period of the first long-term scheme (started in 2010) remained two years in duration, and the term of the second long-term scheme started in 2011 remained one year in duration. The goals of the long-term schemes were based on Municipality Finance's strategy and were the same for all participants in the scheme. For the CEO and the Board of Management, the target remuneration level paid under the long-term scheme corresponded to four months' salary with a maximum remuneration of eight months' salary. According to the terms and conditions of the long-term schemes, half of the remuneration was paid in 2012 and half was delayed to be paid in 2013.

The new remuneration system that became applicable at the beginning of 2012 is based on one annual scheme in which remuneration exceeding 50 thousand euros is, according to the regulation, delayed for payment during four years after 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 departments, key personnel, other employees). The target remuneration of the CEO and members of the Board of Management equals six months' salary, and the maximum remuneration for an earning year corresponds to the salary of twelve months. The maximum remuneration requires exceptional 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 department's performance by the Board of Management and that of an individual employee by the supervisor of each employee.

The company has a development project concerning the remuneration system in progress, which is aimed at further develope the remuneration system.

As required by regulations, the Board of Directors always has the final say in whether or not to pay the remuneration 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 function.

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

Variable remuneration is 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 remuneration paid in 2012

The management of the company (CEO and other members of the Board of Management), heads of departments responsible for business operations (heads of departments responsible for lending, leasing, acquisition of funding, investments and treasury), the risk management director (member of the Board of Management) and the compliance director (member of the Board of Management) were paid a total of EUR 1.70 million in salaries in 2012, and a total of EUR 0.86 million in variable salaries (earned in 2010–2011).

Related party transactions

39. Loans and other financial receivables from the 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 audit fees

40. Audit and other fees paid to audit firm

	2012	2011
Auditing	88	91
Tax advisory services	27	-
Other services	69	47
Total	**184**	**138**

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

Municipality Finance Plc's distributable funds total EUR 21,641,120.68, of which the profit for the financial year is EUR 21,496,790.16.

The Board of Directors will propose to the Annual General Meeting that:

- no dividend be distributed, and
- the distributable funds totalling EUR 21,641,120.68 be retained in equity.

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

Helsinki,14 February 2013

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
President and CEO

Auditor's note

A report on the audit performed has been issued today.
Helsinki, 14 February 2013
KPMG OY AB

Marcus Tötterman
Authorised 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, 2012. 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.

Helsinki, 14 February 2013
KPMG OY AB

[Signed]
Marcus Tötterman
Authorized Public Accountant

Municipality Finance Plc

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