Building a **Responsible** Tomorrow.

Annual Report 2016

MuniFin
MUNICIPALITY FINANCE

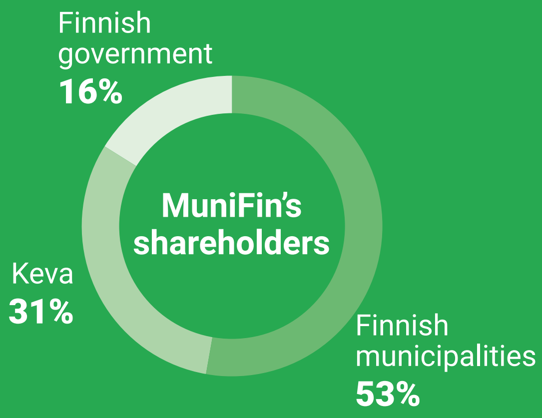
Municipality Finance **in Brief**

Municipality Finance Plc has a mission to ensure the availability of competitive financing for Finland's local government sector and government-subsidised housing production under all market conditions. Municipality Finance (MuniFin) forms a key part of the basic economic structure of Finland, and its profitability benefits all municipal residents.

MuniFin has a role in the daily life of every Finn. It is the only Finnish credit institution that specialises exclusively in financing the local government sector and central government-subsidised housing production. It plays a central part in building the Finnish society.

The advantages of MuniFin's competitively priced, reliable financing can be seen directly in the costs of day care centres, schools, hospitals and other socially significant investments. MuniFin acquires funding from extensively diversified sources in international capital markets.

MuniFin's funding operations are explicitly guaranteed by the Municipal Guarantee Board and the guarantee itself is based on the Act of the Municipal Guarantee Board. MuniFin is by far the largest provider of financing for the local government sector and for government-subsidised housing production in Finland.



Credit ratings
Standard & Poor's AA+ (stable outlook)
Moody's Aa1 (stable outlook)

Contents

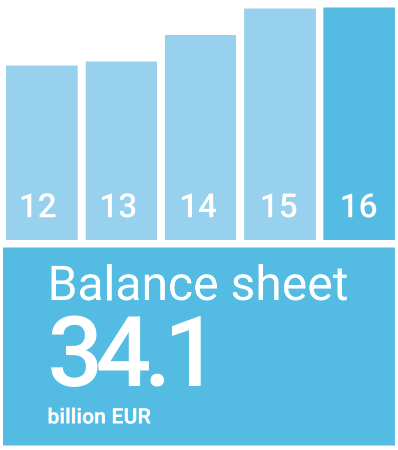
Year **2016**

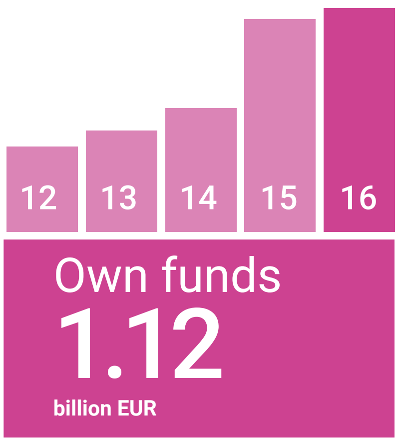
Highlights of the Year

- The interest in Municipality Finance's financial services remained high in 2016. The total of loans withdrawn increased slightly year on year, and MuniFin's market share grew. New loans issued stood at EUR 2.9 billion, and the loan portfolio increased to EUR 20.9 billion.
- In 2016, MuniFin introduced new products, green loan and leasing. MuniFin is the first Finnish financial services provider that has launched a less expensive financial product intended for environmentally friendly investments. The initiatives suitable for green funding are assessed by an evaluation team comprising of external experts. The new financial product was warmly welcomed by customers.
- The company's funding was very successful. As a result of the launch of green financing, MuniFin issued Finland's first ever green bond. This brought new investors specialising in responsible investments to MuniFin's investor base. Furthermore, MuniFin further diversified its funding by issuing a EUR 1 billion benchmark bond on public euro markets. The euro benchmark bond was successful, just like the year's other benchmark issue, sized at USD 1 billion.
- The user base of MuniFin's new Apollo service expanded considerably during 2016. Apollo is a user-friendly, dynamic and secure online service enabling customers to manage and analyse their financial portfolios.
- Since 1 January 2016, MuniFin has been under the direct supervision of the European Central Bank (ECB). MuniFin succeeded well in responding to the supervisory requirements, and is making its processes more streamlined and effective. MuniFin has proactively developed its capital adequacy for many years now, and it exceeds many times banking regulation's minimum requirement.
- Digitalisation and the development of e-services took great leaps forward. MuniFin developed its internal processes by, for example, transferring to a fully electronic processing system for its funding and derivative documents. Effective processes mean ever better and smoother services to customers.
- MuniFin began a systematic development of its corporate responsibility operations. Financial, social and ecological responsibility are the cornerstones of everything that the company does.
- The number of personnel continued to grow in 2016.

Key figures (Group)

	2016	2015	Change%
Net interest income (EUR million)	**206.1**	172.2	20%
Net operating profit (EUR million)	**174.2**	151.8	15%
Lending portfolio (EUR million)	**20,910**	20,088	4%
Total funding acquired (EUR million)	**28,662**	28,419	1%
Balance sheet total (EUR million)	**34,052**	33,889	0%
Ratio of total own funds to risk-weighted assets, %	**66.89**	64.61	4%
Total own funds (EUR million)	**1,124**	1,069	5%
Leverage ratio, %	**3.54**	3.15	12%





CEO's Review

The First Step into a **New Era**

The year 2016 marked a new beginning for Municipality Finance. It was a very busy year due to the transfer of MuniFin under the supervision of the European Central Bank, market uncertainty and major structural reforms proposed by the Finnish Government.

Despite the continuous change and challenging conditions, MuniFin performed well in 2016. The financial uncertainty and unpredictability that has characterised the world economy for a long time persisted in the global markets. This uncertainty was further increased by the aggressive interest rate policies of central banks, along with the decision of the UK to leave the EU and the US presidential election.

Again, we had excellent success in our funding acquisition despite the difficult global market conditions. In line with our mission, we were able to offer financing at competitive rates to the municipal sector and to government-subsidised housing production in Finland.

2016 was our first year under the direct supervision of the European Central Bank. Meeting the supervisory requirements has required a considerable amount of work and the development of our processes.

We have met these requirements very well and will continue to make our processes and reporting even smoother. Thanks to our long-term efforts, our capital adequacy exceeds many times the minimum requirement set by the ECB.

In November 2016, the European Commission proposed a reform in the key elements of the regulatory framework of the banking sector. As part of this proposal, the Commission finds that the special characteristics of operators serving and mandated by the public sector need to be taken into account within these regulations. While we welcome this important policy definition, it still needs to pass through the EU legislative process and be implemented in our legislation before we can rest assured that MuniFin can be regarded as such an operator.

Green financing and green bonds are pioneering products. In the future, responsible financing will be further emphasised throughout the financial markets.

CEO's Review

We have secured competitive financing for municipalities in all market conditions for more than 25 years. We will continue to develop our operations to ensure that we are able to serve our customers flexibly, efficiently and responsibly also in the future.

Tried and Tested System

MuniFin channels financing from the international capital markets and is a key operator in the municipalities' funding acquisition system. Similarly, the Municipal Guarantee Board plays an important role as a guarantor of this funding. This system has secured competitive financing for municipalities in all market conditions for more than 25 years.

The structural changes in the public sector that are currently being prepared in Finland may have a significant effect on MuniFin. We find that the planned changes present both threats and opportunities for us.

In the implementation of the health, social services and regional government reform, appropriate framework conditions must be ensured in order to strengthen the finances of municipalities and counties while safeguarding the continuity of the necessary investments. Crucial issues include the relationships between the municipalities and the autonomous regions that will be formed, changes in the distribution of tax income, real estate property transfers, and the future practices for guaranteeing the regions' loans.

In the future, the autonomous regions – counties – shall be responsible for the regional economy as a whole, including the right to decide on investments and long-term borrowing. The counties' right to levy taxes should be launched during the next parliamentary term.

Emphasis on Responsibility

Responsibility is the guiding principle in everything that MuniFin does. In 2016, we were the first Finnish company to introduce green financing, a concept that encourages customers to make environmentally friendly investments, and a green bond for our investors. Both of these products received an excellent response. I am confident that responsible funding will be further emphasised in the years to come – also beyond the context of environmental impacts.

The number of MuniFin personnel continued to grow in 2016, and their tasks became increasingly demanding. Digitalisation is changing our processes, documentation, job descriptions and providing new opportunities for our services. We will continue to develop our operations and human resources to ensure that we will be able to serve our customers flexibly, efficiently and responsibly in the future. We will also nurture the wellbeing of our highly skilled employees.

I would like to thank our customers and personnel for their excellent partnership and cooperation. This support continues to ensure our success despite the challenging conditions.

Pekka Averio
President and CEO
Municipality Finance Plc

Operating Environment

Uncertainty Continues in the Markets

The year 2016 was characterised by general uncertainty. Global economic developments, digitalisation and the increased emphasis on environmental values continue to have an impact on all sectors. In Finland, the most significant factor that affects MuniFin's operations is the structural change in the public sector.

The developments of the world economy affect the operations of MuniFin. In 2016, the global operating environment experienced major changes and the global economic outlook was, and continues to be, uncertain. The actions of central banks, fluctuations in share prices, circumstances in the developing economies and the tightening global security situation all have an impact on the economy. The long-term economic impacts of Brexit and the outcome of the U.S. presidential election are still difficult to assess.

The Finnish economy returned to the growth path in 2016, but the growth is expected to remain slow. The structural problems of the Finnish economy and the ageing population are slowing down economic recovery. As the population ages and becomes concentrated in urban areas, the need to secure a good level of services requires that service providers increase their efficiency.

Slow growth and the ageing of population are putting pressure on the Finnish government and municipalities, which has a direct impact on MuniFin's operating environment. Internationally speaking, MuniFin's creditworthiness is evaluated based on the credit ratings of the Finnish state and the municipalities. MuniFin's excellent reputation in the financial markets provides a good basis for our operations.

"The transfer of MuniFin under the direct supervision of the ECB has been challenging and has required great efforts from us. As a result of this, we have developed our processes and reporting."
Mari Tyster, Executive Vice President, Administration and Legal

In 2016, the global operating environment experienced major changes.

Operating Environment

The Health and Social Services Reform Affects Everything

By far the most significant factor in Finland affecting MuniFin in the near future is the structural change in the fields of health and social services and local government. The haziness concerning the exact content, implementation and impact of the health, social services and regional government reform is reflected in the municipal sector as a whole. Due to this uncertainty, there is a growing need for advisory services in the municipalities. Furthermore, a major generational change is under way among municipal officials and decision-makers.

For the time being, the uncertainties in the customers' operating environment have had a surprisingly small impact on MuniFin's operations. In 2016, MuniFin strengthened its position in its customer base.

Digitalisation Opens up New Opportunities

One of the key success factors is the exploitation of opportunities arising from digitalisation. Standardised, automated processes and information systems play an important role in MuniFin's operations. E-services will become an increasingly important tool in meeting customer needs.

The uncertain economic outlook, our customers' changing needs, stricter banking regulation and our investors' shifting requirements will demand swift reactions from MuniFin in the future. This calls for continuous streamlining of processes, digitalisation offering significant potential for improvement.

The uncertain economic outlook, the customers' and investors' changing needs and the stricter banking regulation demand swift reactions from MuniFin.

ECB Supervision Changes Practices

MuniFin's transfer under the direct supervision of the European Central Bank also meant a shift to a league of international financial institutions. The tightened banking regulation and the ECB's supervisory requirements pose new demands for MuniFin's risk management, reporting and the standardisation of processes. In addition to increased workload, the tightened regulation and supervision have multiplied the fees paid by MuniFin to various authorities.

The remaining challenges include monitoring the preparation of changes in EU-level banking regulation and influencing this preparation process at a sufficiently early stage. MuniFin's particular business model and special characteristics will not automatically be considered by EU regulators. Therefore, the company needs to continuously communicate with legislators and the supervisory authorities.

Strategy and Targets

Customers at the Heart of the Strategy

MuniFin's strategy is to develop its operations by foreseeing the changes and the altering needs of its customers and operating environment. This makes it possible for the company to offer the best possible services and maintain its competitiveness under all circumstances. Long-term partnerships bring benefits to customers.

Emphasis on Corporate Social Responsibility

Responsibility is at the heart of MuniFin's operations, not least because the financing it provides enables its customers to invest in targets that are important for society. In its operations, MuniFin takes the necessary measures to be financially, socially and environmentally responsible. In 2016, the company added responsibility to its core values.

MuniFin provides its customers with comprehensive services. This includes catering to the full range of our customers' investment needs, from financial planning to funding acquisition and the life cycle management of investments. Risk management aspects are taken into account in all of its business decisions, and the company provides its customers with expertise for the management of their entire financial portfolio.

MuniFin tailors its services and financing solutions to the customers' needs at any given time, and launches new products and services to meet their changing needs. MuniFin's customers have access to a growing range of financing alternatives, such as leasing solutions which have become increasingly popular. The company continues to place an even stronger emphasis on customer satisfaction in everything it does.

Competitive Financing Under All Circumstances

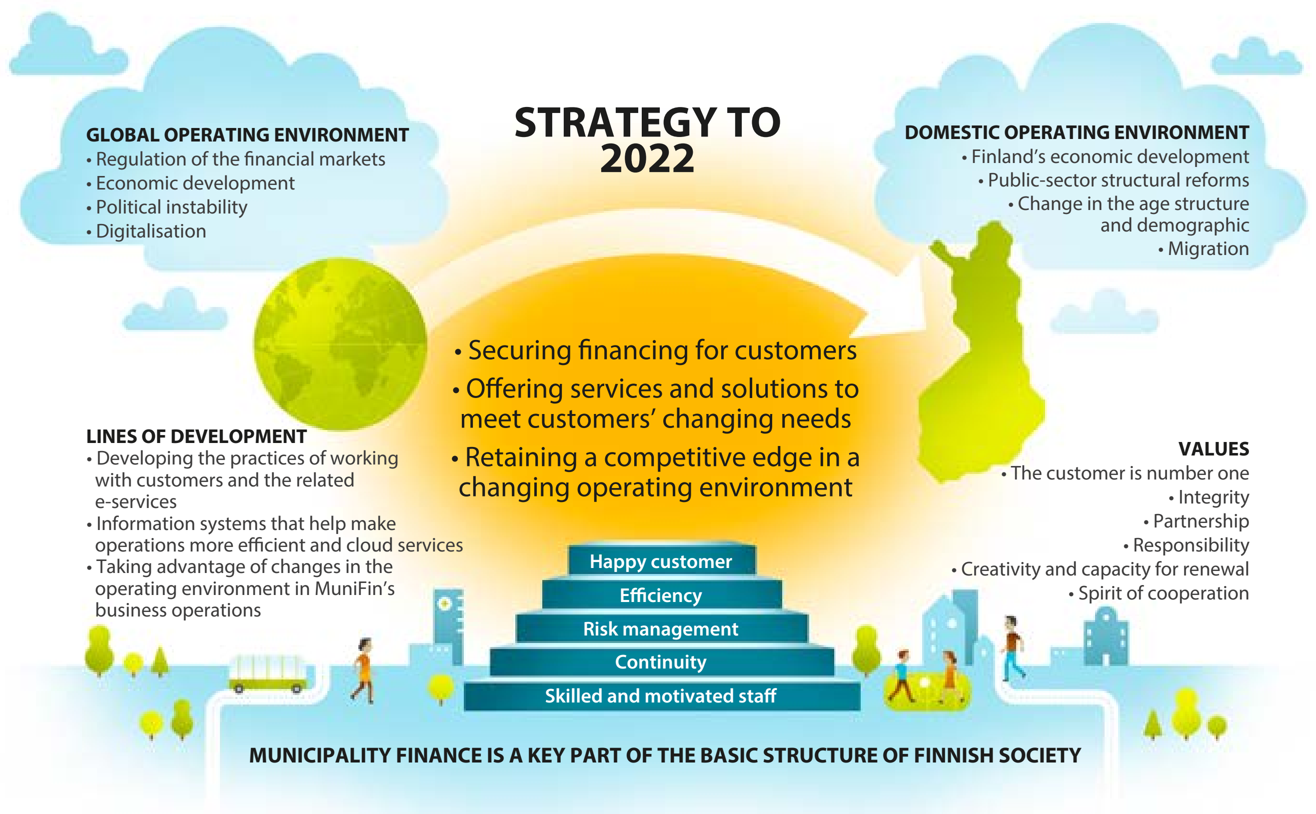
MuniFin obtains the funding it lends to its customers from international capital markets. Funding acquisition is extensively diversified across geographic areas, markets and investor types. This extensive diversification reduces the risks associated with funding and ensures competitively priced financing.

The company conducts a highly conservative risk policy, and in the continuingly uncertain market conditions, risk control has to be emphasised further. MuniFin's liquid investments, i.e. investments that can be quickly converted into cash, ensure the continuity of competitive financing also under difficult market circumstances.

Digitalisation Ensures Competitiveness

In 2016, MuniFin added digitalisation to its strategy as one of the key megatrends affecting its operations. The operating environment and customers' needs are constantly changing, and MuniFin responds to these changes by further developing its operations. It ensures its competitiveness through organisational restructuring, continuous training of its employees and new recruitments. Digitalisation, the development of IT systems and the use of processes that are as automated as possible improve its operational efficiency and reliability. MuniFin's new e-services further improve its customer service and increase its interaction with customers.

MuniFin caters to the full range of its customers' investment needs, from financial planning to funding acquisition and the life cycle management of investments.



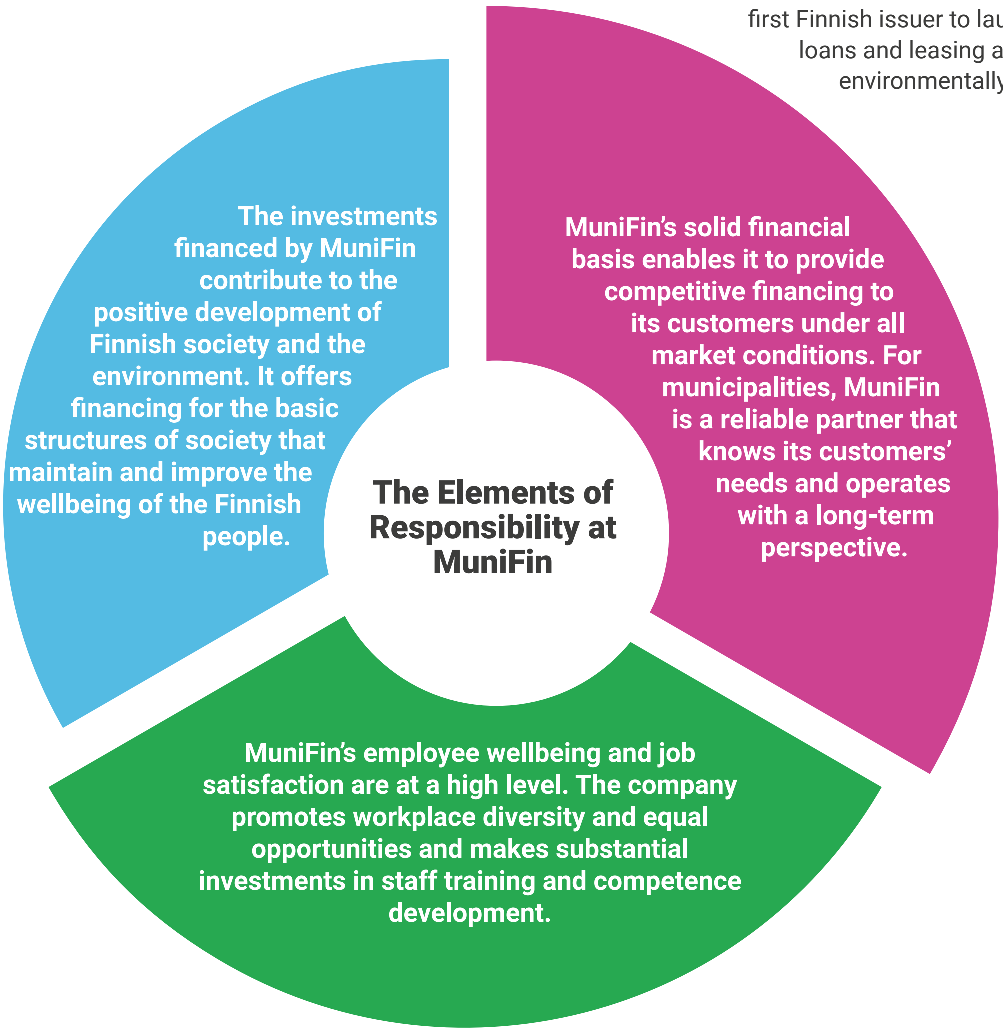
Impact on Society

Extensive Impact on the Entire Society

Social responsibility lies at the core of its operations because the projects financed by Municipality Finance are important for society and are aimed at increasing the wellbeing of the Finnish people.

MuniFin is strongly present in the daily lives of Finns. For operators in the municipal sector and social housing provision, MuniFin is a reliable long-term partner that knows its customers. Customers come to MuniFin for flexible, diverse and overall competitively priced financing solutions for various kinds of investments.

In 2016, MuniFin placed a particular emphasis on the development of its environmental responsibility. In the spring of 2016, the company launched green financing for its customers. In the autumn of 2016, it became the first Finnish issuer to launch a green bond. The green loans and leasing are intended for financing environmentally friendly investments.



Impact on Society

Reliable, Financially Strong and Flexible

MuniFin has improved its profitability for a long time in order to prepare for the stricter banking regulation. Efficient operations directly benefit the company's customers as they ensure that the company is able to provide low-cost financing under all circumstances.

MuniFin focuses on long-term business goals. The company's operations are based on the provision of competitive financing for the local government sector and for state-subsidised housing production in a profitable manner, however, without attempting to maximise profits.

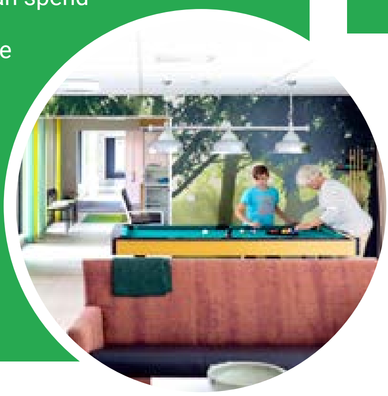
From the viewpoint of investors in the international capital markets, MuniFin is a widely recognised, reliable, flexible and predictable counterparty. The high credit rating of the Finnish central and municipal governments gives MuniFin a good basis for obtaining funding.

Movable day care centre made of demountable housing units

The Lipunkantajanpolku day care centre in Espoo is made of demountable housing units. If needed, the building can be demounted and moved to another location. This movability does not affect the building's daily use and functions in any way and is a flexible alternative that has a short delivery time. The Lipunkantajanpolku day care centre was financed with leasing granted by MuniFin.

Community housing for the elderly

Jaso is a Finnish non-profit organisation that develops right-of-occupancy flats for the elderly. The residents live in their own flats and can spend time together in communal facilities. The residents have participated in the planning of the accommodation and can decide themselves about their communal activities. The third Jaso building will be completed in Jyväskylä in 2017. MuniFin has been the main financier of Jaso's housing projects.



A joint campus for several educational institutions

In the city of Vaasa, the University of Vaasa and two universities of applied sciences operate on the same Palosaari coastal campus. The campus breaks language barriers since one of the universities of applied sciences is a Finnish-language institution and the other is a Swedish-language institution. A joint campus brings synergy effects and creates operational savings. MuniFin is responsible for the financing of this EUR 30 million project.

Business

Social responsibility is at the heart of MuniFin's operations since the projects the company finances are socially significant and aim at improving the wellbeing of Finnish residents.

Business

Business Focus on **Customers**

Municipality Finance is a comprehensive provider of financing that operates in domestic financing and in international capital markets. The Group's business areas support each other to ensure that MuniFin is able to operate under all circumstances.

MuniFin offers financing for the investments of the local government sector and for state-subsidised housing production.

All of MuniFin's business areas focus on meeting the customers' needs and interests in all situations. MuniFin supports its customers from the early planning stages when the different project implementation and financing alternatives are being considered.

MuniFin offers financing for the investments of the local government sector and for state-subsidised housing production. MuniFin's financial product portfolio includes various alternatives, from short-term funding arrangements to very long-term loans and leasing solutions. Financing solutions are tailored to customers' individual needs.

MuniFin obtains the funding it lends to its customers from international markets. The funding is extensively diversified, which reduces risks and makes competitively-priced funds available at any given time. From the viewpoint of investors, MuniFin is a widely recognised, reliable, safe and flexible issuer.

Liquid investments, i.e. ones that can easily be turned into cash, help to safeguard MuniFin's operations in all conditions. These ensure that MuniFin is able to offer funding to its customers and meet its commitments, even during severe market disturbances.

Financial Advisory Services Inspira Ltd, a subsidiary of the Municipality Finance Group, offers municipalities and other public-sector bodies independent expert and consulting services within finance. Inspira's mission is to help the public sector to produce services with lower costs and higher quality.

MuniFin's various business areas form an entity that serves customers at all stages of investment financing. MuniFin partners with municipalities to support their investments throughout their life cycle, from planning to the follow-up of realised investments.

Understanding customers' needs and ensuring customer satisfaction are the core of everything MuniFin does.

Business / **Customer Finance**

Financing for Varying Needs

MuniFin's loan periods and repayment terms are flexibly tailored according to customers' needs. The terms offered by MuniFin are transparent, which makes its operations trustworthy and predictable for customers. The costs associated with MuniFin's loans are competitive.

MuniFin offers long-term financing such as budgeting, investment and interest subsidy loans, as well as non-subsidised mortgages. For short-term financing of less than 12 months in duration, MuniFin offers municipal commercial paper and municipal company commercial paper programmes.

Versatile Leasing Options

MuniFin's leasing is suited to the financing of diverse targets. It refers to capital leasing in which the customer acquires an asset for a certain period. The lease agreement is made for a period that corresponds to the actual financial and technical lifetime of the asset.

The leasing options offered by MuniFin are financial leasing framework agreements and real estate leasing. Financial leasing refers to the long-term rental of fixed assets such as machinery, medical equipment, furniture, vehicles or IT and office equipment. Real estate leasing is typically used for funding school buildings, day care centres and multipurpose centres.

Äänekoski chooses MuniFin's leasing to build new schools

The town of Äänekoski will build a new upper secondary school and two new comprehensive schools that will house both a primary and a secondary school: one in the downtown of Äänekoski and the other in the area of Suolahti. These extensive projects totalling around EUR 40 million will be financed with MuniFin's 25-year leasing agreement. Äänekoski chose leasing because financing its investment with a one-time loan would have put a too heavy burden on this small town.

MuniFin's loans and leasing solutions are easy to understand and competitively priced, and their terms and conditions are transparent.

Leasing arrangements do not tie the customer's capital to asset ownership. The costs of the arrangement can be predicted throughout its life cycle, and relate directly to the target in question. The leasing solutions offered by MuniFin are easy to understand and transparent in terms of costs.

By far the Largest Financier Among its Customer Base

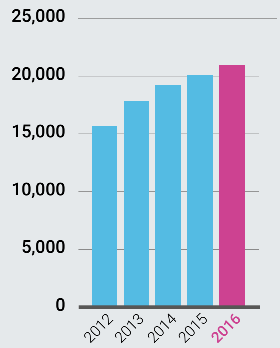
The interest in Municipality Finance's financial services remained high in 2016. The total of loans withdrawn increased year on year, and MuniFin's market share grew. New loans issued stood at EUR 2.9 billion, and the loan portfolio increased to EUR 20.9 billion.

Municipalities are also interested in leasing-based financing solutions for large investments, such as real estate. The pricing of MuniFin's real estate leasing is very close to the price level of lending, enabling the company to provide its customers with an alternative, competitive form of financing.

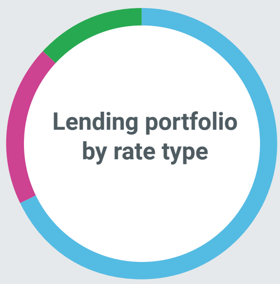
MuniFin offers a free asset registration service for its leasing customers' use, with which they can monitor and maintain some of the financial and technical data related to the assets they have leased. The service facilitates careful tracking so that customers can keep abreast of the overall situation and technical details related to their leasing arrangements.

MuniFin also offers derivative contracts tailored for hedging the customers' loan portfolios, enabling them to manage the interest rate risk of both loans and leasing-based financing. Derivatives are offered only for hedging purposes.

Lending portfolio 2012–2016 (MEUR)



Housing corporations	44%
Municipalities	38%
Local government corporations	14%
Municipal federations	4%



Euribor	68%
Long-term rate	19%
Fixed	13%

"Our Apollo service, launched in 2015 for the analysis and management of our customers' financial portfolios, has received an excellent response and its user base expanded considerably in 2016. We will continue to develop the features and functions of the service."

Jukka Helminen, Executive Vice President, Customer Finance

New loans issued in 2016

2.9

billion euros

Business / **Funding**

Funds from Around the World

Municipality Finance acquires the funds required for providing loans to customers from around the world. The company receives its diversified funding from international capital markets, where it is widely recognised and has an excellent reputation.

MuniFin has diversified its funding extensively across markets, currencies, durations and maturities. Thanks to this extensive diversification, MuniFin is not dependent on fluctuations in any single market. Diversification has significantly reduced the refinancing risks linked to the continuity of funding. It also ensures that various types of investors, such as central banks, asset managers and banks, subscribe to bonds issued by MuniFin.

Extensive diversification has also made MuniFin's funding efficient, which enables the company to offer competitive financing for its customers. The good credit ratings of the Finnish Sovereign, municipalities and MuniFin help to keep funding costs low.

In 2016, MuniFin won the GlobalCapital Bond Award for the Most Impressive SSA Borrower in MTNs, i.e. a public-sector-owned issuer of tailored medium term notes.

USD 1 billion benchmark was clearly oversubscribed

In July 2016, MuniFin issued a three-year USD benchmark note. The note was rapidly almost twice oversubscribed. The subscribers were high-quality investors from around the world. 70 per cent of the transaction was sold to central banks and supranationals. Investor demand from the U.S. was livelier than for MuniFin's previous USD benchmarks.

A Flexible and Reliable Player

In 2016, MuniFin's funding was very successful. For investors and agent banks, MuniFin is one of the most flexible, reliable and rapidly reacting partners on the capital market.

Maintaining and developing the efficiency and fluency of MuniFin's funding processes are key factors for investors to continue seeing the company as an attractive business partner. As an issuer, MuniFin has received particularly good feedback on its understanding of market requirements, its clear, trustworthy and effective communications and the staff competence.

MuniFin carries out most of its funding transactions as single issues under diverse debt programmes. Debt programmes allow MuniFin to react quickly and to make use of the opportunities brought by changes in market conditions.

Business / **Funding**

"Our funding was very successful in 2016, despite the continuously challenging overall market situation. The absolute highlight of our funding was the launch of our green bond. Our benchmark issues were also successful. We also managed to maintain a high demand on Japan's increasingly challenging Uridashi market."

Esa Kallio, Deputy to the CEO, Executive Vice President

Diversification Hedges Financing Risks

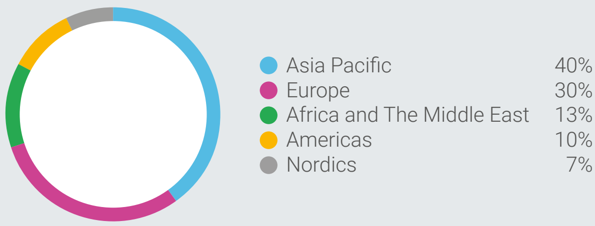
MuniFin's long-term work in international capital markets and good investor relations are important success factors. Thanks to its determined and systematic investor relation efforts, the company holds a strong position on the benchmark bond market.

MuniFin's risk management policy is also strict with regard to funding. One of the main risk management methods is diversification: MuniFin has diversified its funding extensively across markets, currencies and investor groups. It hedges its currency risks by swapping all of its funding into euros.

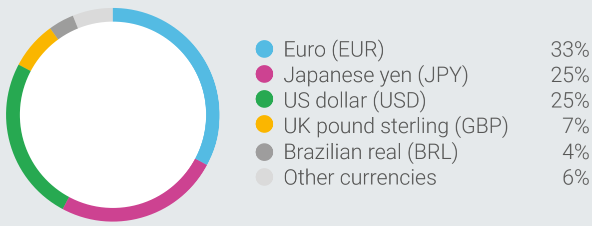
MuniFin is trusted around the world and has an excellent reputation among investors. In 2016, MuniFin won the award for the Most Impressive SSA Borrower in MTNs, i.e. a public-sector-owned issuer of tailored medium term notes.

Acquired funding by investor type in 2016

Acquired funding by region in 2016



Acquired funding by currency in 2016



EUR 1 billion benchmark attracted investors

In March 2016, MuniFin issued a euro benchmark maturing in October 2021. The transaction was MuniFin's first euro benchmark in 13 years. The final issue size was EUR 1 billion.

The book was very granular, with over 50 accounts participating from more than 15 jurisdictions. The demand was greatest in Europe. The most important investor type that participated in the transaction was banks with a 50 per cent share.

New long-term funding in 2016

6.7

billion euros

Business / **Liquidity Management**

Liquid Investments Ensure Continuous Operations

Through liquid investments that can easily be realised into cash, MuniFin ensures operational continuity through any market conditions. This safeguards both our customer financing and the refinancing of expiring funds.

In line with MuniFin's liquidity policy, the total liquidity amount must be enough to cover uninterrupted business for at least six months. In addition, the company must meet a 70 per cent minimum liquidity requirement as indicated by the liquidity coverage ratio (LCR). As of 1 January 2017, the LCR must be at least 80 per cent. MuniFin's liquidity policy considerably reduces its refinancing risk in the event of capital market disturbances.

MuniFin also uses repurchasing contracts with central banks and capital markets for ensuring continuity.

MuniFin's total liquid assets amounted to EUR 7.3 billion at the end of 2016. The liquidity buffer covered the funding needs of around 9.4 months.

Clear Policy Outlines Guide Investments

The Treasury department manages MuniFin's overall liquidity, which is subdivided into short- and long-term liquidity. Short-term liquidity consists of cash and comparable investments. Long-term liquidity mainly consists of variable interest investments with a term that exceeds 12 months and fixed-interest investments covered by interest-rate hedging. The ratio between short- and long-term liquidity is allocated monthly based on anticipated liquidity needs. At year-end, the proportions of short-term and long-term liquidity were 20.1% and 79.9% respectively.

Liquidity investments are made in global fixed-income markets with strong diversification. The primary objective is to protect the capital invested and to ensure easy realisability. MuniFin's investment operations are directed by the operating policies and ethical principles approved by the company's Board, as well as by an annually set credit risk allocation.

"Effective risk management is important from the viewpoint of MuniFin's corporate responsibility. A profitable business – the continuity of which has been secured – represents financial corporate responsibility that enables us to serve our customers as well as possible."

Toni Heikkilä, Executive Vice President, CRO, Risk Management

The primary objective of liquidity management is to protect the capital invested and ensure its easy realisability. Liquidity investments are made in global fixed-income market.

Efficiently Diversified Investments with a High Credit Rating

The credit and market risks as well as the expected yield of MuniFin's long-term liquidity are managed by diversification into asset classes and different countries. In 2016, the asset class distribution of investments was unaltered in order to secure the targeted risk level and sufficient yields.

Besides low interest rates, 2016 was characterised by low secondary market liquidity. The ECB's purchase programme and tighter banking regulation lowered the liquidity of bonds on the secondary market.

MuniFin regularly evaluates the liquidity of its investments by employing an in-house method, as well as the eligibility of its assets as collateral on the repo markets. At the end of 2016, 87 per cent of all long-term investments met the central bank's repo eligibility conditions.

At the end of 2016, the average maturity of all investments was 2.3 years (2015: 2.3 years). The average credit rating of the company's investments was AA (2015: AA).

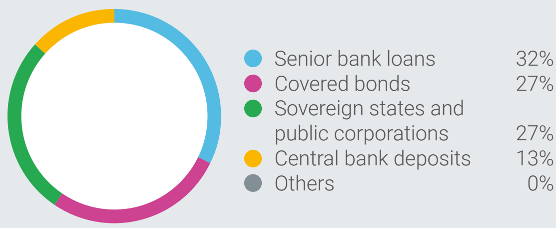
Responsible Investment

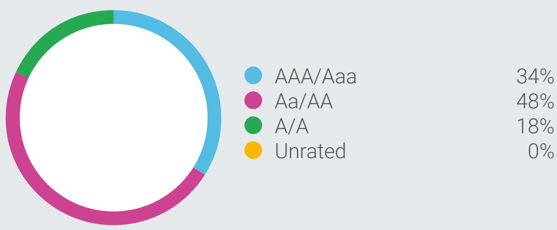
MuniFin's investments are made in compliance with the ethical principles approved by its Board of Directors. In 2015, the Company started applying the ESG (Environmental, Social and Governance) criteria to its individual investments. The ESG criteria is used to evaluate the environmental and social responsibility and governance practices of the issuers in the liquidity portfolio.

The ESG averages of all investments are compared to the market average and to the closest possible benchmark. The ESG analysis and evaluation of issuers is carried out by the German asset manager Union Investment.

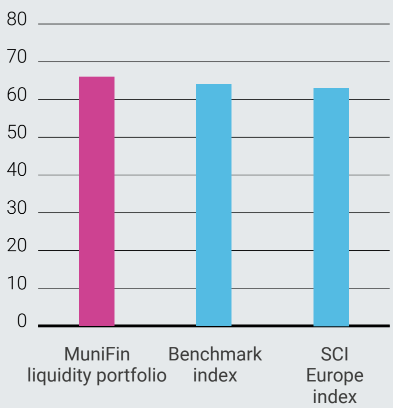
At the end of 2016, MuniFin's liquidity investments had an ESG average of 66.5 on a scale of 1–100. This is 2.1 points higher than the market's benchmark index (64.4), which is calculated from market indices using a similar asset class distribution as that of the company's liquidity portfolio. The ESG average of MuniFin grew by 1.5 points from the previous year, and the difference between it and the benchmark index also increased slightly.

Overall liquidity by asset class and credit rating





ESG value of MuniFin's liquidity investments



Business / **Inspira**

High-level Financial **Consulting**

Financial Advisory Services Inspira Ltd, a subsidiary of the Municipality Finance Group, specialises in expert and consulting services within the finance industry. Inspira's mission is to help the public sector to produce services with lower costs and higher quality.

Inspira offers independent expert services to municipalities and other public-sector bodies. Inspira's service portfolio includes financial modelling of investment projects, mapping of financing alternatives, financial advice and consulting on planning for municipal investments and functional reorganisations.

Inspira's strength lies in its knowledge of the special needs of the public sector. This is based on its long and diverse experience of public-sector investments into areas such as school buildings, elderly care centres, renewable energy projects and motorways. Inspira takes a comprehensive view of the needs of its customers and acts as the responsible public-sector partner in investment projects. In addition, Inspira has experience of advising on the collaboration between the public and private sectors.

When the prerequisites, execution options and cost effects of projects are presented in clear numerical form, it is easier for municipal governments or councils to make decisions on them.

Risk Management emphasised in the Torkinmäki Life Cycle Project

Inspira operated as a financial advisor of the city of Kokkola in the Torkinmäki school and day care centre project, since the city was not familiar with the negotiation and competitive tendering procedure related to the life cycle model. The city purchases usability and educational conditions; if these do not meet the level specified in the agreement, the service provider is responsible for correcting them. The city can reliably estimate the costs of the property throughout the 20-year agreement period.

Number of Inspira's assignments in 2016

123

Fact-based Decision-making

In making the preliminary analysis for projects, Inspira looks at diverse funding alternatives and helps the customer to choose the one that best suits their needs at the time. Additionally, Inspira will make clear proposals for further actions to be taken.

When it comes to the execution and financing of investment projects, Inspira can give advice on the entire life cycle of the project. Asset management services are offered as part of arrangements related to assets and reorganising of service production. Whether an investment or a reorganisation project, Inspira makes tried and tested best practices available to its customers.

When the prerequisites, execution options and cost effects of projects are presented in clear numerical form, it is easier for municipal governments or councils to make decisions on them.

Growing Demand

The demand for Inspira's services increased in 2016, which reflects the need of municipalities to anticipate, first and foremost, the effects of the social and health services reform. Municipalities are paying increasing attention to the profitability of investments, and therefore to diverse execution alternatives.

Due to indoor air quality problems in school buildings, municipalities are showing increasing interest in real estate life cycle projects. This is in turn reflected in the assignments received by Inspira. In addition, investment projects related to energy savings and renewable energy played a major role in 2016.

The number of personnel at Inspira grew considerably in 2016. In this way, Inspira is preparing for a change in municipalities' operating environment, which will increase their need for advisory services. Thanks to its competent experts, Inspira ensures high-quality services for its customers also in the years to come.

"In 2016, we completed more assignments than ever before. This is proof of the confidence that we have gained through our long-term cooperation with our customers. We provide them with responsible, well-functioning solutions and are continuously seeking new, better operating models."

Kimmo Lehto, Managing Director

Green financing was received well by the customers in its launch year, 2016. The climate impact of projects that received green financing has been encouraging, and they have also had many times more indirect effects.

Green Financing

Business / **Green Financing**

Towards a **Greener Finland**

MuniFin is the first Finnish financial institution to offer green financing to its customers. The company launched the green loans and leasing for environmentally friendly investments in 2016.

Customers can apply for green financing for investment projects that bring clear and measurable pro-environmental effects. Green financing is always a more cost-effective alternative for the customer than other financing. In this way, MuniFin, for its part, encourages customers to increasingly take into account the environmental effects of their investments.

Projects eligible for green financing can represent various sectors, such as renewable energy, energy efficiency, public transport, sustainable building, water and wastewater treatment, waste management, environmental management and nature conservation.

Green financing has attracted great interest among customers and is expected to grow in the future. Green financing provides a new way of promoting pro-environmental projects.

"MuniFin's green financing is unique since every project applying for green financing will be assessed by an independent external evaluation group. The price of the financing depends on the shade of green of the project: the greener the project, the cheaper the financing."
Pekka Averio, President and CEO

The price of the green loans and leasing is determined on the basis of the project content, but green financing is always a slightly cheaper alternative for the customer than ordinary financing. The other features and terms and conditions of green financing are similar to those of other financing.

Unlike the green financing systems available in many other countries, the eligibility of projects for MuniFin's green financing is assessed by an independent evaluation team comprising external experts.

Transparent Financing

In 2016, the amount of green financing allocated by MuniFin totalled EUR 442.5 million. MuniFin publishes information on all projects to which green financing has been granted, and reports project results to international investors, the media and other key stakeholders on an annual basis. Green financing is evidence of the fact that an investment improves the wellbeing of our environment. For municipalities, green financing provides a new way of promoting their pro-environmental projects.

MuniFin acquires the funds it needs for the provision of green financing by issuing green bonds on international capital markets. Investors buying these bonds know that the assets they invest will be used for financing environmentally friendly projects since MuniFin reports on the use of the assets to the Green Bond investors.

The transparency of green financing is important because the assets invested in green bonds have been earmarked for green projects.

"The indirect effects of green financing on the climate are many times higher than the easily measurable, direct climate impact."

Antti Kontio,
Corporate Responsibility

The effects of green financing in 2016

Carbon dioxide emissions
−8,650
tCO_2 a year

Energy consumption
−35,000
MWh a year

How much is 35,000 MWh in energy savings?
It is equivalent to the heating energy demand of 17,500 new 50 square-metre flats, or the amount of energy generated annually by 133 solar power plants in Helsinki's Suvilahti.

Reduction of nitrogen
−19%

Reduction of phosphorus
−92%

The figures are based on impact report conducted by Ramboll Finland.

A Wide Range of Green Projects

The metro encourages choosing public transport over private cars

The Western Metro Extension will create an infrastructure for reducing traffic emissions in the Helsinki Metropolitan Area on a long-term basis. It is estimated that the new metro line will transport 170,000 people a day, which will significantly reduce private car use and bus traffic, while helping to cut down emissions from private and public transport. The new metro line will also concentrate the residential structure and increase urban density, which will support environmentally friendly urban development.

Länsimetro (Western Metro Extension)

Recipient of financing: Länsimetro Oy
Project category: Public transport
Loan amount: € 220,000,000
Financing period: 30 years

Kiinteistö Oy Kuopion koulutilat

Recipient of financing: City of Kuopio
Project category: Sustainable construction
Loan amount: € 27,150,000
Financing period: 25 years

Heinsuo and Kalliola schools

Recipient of financing: Municipality of Hollola
Project category: Sustainable construction
Amount of lease financing: € 39,089,760
Financing period: 20 years

City of Turku, electric buses

Recipients of financing: City of Turku, Turun Kaupunkiliikenne Ltd and Turku Energia Oy
Project category: Public transport
Amount of lease financing: € 4,000,000
Financing period: 10 years

Rantarousti school

Recipient of financing: Municipality of Tyrnävä
Project category: Sustainable construction
Loan amount: € 14,000,000
Financing period: 21 years

Hyökännummi and Riihenmäki schools and Hyökännummi daycare centre

Recipient of financing: Municipality of Mäntsälä
Project category: Sustainable construction
Loan amount: € 29,700,000
Financing period: 22 years

Kuhmo green timber school

Recipient of financing: Town of Kuhmo
Project category: Sustainable construction
Loan amount: € 12,000,000
Financing period: 20 years

Energy efficiency and wood are the cornerstones of sustainable school design

The City of Joensuu will construct a new kind of learning environment at the Karhunmäki school, including modern teaching aids and spaces. The use of wood and sustainable and energy-efficient technical solutions will be favoured in the construction of the school. The building's energy class is A, and its energy performance indicator – 89kWh/m2 – is about 50% lower than the maximum limit set for children's daycare centres. The construction of the building will be financed with MuniFin's green leasing.

Karhunmäki school

Recipient of financing: City of Joensuu, Premises Centre
Project category: Sustainable construction
Amount of lease financing: € 10,330,000
Financing period: 20 years + optional 1 year

Business / **Green Financing**

Nepenmäki school

Recipient of financing: The City of Joensuu, Real Estate Department
Project category: Sustainable construction
Amount of lease financing: € 25,000,000
Financing period: 20 years + optional 10 years

Janakkala fire department

Recipient of financing: The Municipality of Janakkala
Project category: Sustainable construction
Amount of lease financing: € 6,126,000
Financing period: 25 years

A wastewater treatment plant that meets future needs

The wastewater treatment plant that will be completed in the Metsä-Sairila area of Mikkeli in 2020 will raise the city's wastewater treatment to a new level. Due to the membrane bioreactor technology that will be applied, the purified water will be cleaner and of even quality. The ultimate aim is to improve the condition of Lake Saimaa into which the purified water is discharged. The treatment plant will also generate new environmental business in the surrounding area of EcoSairila. The project is financed with MuniFin's green bond.

Metsä-Sairila wastewater treatment plant

Recipient of financing: City of Mikkeli
Project category: Water purification and wastewater treatment
Loan amount: € 20,000,000
Financing period: 23 years

A service centre based on the life cycle principle

The Nummi service centre in the city of Hämeenlinna will be based on a new model of local services. All of the centre's operations will be guided by a clear goal: ensuring a good day for children and young people. The services intended for them will be designed and provided in accordance with the life cycle principle. To be completed in 2018, the property features top-level energy efficiency and is financed with MuniFin's green real estate leasing.

Nummi service centre

Recipient of financing: City of Hämeenlinna
Project category: Sustainable construction
Amount of lease financing: € 26,000,000
Financing period: 20 years + optional 5 years

City of Kotka, street lighting system

Recipient of financing: City of Kotka, Technical Services
Project category: Energy efficiency
Amount of lease financing: € 400,000
Financing period: 10 years

Vipusenkatu school campus

Recipient of financing: Salpaus Further Education joint municipal authority
Project category: Sustainable construction
Loan amount: € 8,000,000
Financing period: 10 years

The MuniFin People

MuniFin joined the Diversity Charter Finland of the corporate responsibility network FIBS in 2016. The objective is to promote innovativeness, productivity and responsibility at the workplace.

Personnel

Top-level Experts throughout the Organisation

Skilled and motivated staff form the most important resource for Municipality Finance. The development of staff competencies and wellbeing are emphasised in the changing operating environment.

MuniFin makes long-term investments in staff training because the continuous development of competencies is a key factor in maintaining its competitiveness. Skilled employees who feel well at work are a success factor in which the company wants to invest.

The number of MuniFin's personnel has grown strongly in the 2010s, and the trend continued in 2016. The number of employees has more than doubled in the last five years. At the end of 2016, Municipality Finance Group employed 106 people. The growth of the organisation will continue in 2017.

The increase in the number of employees, the new digital solutions and the requirements arising from the direct supervision by the ECB affect MuniFin's internal processes and the job description of almost every MuniFin employee. The company is continuously developing its processes and job descriptions and upgrading its competencies through staff training.

Digitalisation is automating processes that have previously been handled manually. This development frees staff resources for tasks that demand expertise.

Continuous development of competencies is a key factor in maintaining MuniFin's competitiveness.

"New tasks and data management solutions open up new opportunities for our employees, and an increasing number of staff participate in the development of our operations. The spirit of cooperation is the key to success, both internally and with customers."

Marjo Tomminen, Executive Vice President, CFO, Finance

Personnel

Focus on Wellbeing at Work

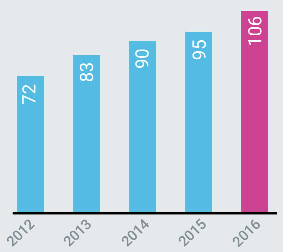
The changes in MuniFin's operating environment generate new requirements which in turn extend and deepen the job descriptions. Staff are expected to know their areas of competence even better than before, but agility and the willingness to learn are also important.

The growth of the company opens up new opportunities for job rotation, which will further diversify staff competencies.

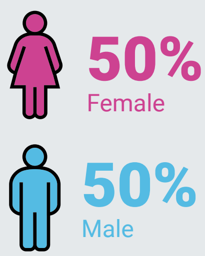
As a responsible employer, MuniFin looks after the wellbeing of its employees. Team spirit and job satisfaction among the employees is high. Careers at MuniFin are generally long and staff turnover is low.

The number of MuniFin's personnel has grown strongly in the 2010s, and the trend continued in 2016.

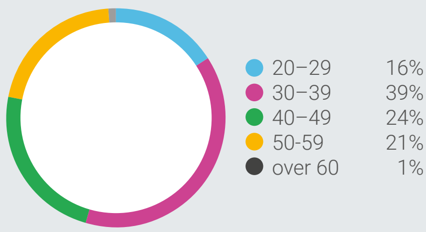
Municipality Finance Group's number of employees 2012–2016



Employees by gender



Employees by age



Board of Directors

Composition of the Board of Directors

According to the company's 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 terminates at the end of the next AGM.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2016 Annual General Meeting elected the following persons to the Board of Directors for the 2016–2017 term (from the end of the AGM to the end of the next AGM):

Helena Walldén, 1953
Chairperson

On the Board of Directors since 2016

Education: Master of Science (Eng)

Primary occupation: Board professional

Other key positions of trust: -

Independence: independent of the company and its significant shareholders

Tapani Hellstén, 1957
Vice-Chairman

On the Board of Directors since 2014

Education: Master of Administrative Sciences

Primary occupation: Keva, Deputy CEO

Other key positions of trust: Service Foundation of the Deaf, Chair of the Administrative Council; KuntaPro, Vice-Chair of the Board of Directors; Employee's Foundation, Chair of the Board of Directors

Independence: independent of the company

Fredrik Forssell, 1968
On the Board of Directors since 2011

Education: Master of Science (Economics and Business Administration)

Primary occupation: Keva, Chief Investment Officer, Internal Equity & FI Management

Other key positions of trust: Member of the investment Advisory Committee for Investment Affairs of the Finnish Pension Alliance TELAIndependence: independent of the company

Teppo Koivisto, 1966
On the Board of Directors since 2011

Education: Master of Social Sciences

Primary occupation: State Treasury, Head of Division

Other key positions of trust: Tiukula Foundation, Chair of the Board of Directors

Independence: independent of the company

Sirpa Louhevirta, 1964
On the Board of Directors since 2011

Education: Master of Science (Economics and Business Administration)

Primary occupation: Sanoma Corporation, Senior Vice President, Group Treasury and Real Estate

Other key positions of trust: -

Independence: independent of the company and its significant shareholders

Vivi Marttila, 1966
On the Board of Directors since 2016

Education: Master of Science (Economics and Business Administration)

Primary occupation: Mayor of the municipality of Simo

Other key positions of trust: Rantakairan Sähkö Oy, chairperson of the Board of Directors

Independence: independent of the company and its significant shareholders

Tuula Saxholm, 1961
On the Board of Directors since 2013

Education: Master of Science (Economics and Business Administration)

Primary occupation: City of Helsinki, Finance Director

Other key positions of trust: Helsinki Metropolia University of Applied Sciences Oy, member of the Board of Directors; Länsimetro Oy, member of the Board of Directors; Helsingin kaupungin asunnot Oy, member of the Board of Directors; Helsingin Leijona Oy, member of the Board of Directors; Port of Helsinki, member of the Board of Directors; City of Helsinki's Department of Financial Administration Services Corporation, Chair of the Executive Management Group; Pääkaupunkiseudun Junakalusto Oy, Chair of the Board of Directors; HYKSin Ltd, member of the Board of Directors

Independence: independent of the company (employed by a significant customer)

Juha Yli-Rajala, 1964
On the Board of Directors since 2011

Education: Master of Administrative Sciences

Primary occupation: City of Tampere, Director

Other key positions of trust: Tampere Chamber of Commerce, Yhteishotelli Oy and Pirkanmaan Kansanterveys ry, member of Board of Directors

Independence: independent of the company and its significant shareholders (employed by a significant customer)

Executive Management Team

CEO and Executive Management Team

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 operations in line with the strategy, risk management principles and limits set by the Board of Directors.

Supported by the Executive Management Team, 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.

CEO and Executive Management Team at the end of 2016:

Pekka Averio

President and CEO

At Municipality Finance since 1993

Education: Master of Laws, MBA

Year of birth: 1956

Esa Kallio

Deputy CEO, Executive Vice President

At Municipality Finance since 2005

Education: Master of Science (Economics and Business Administration)

Year of birth: 1963

Toni Heikkilä

Executive Vice President, CRO, Risk Management

At Municipality Finance since 1997

Education: Licentiate of Science (Economics and Business Administration), Master of Science (Finance)

Year of birth: 1965

Jukka Helminen

Executive Vice President, Customer Finance

At Municipality Finance since 2013

Education: Master of Science (Technology)

Year of birth: 1964

Marjo Tomminen

Executive Vice President, CFO, Finance

At Municipality Finance since 1992

Education: Vocational Qualification in Business and Administration, EMBA

Year of birth: 1962

Mari Tyster

Executive Vice President, Administration and Legal

At Municipality Finance since 2009

Education: Master of Laws

Year of birth: 1975

Corporate Governance

Good Governance Steers Operations

Municipality Finance describes its operations and financial situation openly in its communications. MuniFin's operations meet the statutory requirements and are socially, economically and ecologically responsible.

MuniFin's operations are governed by EU-level regulations, as well as Finnish laws and decrees applicable to credit institutions. Besides legislation, the company complies with rules and instructions from the European authorities and the Finnish Financial Supervisory Authority.

In 2015, the company was named a nationally significant credit institution, and since the beginning of 2016 it has been under the direct supervision of the European Central Bank. Through the continuous development of our systems and processes, MuniFin ensures its adherence to the statutory and ECB supervisory requirements concerning its operations and reporting, also in the years to come.

Best practices Form Part of Daily Work

MuniFin follows the Governance Code of the Helsinki Stock Exchange, and puts it into practice where applicable, taking into account the fact that MuniFin's shares are not subject to public trading. The company keeps an eye on international best practices in the financial sector. MuniFin develops its administration and operating models to respond even better to the expectations of its shareholders, customers and investors, as well as to the requirements of increasing banking regulation.

In all of its operations, MuniFin adheres to the principle of responsibility. For the company, this encompasses social, financial and ecological responsibility. MuniFin forms a crucial part of the economic structure of Finland. This requires professional operations that always take into account the outlook for the future.

Strict Risk Management Principles

To fulfil its financial responsibility, MuniFin must enforce an effective risk management policy. This involves controlling counterparty, market and operational risks, among others. The company adheres to very strict risk management principles set by its Board of Directors. Through its efficient operations and low overall risk position, MuniFin is able to maintain its good credit rating.

MuniFin's financing enables customers to conduct socially responsible and environmentally friendly investment projects. Green financing and green bonds support customers and investors' environmentally friendly operations.

MuniFin has a Green Office certificate, which is audited by the World Wildlife Fund. MuniFin emphasises environmental efficiency in its purchases and makes use of technological advances, such as video conferencing, in its internal communications.

Tax Footprint

The Strategy and Operating Principles of MuniFin in Taxation

The management of tax affairs is organised as part of the Group's financial management. The main observations and measures related to tax issues and tax risks are reported to the Board of Directors.

The Municipality Finance Group complies with the tax legislation in the payment, remittance and notification of taxes and charges. MuniFin's strategy in taxation is to support the business solutions and take taxation into account as one of the factors influencing the planning and decision-making related to the business solutions. Tax planning aims at controlling the uncertainties related to taxation and avoiding risks in interpretation. Therefore, MuniFin requests the tax authorities to provide preliminary rulings whenever necessary.

The Taxes and Tax-like Payments Paid and Remitted

MuniFin acquires financing from the international capital markets but conducts business only in Finland. Therefore, MuniFin pays income taxes in full to Finland. MuniFin does not receive any income from abroad for which relevant withholding tax at the source is paid. MuniFin has no investments or operations in countries defined by the OECD as tax havens.

In 2016, the Municipality Finance Group employed 106 people, of whom 90 worked for the parent company. The Group's turnover was EUR 183.7 million and the profit before tax EUR 174.2 million. As a credit institution, MuniFin had the possibility to assign a credit loss provision in its accounting and taxation, in accordance with the Business Tax Act. The credit loss provision involves a deferred tax liability.

MuniFin's operations are mainly exempt from value-added tax. As MuniFin is unable to deduct the VAT related to purchases in its operations exempt from VAT, the VAT remains as final costs for MuniFin. MuniFin also runs leasing operations subject to VAT, for which VAT is paid and the VAT included in the purchases is deducted. The operations of MuniFin's subsidiary Inspira are subject to VAT. Inspira deducts VAT from its purchases and pays VAT for its sales. The amounts of VAT paid and remitted vary according to business volumes, and value-added taxes are not taken into account in the taxes paid and remitted.

Taxes and tax-like payments paid (EUR 1,000)

Income tax	1,740
Employer's social security contributions	2,296
Stability fee to the EU crisis resolution fund	2,613
Total	**6,648**

Taxes to be remitted (EUR 1,000)

Withholding taxes	3,718
Employee's social security contributions	697
Total	**4,415**

Municipality Finance Financial Statements 1 January–31 December 2016

Contents

Report of the Board of Directors

2016 in Brief

- The Group's net interest income grew by 19.7% compared with the previous year, totalling EUR 206.1 million (2015: EUR 172.2 million).
- The Group's net operating profit amounted to EUR 174.2 million (2015: EUR 151.8 million). The growth over the previous year was 14.8%.
- The balance sheet total was EUR 34,052 million (2015: EUR 33,889 million). The growth compared to the end of 2015 was 0.5%.
- The Group's capital adequacy continued to strengthen, with the ratio of own funds to risk-weighted assets being 66.89% at the end of 2016 (2015: 64.61%), and the ratio of Common Equity Tier 1 (CET1) to risk-weighted assets was 46.21% (2015: 41.49%).
- The leverage ratio at the end of 2016 was 3.54% (2015: 3.15%).
- The total of new loans withdrawn amounted to EUR 2,924 million (2015: EUR 2,687 million). The lending portfolio increased to EUR 20,910 million (2015: EUR 20,088 million). This represented a growth of 4.1% from the end of 2015.
- The leasing portfolio stood at EUR 286 million at the end of the year (2015: EUR 187 million), showing a growth of 52.9% year on year.
- Total funding in 2016 amounted to EUR 6,702 million (2015: EUR 7,297 million). A total of EUR 7,045 million was issued in short-term debt instruments under the Euro Commercial Paper programme in 2016 (2015: EUR 4,824 million).
- At the end of 2016, total liquidity was EUR 7,505 million. Investments totalled EUR 7,732 million, down by 2.9% from a year earlier.
- The turnover of Municipality Finance's subsidiary Inspira was EUR 2.2 million (2015: EUR 2.3 million). Inspira's net operating profit at the end of 2016 totalled EUR 0.1 million (2015: EUR 0.2 million).

Key figures (Consolidated):

	31 Dec 2016	31 Dec 2015
Net interest income (EUR million)	206.1	172.2
Net operating profit (EUR million)	174.2	151.8
New loans issued (EUR million)	2,924	2,687
New long-term funding (EUR million)	6,702	7,297
Balance sheet total (EUR million)	34,052	33,889
Common Equity Tier 1 (CET1) (EUR million)	776.6	686.3
Tier 1 capital (EUR million)	1,124.1	1,033.8
Total own funds (EUR million)	1,124.1	1,068.8
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	46.21	41.49
Ratio of Tier 1 capital to risk-weighted assets, %	66.89	62.49
Ratio of total own funds to risk-weighted assets, %	66.89	64.61
Leverage ratio, %	3.54	3.15
Return on equity (ROE), %	12.51	14.84
Cost-to-income ratio	0.17	0.16
Personnel	106	95

The calculation formulas for the key figures can be found on page 44. All figures presented in the Report of the Board of Directors are those of the Municipality Finance Group, unless otherwise stated.

Operating Environment in 2016

As in previous years, Municipality Finance's operating environment in 2016 was characterised by a number of economic uncertainties. In the euro area, market rates fell to record-low levels. Instead of an accelerating effect on economic growth, the ECB's sizable purchase programmes have substantially increased market liquidity and even distorted the financial markets. At the end of the second quarter, Europe's economic and political structures were shaken by the UK's decision to leave the European Union. The Brexit decision has weakened the economic outlook of the entire continent and has increased financial instability. Furthermore, the political fluctuations caused by the U.S. presidential elections have strongly affected the volatility of international capital markets. In Finland, the long-prepared health, social services and regional government reform and the open questions related to its implementation have particularly increased the uncertainty about the future among Municipality Finance's customers and affected their willingness to invest. The company has actively monitored the changes taking place in the operation environment. Consequently, there are, however, not yet seen the need for significant changes.

Municipality Finance has a central role in the basic financial structure of Finnish society. It is the only credit institution in Finland specialising in financing the local government sector and state-subsidised housing production. Customers' interest in Municipality Finance's financial services remained high in 2016. The total of loans withdrawn increased slightly year-on-year, and Municipality Finance continued to be by far the most important financier for its customers.

Since 1 January 2016, Municipality Finance has been under the direct supervision of the European Central Bank (ECB). Municipality Finance succeeded well in responding to the supervisory requirements, and is developing its operations to further streamline its reporting to the authorities. For years, Municipality Finance has been proactively improving its capital adequacy.

Moody's and Standard & Poor's changed their ratings and outlook on Municipality Finance. This was attributable to similar changes in their credit ratings for Finland. In October 2016, Standard & Poor's changed the outlook for Municipality Finance's AA+ credit rating from negative to stable. In June 2016, Moody's downgraded Municipality Finance's credit rating from the best possible rating of Aaa to Aa1, with a stable outlook.

Group Structure

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

The role of MuniFin is to ensure the availability of market-based funding to municipalities, joint municipal authorities and municipality-controlled entities, as well as to non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA), by acquiring funding from capital markets under competitive terms, regardless of market conditions.

Inspira provides financial advisory services to the public sector. These services include planning and executing investment and asset management initiatives for central government, municipalities and cities, as well as for companies and organisations. Inspira helps the public sector to arrange its services more effectively and to invest more economically.

Income Statement and Statement of Financial Position

Municipality Finance Group

The Group's business operations remained strong during 2016. The Group's net operating profit for the financial year amounted to EUR 174.2 million (2015: EUR 151.8 million). The profit includes EUR 2.7 million of unrealised changes in the fair value of financial items (2015: EUR -2.7 million). These value changes are related to fluctuations in interest rates, the credit risk arising from counterparties in derivative transactions (CVA), and the market conditions of own derivative liabilities (DVA). The CVA and DVA value changes accounted for EUR -1.9 million of the total value changes (2015: EUR -1.7 million). Despite the zero-risk status of municipalities, in CVA calculations, capital reserves need to be established for derivative contracts concluded with municipalities and corporations guaranteed by municipalities, whereas this is not needed in financing granted to municipalities.

Net interest income continued developing well, with a growth of 19.7%. The total net interest income at the end of the financial year was EUR 206.1 million (2015: EUR 172.2 million). The improvement in net interest income was attributable to the growth in business volume and favourable funding. Net interest income includes EUR 1.2 million in commissions from the repurchase of own bonds (2015: EUR 1.4 million). In consolidated accounts, the AT1 capital loan is treated as an own equity instrument. The related interest expenses are not recognised through profit or loss in the consolidated accounts, but they are treated similarly to dividend distribution, i.e. as a decrease in retained earnings under shareholders' equity upon realisation of payment on an annual basis.

The Group's commission expenses totalled EUR 4.0 million at the end of the year (2015: EUR 3.8 million). Operating expenses increased by 24.9% to EUR 31.1 million during the year (2015: EUR 24.9 million). This was mainly due to financial supervision costs paid to the ECB and to the Financial Supervisory Authority, as well as contributions paid to EU-level crisis resolution funds and the ongoing information system projects. Administrative expenses came to EUR 18.8 million (2015: EUR 16.7 million), of which personnel expenses

Rating agency	Long-term funding	Outlook	Short-term funding	Outlook
Moody's Investors Service	Aa1	Stable	P–1	Stable
Standard & Poor's	AA+	Stable	A–1+	Stable

comprised EUR 11.9 million (2015: EUR 10.9 million). Depreciation of tangible and intangible assets amounted to EUR 1.8 million (2015: EUR 1.6 million). Other operating expenses were EUR 10.5 million (2015: EUR 6.6 million).

The Group's balance sheet total stood at EUR 34,052 million at the end of 2016, compared to EUR 33,889 million at the end of the previous year. During the financial year, a total of EUR 6.3 million in accumulated interest related to the AT1 capital instrument was paid from the Group's equity in accordance with the contractual terms.

The Parent Company

At the end of 2016, MuniFin's net interest income was EUR 189.9 million (2015: EUR 168.2 million), and the company's net operating profit amounted to EUR 158.0 million (2015: EUR 147.7 million). The interest expenses of EUR 16.3 million for 2016 on the AT1 capital loan, which forms part of the Additional Tier 1 capital in capital adequacy calculation, have been taken into account in full in the Parent Company's net interest income (2015: EUR 4.0 million). In the Parent Company, the AT1 capital loan has been recorded under the balance sheet item Subordinated liabilities.

Inspira

The turnover of MuniFin's subsidiary Inspira was EUR 2.2 million for 2016 (2015: EUR 2.3 million), while its net operating profit amounted to EUR 0.1 million (2015: EUR 0.2 million).

Financing and other services for customers

MuniFin's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). The company provides its customers with a wide range of services related to financing. It is by far the largest single financier in its customer segment.

The operating environment of MuniFin's customers continued to be affected by a large number of uncertainty factors in 2016. In particular, the long-prepared health, social services and regional government reform and the open questions related to its implementation have affected the willingness to invest among MuniFin's customers.

In 2016, MuniFin launched a financial product intended for environmentally friendly investments. It attracted a great deal of interest among customers. MuniFin's green financing is in many respects a trailblazer in the Finnish financial market, and it is believed to increase the municipal sector's environmental investments. Whether or not a project fits the green financing framework is assessed by an evaluation team comprising external experts. By the end of the year, MuniFin had granted a total of EUR 500 million of green financing, which was more than anticipated. In 2016, a growing number of customers implemented the versatile and flexible Apollo service for managing their financial portfolio. Moreover, the demand for leasing financing continued to grow, with growth in popularity pertaining particularly to leasing solutions for real estate.

Customers' interest in MuniFin's financial services remained high in 2016. The total of loans withdrawn increased year-on-year, and MuniFin continued to be by far the most important financier for its customers.

The total volume of loan quotation requests received by MuniFin during 2016 decreased totalling EUR 4,168 million (2015: EUR 4,834 million). The total number of new loans withdrawn in 2016 was higher than in the previous year at EUR 2,924 million (2015: EUR 2,687 million). At the end of the year, the long-term loan portfolio stood at EUR 20,910 million (2015: EUR 20,088 million). This represents a year-on-year increase of 4.1%.

There was also continued demand for MuniFin's short-term financing. At the end of 2016, the total value of municipal commercial paper and municipal company commercial paper programmes concluded with MuniFin was EUR 4,368 million (2015: EUR 4,087 million). The company's year-end balance sheet included EUR 973 million in such papers issued by municipalities and municipal companies (2015: EUR 1,115 million), and during the year, customers acquired EUR 7,942 million in total in financing under short-term programmes (2015: EUR 9,231 million).

In addition to loans, MuniFin offers municipalities, joint municipal authorities and municipal corporations derivative contracts tailored to their needs for the management of interest rate risk. As interest rates stayed low, customers increased their hedging against possible future increases in market rates.

MuniFin has offered leasing financing to municipalities, joint municipal authorities and municipally owned or controlled companies since 2010. Long-term work has been carried out to ensure maximum transparency in the service model and its pricing. Demand for leasing solutions grew solidly in 2016. Customers are particularly interested in leasing-based solutions for real estate financing. The leasing portfolio grew by 52.9% during the year and stood at EUR 286 million at year-end (2015: EUR 187 million).

As part of the Group's customer service model, during 2016, the Parent Company strengthened its collaboration with its subsidiary, Inspira, which offers advisory services.

Demand for Inspira's services increased in 2016, and the company concluded a total of 123 commission agreements (2015: 89). Inspira's turnover in 2016 was EUR 2.2 million (2015: EUR 2.3 million). Its net operating profit for the financial year was EUR 0.1 million (2015: EUR 0.2 million). In 2016, Inspira provided financial advisory services in several life cycle projects. In addition, investment projects related to energy savings and renewable energy played a major role in 2016. Inspira also acted as the advisor of the Ministry of Employment and the Economy in the allocation of funds from the European Fund for Strategic Investments (EFSI) to Finland, and participated in the assessment of the alternative courses of action for municipalities and joint municipal authorities in the ongoing health and social services reform.

Operations in international capital markets

The liquidity situation in the international capital market in 2016 has been good, especially during the first half of the year, and MuniFin's funding was highly successful. Extensive diversification has also made funding efficient, which makes the funding terms for MuniFin's customers competitive. MuniFin's name is widely known in the international capital markets, where MuniFin is one of the most flexible, reliable and fast-reacting partners for investors.

Long-term funding in 2016 totalled EUR 6,702 million (2015: EUR 7,297 million). In March 2016, MuniFin issued its first euro-denominated benchmark bond in thirteen years, in order to further diversify its funding sources. The issue of EUR 1 billion was successful, and it was very well received on the market. In July, the company issued a USD 1 billion benchmark bond, which was oversubscribed by nearly 200 per cent.

During the first half of 2016, MuniFin carried out the preparations for the issuance of its first ever green bond. The preparations included collecting an environmental project portfolio and granting more low-cost lending and financial leasing for environmental projects that fit the green financing framework. The initiatives eligible for green financing are selected by an evaluation team comprised of external experts. MuniFin's and Finland's first ever green bond of USD 500 million was successfully issued in the autumn, further expanding MuniFin's investor base.

A total of EUR 7,045 million was issued in short-term debt instruments under the Euro Commercial Paper programme during the year (2015: EUR 4,824 million), and total funding under the programme amounted to EUR 1,139 million at the end of the year (2015: EUR 1,230 million).

Total funding at the end of 2016 was EUR 28,662 million (2015: EUR 28,419 million). Of this amount, 21% was denominated in euros (2015: 18%) and 79% in foreign currencies (2015: 82%). In total, the company issued bonds denominated in 13 different currencies in 2016 (2015: 12 currencies).

MuniFin currently acquires all of its funding from the international capital market, where the Group is a well-known, valued and active operator. The total of long-term funding arrangements made in 2016 was 204 (2015: 315).

MuniFin's funding strategy is to diversify its funding sources, which aims to ensure the continuity of its funding under all market conditions. This has been proven to be a successful approach. MuniFin has various diversification strategies: by market, geographically, by issuing bonds targeted at different investor groups, and by varying maturities. Active, long-term collaboration with investors has increased MuniFin's visibility in various markets, and investor relations are increasingly progressing towards the maintenance of key accounts.

The majority of funding is carried out as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note (MTN) programme	EUR 25,000 million
Euro Commercial Paper (ECP) programme	EUR 4,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million
Domestic debt programme	EUR 800 million

MuniFin's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as MuniFin. The Municipal Guarantee Board has granted guarantees for the debt programmes, as well as for funding arrangements outside the programmes. As a result, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions in the EU.

The company's liquidity remained excellent during 2016. MuniFin's investment operations mostly comprise the management of funds obtained through ex ante funding. The funds are invested in liquid and highly rated financial instruments, so as to ensure business continuity under all market conditions.

According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations (including new net lending) for at least the following six months. The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. These investments are not taken into account when calculating the company's liquidity adequacy.

At the end of 2016, total liquidity was EUR 7,505 million (2015: EUR 7,732 million). Investments in securities totalled EUR 6,506 million (2015: EUR 5,897 million), and their average credit rating was AA (2015: AA). The year-end average maturity of the security portfolio was 2.3 years (2015: 2.3 years). In addition, the company had EUR 999 million in other investments (2015: EUR 1,834 million), of which EUR 989 million was in central bank deposits (2015: EUR 1,814 million) and EUR 10 million in money market deposits in credit institutions (2015: EUR 20 million).

As of 2015, MuniFin has also monitored the ESG performance (Environmental, Social and Governance) of its investments. At the end of 2016, MuniFin's liquidity investments had an ESG average of 66.5 on a scale of 1–100 (2015: 65.0). The benchmark index is 64.4.

Capital Adequacy

The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities.

Minimum capital requirements and capital buffers

The minimum capital requirements for credit institutions increased at the beginning of 2015, and Finland adopted a fixed and variable (what is termed as a counter-cyclical buffer) additional capital requirement, which was 2.5% of the total risk, in accordance with the new Act on Credit Institutions.

In July 2015, the Financial Supervisory Authority designated MuniFin as one of Finland's systemically important credit institutions (O-SII), and imposed an additional capital requirement on the company. The additional capital requirement is calculated using the amount of total risk and has to be covered by Common Equity Tier 1 capital. Depending on the credit institution's total risk, the additional capital requirement can range between 0–2%. The 0.5% additional capital requirement imposed on MuniFin became effective in January 2016.

MuniFin's ratio of Common Equity Tier 1 capital to risk-weighted assets meets both additional capital requirements by a wide margin.

Minimum own funds requirements (% of total risk exposure)	**31 Dec 2016**	**31 Dec 2015**
Common Equity Tier 1 (CET1) capital ratio	4.5%	4.5%
Tier 1 (T1) capital ratio	6.0%	6.0%
Total capital ratio	8.0%	8.0%

Capital buffers (% of total risk exposure)	**31 Dec 2016**	**31 Dec 2015**
Capital conservation buffer [1]	2.5%	2.5%
Countercyclical buffer [2]	0.0%	0.0%
Other systemically important institution (O-SII) [3]	0.5%	0.0%

1) Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.
2) Act on Credit Institutions (610/2014), Chapter 10, Sections 4-5, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). At its meeting on 20 December 2016, the Board of the Financial Supervisory Authority decided not to impose a variable additional capital requirement on MuniFin.
3) Act on Credit Institutions (610/2014), Chapter 10, Section 8, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). The additional capital requirement (O-SII) imposed on MuniFin is 0.5%. Decision of the Financial Supervisory Authority made on 6 July 2015, valid from 7 January 2016.

As part of the annual review included in SREP (the Supervisory Review and Evaluation Process), the ECB imposed a new additional CET1 capital buffer requirement (P2R) of 1.5% on MuniFin for its core capital, as well as a capital adequacy guidance (P2G) of 4.2%. The effective date of these additional capital requirements is 1 January 2017. MuniFin's capital adequacy is also many times higher than these new requirements.

Key figures for capital adequacy

The Group's own funds totalled EUR 1,124.1 million at the end of 2016 (2015: EUR 1,068.8 million). Common Equity Tier 1 capital (CET1) totalled EUR 776.6 million (2015: EUR 686.3 million). Tier 1 capital amounted to EUR 1,124.1 million (2015: EUR 1,033.8 million). The unrealised profits from assets measured at fair value (fair value reserve) have been included in CET1 capital (transitional provision for the period 1 January 2015 – 31 December 2017). The company had no Tier 2 capital at the end of 2016 (2015: EUR 35 million).

At the end of 2015, Tier 2 capital comprised EUR 35 million in debenture loan, which was paid off with the authorisation of the ECB in connection with the interest payment of 9 August 2016.

In 2016, the assets of the subsidiary Financial Advisory Services Inspira Ltd were not taken into account in the Group's own funds because, according to the interpretation of the Finnish Financial Supervisory Authority (27 January 2016), shares which the company, according to its Articles of Association, has the right to redeem as stipulated in Chapter 3, Section 7 of the Limited Liability Companies Act (624/2006), cannot be classified as CET1 instruments. At the end of 2015, 60% of the minority interest in Inspira was taken into account as CET1 capital in the Group's own funds in line with the transitional provisions.

The Parent Company's own funds stood at EUR 1,123.4 million (2015: EUR 1,067.9 million). Common Equity Tier 1 capital (CET1) totalled EUR 776.0 million (2015: EUR 685.9 million), and Tier 1 capital (T1) amounted to EUR 1,123.4 million (2015: EUR 1,032.9 million).

The ratio of total own funds to risk-weighted assets was 66.89% (2015: 64.61%). At the end of 2016, CET1 capital adequacy was 46.21% (2015: 41.49%). The Parent Company's capital adequacy was 67.11% (2015: 64.70%), and its CET1 capital adequacy was 46.35% (2015: 41.56%). MuniFin has a strong capital adequacy as compared to the statutory requirements and those set by the authorities. The statutory minimum capital adequacy is 8% and that of CET1 capital adequacy 4.5%. The fixed additional capital requirement of 2.5% and the so-called O-SII additional capital requirement of 0.5% increase the minimum CET1 capital adequacy requirement to 7.5% and the minimum capital adequacy ratio requirement to 11%.

The capital adequacy management principles applied and key figures are described in the Consolidated Financial Statements, after the Report of the Board of Directors, in Note 3: "Capital adequacy management principles", and in Notes 43-59: "Pillar III disclosures on capital adequacy". The Parent Company's disclosures on capital adequacy are provided in Notes 46–49 to the Parent Company's Financial Statements.

Consolidated own funds

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 before adjustments	827,393	692,573
Adjustments to Common Equity Tier 1	−50,760	−6,244
COMMON EQUITY TIER 1 (CET1)	**776,633**	**686,329**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**347,454**
TIER 1 CAPITAL (T1)	**1,124,086**	**1,033,782**
Tier 2 capital before adjustments	-	35,000
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**35,000**
TOTAL OWN FUNDS	**1,124,086**	**1,068,782**

Parent company own funds

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 before adjustments	826,865	692,341
Adjustments to Common Equity Tier 1	−50,865	−6,397
COMMON EQUITY TIER 1 (CET1)	**776,000**	**685,945**
Additional Tier 1 capital before adjustments	347,426	346,935
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,426**	**346,935**
TIER 1 CAPITAL (T1)	**1,123,426**	**1,032,879**
Tier 2 capital before adjustments	-	35,000
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**35,000**
TOTAL OWN FUNDS	**1,123,426**	**1,067,879**

Consolidated key figures for capital adequacy

	31 Dec 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	46.21	41.49
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	66.89	62.49
Ratio of total own funds to risk-weighted assets, %	66.89	64.61

Parent company key figures for capital adequacy

	31 Dec 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	46.35	41.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	67.11	62.58
Ratio of total own funds to risk-weighted assets, %	67.11	64.70

Consolidated minimum requirement for own funds

	31 Dec 2016		31 Dec 2015	
(EUR 1,000)	**Capital requirement**	**Risk-weighted assets**	**Capital requirement**	**Risk-weighted assets**
Credit and counterparty risk, standard method	**107,756**	**1,346,956**	**107,434**	**1,342,928**
Exposures to central governments or central banks	778	9,725	-	-
Exposures to regional governments or local authorities	379	4,735	368	4,598
Exposures to multilateral development banks	965	12,068	1,367	17,089
Exposures to institutions	79,937	999,213	69,645	870,561
Exposures to public sector entities	4,275	53,435	3,320	41,501
Exposures in the form of covered bonds	20,303	253,793	16,283	203,542
Items representing securitisation positions	423	5,284	15,743	196,792
Exposures in the form of shares in CIUs	107	1,331	108	1,354
Other items	590	7,372	599	7,490
Market risk	**794**	**9,930**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,304**	**16,299**	**1,009**	**12,613**
Operational risk, basic indicator approach	**24,589**	**307,364**	**23,851**	**298,143**
Total	**134,444**	**1,680,550**	**132,342**	**1,654,278**

Parent company minimum requirement for own funds

	31 Dec 2016		31 Dec 2015	
(EUR 1,000)	**Capital requirement**	**Risk-weighted assets**	**Capital requirement**	**Risk-weighted assets**
Credit and counterparty risk, standard method	**107,749**	**1,346,863**	**107,416**	**1,342,696**
Exposures to central governments or central banks	778	9,725	-	-
Exposures to regional governments or local authorities	379	4,735	368	4,598
Exposures to multilateral development banks	965	12,068	1,367	17,089
Exposures to institutions	79,933	999,157	69,637	870,462
Exposures to public sector entities	4,275	53,435	3,320	41,501
Exposures in the form of covered bonds	20,303	253,793	16,283	203,542
Items representing securitisation positions	423	5,284	15,743	196,792
Exposures in the form of shares in CIUs	107	1,331	108	1,354
Other items	587	7,334	589	7,356
Market risk	**794**	**9,930**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,304**	**16,299**	**1,009**	**12,613**
Operational risk, basic indicator approach	**24,083**	**301,035**	**23,569**	**294,618**
Total	**133,930**	**1,674,128**	**132,042**	**1,650,520**

MuniFin will publish the disclosure principles applied to the information disclosed based on the Capital Requirements Regulation (CRR) in a separate document. The document is available in English on the company's website.

The leverage ratio and liquidity coverage ratio

A proposal concerning the leverage ratio is currently under consideration at the EU level. The leverage ratio of MuniFin at the end of 2016 was 3.54% (2015: 3.15%), calculated using currently valid calculation principles.

The liquidity coverage ratio (LCR) was 149% (2015: 297%). This clearly exceeds the regulatory requirement of 70% at the time of closing the accounts. The requirement will gradually increase in such a manner that, as of 1 January 2018, in order to comply with the new capital adequacy regulations, the LCR must be 100% or higher.

Risk Management

There were no material changes in the company's risk exposure in 2016. The company's Board of Directors declares that the risk management systems in place are adequate with respect to the Group's profile and strategy. Risks remained within the set limits during the financial year and, according to the company's assessment, risk management met the requirements set for it. In addition, the Board of Directors assures that, to the best of its knowledge, the information provided in the report of the Board of Directors and financial statements gives a true and fair account at the time of closing the accounts and of developments during the financial year as regards the risk exposures of credit institutions.

The risk management principles and the Group's risk exposure are described in Note 2 to the Consolidated Financial Statements.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website. On publication of the Annual Report, MuniFin publishes on its website a Corporate Governance Statement, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act, which is separate from this Report of the Board of Directors and includes the description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions and information on how the company complies with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. Since MuniFin is exclusively an issuer of listed bonds, and since its shares are not subject to public trading, it is not appropriate to directly apply this Code with respect to MuniFin. However, the company has used the Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy.

Annual General Meeting

The Annual General Meeting of MuniFin was held on 22 March 2016. The AGM confirmed the financial statements for 2015 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2015. In addition, the AGM adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 54,688,359.49 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM decided that the Board of Directors would have eight members during the 2016–2017 term of office (from the end of the 2016 AGM to the end of the 2017 AGM), and elected the members. The AGM also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

The AGM approved the Board's proposals for changing the company's Articles of Association so as to remove the company's right to redeem shares, and to enable the invitation to the AGM to be sent from now on as a regular letter instead of a registered letter.

The meeting also elected KPMG Oy Ab as the auditor of the company, with Marcus Tötterman, APA, as the principal auditor. Marcus Tötterman was also the principal auditor in the previous financial year.

The Board of Directors

At the Annual General Meeting of 22 March 2016, the Shareholders' Nomination Committee made a proposal to the meeting regarding the Board members to be elected for the term 2016–2017 (from the end of the 2016 AGM to the end of the 2017 AGM). The AGM elected the following members to the Board of Directors: Helena Walldén (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Vivi Marttila, Tuula Saxholm and Juha Yli-Rajala.

In order to organise its work as efficiently as possible, the Board has established Audit, Risk and Remuneration Committees that assist in and prepare matters for the Board.

The members of the Audit Committee at the end of the year were Tuula Saxholm (Chair), Tapani Hellstén and Vivi Marttila. The members of the Risk Committee at the end of the financial year were Fredrik Forssell (Chair), Teppo Koivisto and Sirpa Louhevirta. The members of the Remuneration Committee at the end of the financial year were Helena Walldén (Chair), Teppo Koivisto and Juha Yli-Rajala.

From the 2015 AGM to the 2016 AGM, the members of the Board of Directors were: Eva Liljeblom (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala.

The work of the company's Board of Directors and its Committees is described in more detail in MuniFin's Corporate Governance Statement, which is available on the company's website.

Personnel

At the end of 2016, the Municipality Finance Group had 106 employees (2015: 95), of whom 90 were in the Parent Company (2015: 83). The wages and salaries and other remuneration paid to the personnel totalled EUR 9.5 million in the Group (2015: EUR 8.7 million).

The President and CEO of MuniFin is Pekka Averio. Executive Vice President Esa Kallio acts as Deputy to the CEO. Esa Kallio is also the head of the company's Capital Markets function. The other members of the Executive Management Team are Toni Heikkilä (EVP, CRO, Risk Management), Jukka Helminen (EVP, Customer Finance), Marjo Tomminen (EVP, CFO, Finance) and Mari Tyster (EVP, Administration and Legal).

The Managing Director of MuniFin's subsidiary Inspira is Kimmo Lehto.

Salaries and Remuneration

The remuneration paid to the management and employees of MuniFin consists of fixed remuneration (base salary and fringe benefits) and a variable element based on the conditions of the remuneration scheme. The principles for the remuneration scheme are confirmed by the Board of Directors, and they are reviewed on an annual basis. The Remuneration Committee advises the Board of Directors on remuneration-related matters. For more information on salaries and remuneration, please refer to Note 29: "Salaries and Remuneration", and to the Remuneration Report for 2016, which is available on the company's website at www.munifin.fi.

Internal Audit

The internal audit function is outsourced to Deloitte & Touche Ltd, which reports directly to the Board of Directors and its Audit Committee. The company's President and CEO is responsible for the operational coordination of cooperation. Internal audit is tasked with monitoring the reliability and accuracy of MuniFin's financial and other management information. Other tasks include ensuring that the company has sufficient and appropriately organised manual and IT systems for its operations, and that the risks associated with the operations are adequately managed. The internal audit team reports to the Board of Directors and its Audit Committee.

Share Capital and Shareholders

At the end of the 2016 financial year, MuniFin had paid share capital registered in the Trade Register in the amount of EUR 43.0 million, and the number of shares was 39,063,798. The company has two series of shares (A and B), with equal voting and dividend rights. Each share confers one vote at the Annual General Meeting.

At the end of 2016, MuniFin had 278 shareholders (2015: 281).

10 largest shareholders 31 Dec 2016

		No. of shares	Per cent
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	903,125	2.31%
8.	City of Turku	615,681	1.58%
9.	City of Kuopio	573,350	1.47%
10.	City of Lahti	537,926	1.38%

The amounts of shares presented in the above table do not include any shares owned by the Group companies of the listed shareholders.

Events After the Reporting Period

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

Outlook for 2017

Under the current circumstances, the global economic outlook is difficult to predict. The political uncertainty in the United States and Europe is reflected in economic development and the functioning of capital markets. The outlook for economic development in Finland is brightening up, but there are still no signs of growth leaps. These factors affect the operations of MuniFin both in terms of funding and financing.

The Finnish government is planning to implement a substantial reform related to the Finnish social and healthcare system and regional government. Some integral components of the reform are still under preparation and therefore it is difficult for MuniFin to evaluate the reform's impact on its operation. Potentially the reform might have an effect on MuniFin's volumes, but not in year 2017. MuniFin is actively following the development of the reform.

The demand for state-subsidised housing production is expected to remain stable. The reason for this is the strong pressure to increase state-subsidised housing production in Finland's urban growth areas.

In a changing operating environment, MuniFin will continue to invest heavily in meeting the changing needs of its customers. The company will continue to focus on improving its customer service, service offering and systems in order to step up its performance and switch to digital services. The sustainability of operations will also be developed in a more long-term and systematic manner.

The profitability of MuniFin's operations is expected to remain strong in 2017.

Proposal from the Board of Directors Concerning Profit for the Financial Year

Municipality Finance Plc has distributable funds of EUR 61,496,269.28, of which the profit for the financial year totalled EUR 6,807,909.79. The Board of Directors proposes to the Annual General Meeting that no dividend be paid out, and that the distributable funds of EUR 61,496,269.28 be retained in equity.

The Board of Directors considers this to be a well-reasoned decision, as the company needs to continue preparing for tightening equity-related regulations, and should do so by increasing its Tier 1 capital through profit and loss.

The Group's development

	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Turnover (EUR million)	183.7	204.1	222.0	196.8	292.5
Net interest income (EUR million)	206.1	172.2	160.0	149.5	142.4
% of turnover	112.2	84.4	72.1	76.0	48.7
Net operating profit (EUR million)	174.2	151.8	144.2	141.3	138.6
% of turnover	94.8	74.4	64.9	71.8	47.4
Cost-to-income ratio	0.17	0.16	0.15	0.15	0.14
Loan portfolio (EUR million)	20,910	20,088	19,205	17,801	15,700
Total funding acquired (EUR million)	28,662	28,419	26,616	23,108	22,036
Balance sheet total (EUR million)	34,052	33,889	30,009	26,156	25,560
Return on equity (ROE) (%)	12.51	14.84	21.66	30.58	38.04
Return on assets (ROA) (%)	0.41	0.38	0.41	0.48	0.42
Equity ratio (%)	3.48	3.08	1.98	1.80	1.35
Common Equity Tier 1 (CET1) (EUR million)	776.6	686.3	556.4	-	-
Tier 1 capital (EUR million)	1,124.1	1,033.8	557.2	454.2	331.9
Total own funds (EUR million)	1,124.1	1,068.8	623.1	511.5	428.9
Ratio of Common Equity Tier 1 (CET 1) to risk-weighted assets, %	46.21	41.49	29.94	-	-
Ratio of Tier 1 capital to riskweighted assets (%)	66.89	62.49	29.98	35.42	26.22
Ratio of total own funds to risk-weighted assets (%)	66.89	64.61	33.53	39.88	33.87
Leverage ratio	3.54	3.15	1.8	1.7	-
Personnel	106	95	90	83	72

The consolidated key figures for capital adequacy for 2016, 2015 and 2014 have been calculated in accordance with the EU Capital Requirements Regulation effective from 1 January 2014.

Calculation of 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

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

Return on equity (ROE) (%)

$$\frac{\text{Net operating profit - taxes}}{\text{Equity and non-controlling interest (average of values at the beginning and end of the year)}} \times 100$$

Return on assets (ROA) (%)

$$\frac{\text{Net operating profit - taxes}}{\text{Average balance sheet total (average of values at the beginning and end of the year)}} \times 100$$

Equity ratio (%)

$$\frac{\text{Equity and non-controlling interest}}{\text{Balance sheet total}} \times 100$$

Ratio of Common Equity Tier 1 to risk-weighted assets (%)

$$\frac{\text{Common Equity Tier 1 (CET1)}}{\text{Risk-weighted assets}} \times 100$$

Ratio of Tier 1 capital to risk-weighted assets (%)

$$\frac{\text{Tier 1 capital}}{\text{Risk-weighted assets}} \times 100$$

Ratio of total own funds to risk-weighted assets (%)

$$\frac{\text{Total own funds}}{\text{Risk-weighted assets}} \times 100$$

Leverage ratio (%)

$$\frac{\text{Tier 1 capital}}{\text{Total exposure}} \times 100$$

Municipality Finance Group

Financial Statements

Consolidated statement of financial position

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash and balances with central banks	(8)	988,949	1,813,813
Loans and advances to credit institutions	(9)	438,811	614,294
Loans and advances to the public and public sector entities		21,195,739	20,275,561
Debt securities	(10)	7,469,437	7,003,318
Shares and participations	(11)	9,695	9,620
Derivative contracts	(7, 12)	3,634,302	3,925,025
Intangible assets	(13, 15)	6,776	5,812
Tangible assets	(14, 15)	2,462	2,298
Other assets	(16)	62,946	6,277
Accrued income and prepayments	(17)	243,068	232,792
TOTAL ASSETS	**(4, 5, 6)**	**34,052,186**	**33,888,811**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions	(19)	5,362,317	4,893,270
Liabilities to the public and public sector entities		872,919	954,026
Debt securities issued	(20)	24,584,169	24,804,490
Derivative contracts	(7, 12)	1,676,859	1,799,692
Other liabilities	(21)	4,444	2,131
Accrued expenses and deferred income	(22)	194,860	217,768
Subordinated liabilities	(23)	-	35,542
Deferred tax liabilities	(18)	172,185	138,576
TOTAL LIABILITIES	**(4, 5, 6)**	**32,867,753**	**32,845,497**
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(24)	42,583	42,583
Reserve fund	(24)	277	277
Fair value reserve	(24)	19,519	11,354
Reserve for invested non-restricted equity	(24)	40,366	40,366
Retained earnings	(24)	734,107	601,065
Total equity attributable to parent company equity holders	**(24)**	**836,852**	**695,645**
Non-controlling interest	**(24)**	**127**	**216**
Other equity instruments issued	**(24)**	**347,454**	**347,454**
TOTAL EQUITY		**1,184,433**	**1,043,314**
TOTAL LIABILITIES AND EQUITY	**(4, 5, 6)**	**34,052,186**	**33,888,811**

Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Interest income	(30)	180,503	195,858
Interest expense	(30)	25,625	–23,613
NET INTEREST INCOME	**(30)**	**206,128**	**172,245**
Commission income	(31)	2,738	5,157
Commission expense	(32)	–4,026	–3,776
Net income from securities and foreign exchange transactions	(33, 34)	–1,759	–3,865
Net income from available-for-sale financial assets	(35)	–468	6,336
Net income from hedge accounting	(36)	2,587	583
Other operating income	(37)	139	21
Administrative expenses	(38)	–18,820	–16,653
Depreciation and impairment on tangible and intangible assets	(15)	–1,818	–1,600
Other operating expenses	(39)	–10,451	–6,646
NET OPERATING PROFIT		**174,250**	**151,801**
Income tax expense	(41)	–34,882	–30,307
PROFIT FOR THE PERIOD		**139,367**	**121,494**
Profit attributable to:			
Equity holders of the parent company		139,342	121379
Non-controlling interest		26	115

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Profit for the period		139,367	121,494
Components of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets (fair value reserve):			
Net change in fair value		10,281	–17,972
Net amount transferred to profit or loss	(35)	–98	–6,562
IAS 39 reclassification adjustment	(10)	24	84
Taxes related to components of other comprehensive income		–2,041	4,890
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**147,533**	**101,934**
Total comprehensive income attributable to:			
Equityholders of the parent company		147,507	101,820
Non-controlling interest		26	115

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
CASH FLOW FROM OPERATING ACTIVITIES	**−903,395**	**813,006**
Net change in long-term funding	471,015	1,139,992
Net change in short-term funding	−101,832	−11,297
Net change in long-term loans	−915,040	−1,021,891
Net change in short-term loans	142,736	−270,112
Net change in investments	−576,223	204,933
Net change in collaterals	−84,168	609,050
Interest on assets	130,574	187,169
Interest on liabilities	51,229	−18,290
Other income	32,318	39,097
Payments of operating expenses	−56,335	−42,958
Taxes paid	2,332	−2,687
CASH FLOW FROM INVESTING ACTIVITIES	**−2,845**	**−2,488**
Acquisition of tangible assets	−794	−533
Acquisition of intangible assets	−2,051	−1,955
CASH FLOW FROM FINANCING ACTIVITIES	**−42,989**	**346,188**
Change in subordinated liabilities	−35,000	−1,009
Change in other equity intruments issued	-	347,375
Change in shares and participations	-	19
AT1 equity instrument paid interest, capital loan paid interest and other distribution of profit	−7,989	−197
CHANGE IN CASH AND CASH EQUIVALENTS	**−949,229**	**1,156,706**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,945,709**	**789,003**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**996,480**	**1,945,709**

Cash and cash equivalents include the following balance sheet items: Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Cash and balances with central banks	988,949	1,813,813
Loans and advances to credit institutions	7,530	131,896
TOTAL CASH AND CASH EQUIVALENTS	**996,480**	**1,945,709**

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders								
	Share capital	Reserved fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Other equity instruments issued	Total equity
EQUITY AT 31 DECEMBER 2014	**42,583**	**277**	**30,914**	**40,366**	**479,686**	**593,825**	**279**	**-**	**594,104**
Share issue	-	-	-	-	-	**-**	19	-	19
Issuance of Additional Tier 1 capital loan	-	-	-	-	-	**-**	-	347,454	347,454
Dividends paid for 2014	-	-	-	-	-	**-**	−197	-	−197
Profit for the period	-	-	-	-	121,379	**121,379**	115	-	121,494
Components of other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods									
Available-for-sale financial assets (fair value reserve):									
Net change in fair value	-	-	−17,972	-	-	**−17,972**	-	-	−17,972
Net amount transferred to profit or loss	-	-	−6,562	-	-	**−6,562**	-	-	−6,562
IAS 39 reclassification adjustment	-	-	84	-	-	**84**	-	-	84
Taxes related to components of other comprehensive income	-	-	4,890	-	-	**4,890**	-	-	4,890
EQUITY AT 31 DECEMBER 2015	**42,583**	**277**	**11,354**	**40,366**	**601,065**	**695,645**	**216**	**347,454**	**1,043,314**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	−6,300	**−6,300**	-	-	−6,300
Dividends paid for 2015	-	-	-	-	-	**-**	−114	-	−114
Profit for the period	-	-	-	-	139,342	**139,342**	26	-	139,367
Components of other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods									
Available-for-sale financial assets (fair value reserve):									
Net change in fair value	-	-	10,281	-	-	**10,281**	-	-	10,281
Net amount transferred to profit or loss	-	-	−98	-	-	**−98**	-	-	−98
IAS 39 reclassification adjustment	-	-	24	-	-	**24**	-	-	24
Taxes related to components of other comprehensive income	-	-	−2,041	-	-	**−2,041**	-	-	−2,041
EQUITY AT 31 DECEMBER 2016	**42,583**	**277**	**19,519**	**40,366**	**734,107**	**836,852**	**127**	**347,454**	**1,184,433**

Notes to the consolidated financial statements

Notes to the statement of financial position and other notes

Notes to the income statement

Pillar III disclosures

Note 1. Summary of significant accounting policies

General information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (hereinafter "MuniFin" or "the company") and Financial Advisory Services Inspira Ltd (hereinafter "Inspira" or "subsidiary"). The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domiciled in Helsinki. Its registered address is 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 10 February 2017. 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 decide to 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 and the SIC and IFRIC interpretations in force on 31 December 2016. 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 under historical cost convention, except for financial assets and liabilities recorded at fair value through profit or loss, available-for-sale financial assets, derivative contracts and hedged items in fair value hedge accounting for the risk hedged.

According to Part Eight of the EU Capital Requirements Regulation (EU 575/2013) capital adequacy information is presented in the financial statements. In preparing the financial statements under IFRS, the 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 "Summary of significant accounting policies" provides information on the items in which the figures presented may be most affected by management judgement 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 MuniFin, the parent company, and Inspira, a subsidiary directly owned by it. Intercompany share ownership has been eliminated by using the acquisition method. Intercompany business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement. Non-controlling interest is presented in the statement of financial position as a separate item under "Equity".

Segment reporting

Municipality Finance Group's line of business is credit institution operations and providing financial services. The Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decision maker. Group-level information pursuant to IFRS 8 with respect to information on products and services are presented in Note 30. Interest income and expense and 31. Commission income. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The Group does not have any single customer that constitutes more than 10% of its income.

Translation of foreign currency denominated items

Transactions denominated in a foreign currency have been recorded in euro, the Group's functional currency, using the exchange rates of the transaction dates. On the balance sheet date, monetary receivables and liabilities denominated in a foreign currency have been translated into euros using the European Central Bank's average exchange rate of that date and the resulting translation differences are recorded through profit or loss under Net income from foreign exchange transactions. The fair value changes of monetary securities denominated in a foreign currency and classified as available-for-sale are divided into translation differences arising from changes to the amortised cost of the security and other changes in carrying amount. Translation differences related to changes in amortised cost are recorded through profit or loss, while other changes in carrying amount are recognised in Other comprehensive income.

Classification of financial instruments and measurement principles

Based on 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 investments and financial assets and liabilities at fair value through profit or loss. The classification depends on the purpose for 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 assets measured at fair value through profit or loss or as available-for-sale.

The items are initially recognised at fair value adjusted by transaction costs and subsequently measured at amortised cost. Loans and receivables include MuniFin's lending portfolio, leasing agreements, money market deposits and repurchase agreements. As a rule, MuniFin hedges fixed rate lending, lending at long-term reference rates and lending with structured interest rate terms, applying fair value hedge accounting to these. Lending included in hedge accounting is measured at fair value for the risk hedged.

Available-for-sale financial assets

Available-for-sale financial assets are assets not included in derivative assets that have either been specifically classified in this category or not classified in any other category. The company includes investments in debt securities and shares in investment funds in this category.

Available-for-sale financial assets 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 deferred tax. Foreign exchange gains and losses on debt securities denominated in foreign currencies are recognized through profit or loss under Net income from securities and foreign exchange transactions. Interest received on debt securities is recognised through profit or loss under Interest income. Income from shares in investment funds and realised capital gains and losses from available-for-sale financial assets are recognised in the income statement under Net income from available-for-sale financial assets.

Held-to-maturity investments

The financial assets classified in this category are non-derivative financial assets with fixed or determinable payments that mature on a specific date and that the company intends and is able to hold to maturity. These financial assets are recorded at amortised cost using the effective interest method upon initial recognition. In 2008, Municipality Finance reclassified debt securities as held-to-maturity. Based on the amendments to IAS 39 and IFRS 7, debt securities classified as available-for-sale were transferred to held-to-maturity category at their fair value on 1 January 2008 and 1 July 2008. Detailed information about the transfers and their impacts are shown in Note 10. Held-to-maturity investments include municipal papers, municipal commercial papers and the debt securities reclassified in 2008.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities held-for-trading

In the financial statements prepared in accordance with International Financial Reporting Standard, all derivatives not included in hedge accounting are classified as held-for-trading, even if they have been entered into based on risk management purposes to hedge risks. In MuniFin, this category contains the following: derivatives hedging financial assets and liabilities which are valued using the fair value option, derivatives with municipalities, derivatives hedging derivatives with municipalities and derivatives hedging balance sheet interest rate risk, for which no specific hedged item has been defined. In addition to the aforementioned, derivatives hedging financial liabilities with embedded derivatives and embedded derivatives bifurcated from the host contract are classified as held-for-trading.

Derivatives are recognised at fair value through profit or loss, and derivative contracts are recognised on the balance sheet. Positive fair value changes 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 Derivative contracts.

Fair value changes of derivatives held-for-trading are reported in the income statement under Net income from securities, with the exception of foreign exchange gains and losses which are recognised under Net income from foreign exchange.

Fair value option

The company classifies certain financial assets and liabilities at fair value through profit or loss under the fair value option. Financial assets that are classified as fair value through profit or loss under the fair value option include investment in commercial paper, certain floating rate lending and certain debt securities of which the interest rate risk is hedged with interest rate derivatives. The fair value option is applied to commercial papers and certain lending, as the items in question are reported to the management and managed on the basis of their fair value. Debt securities of which the interest rate risk is hedged with interest rate swaps, but which are not included in hedge accounting, are classified under the fair value option in order to eliminate the accounting mismatch between the derivative and the hedged item.

In financial liabilities, the fair value option is applied to short-term debt instruments denominated in foreign currencies for which the currency risk is hedged with FX swaps. The fair value option is applied in order to eliminate the accounting mismatch between the derivative and the hedged item. Changes in the fair values of these items are recognised in the income statement under Net income from securities and foreign exchange transactions. The impact of the fair value option on profit and loss is presented in Notes 33 and 34.

Other financial liabilities

Other financial liabilities contains all financial liabilities which are not classified at fair value through profit and loss through using the fair value option. Other financial liabilities are liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued and subordinated liabilities. Other financial liabilities are recognized on the balance sheet on the settlement date and are after initial recognition valued at amortised cost.

Issued structured debt securities can contain an embedded derivative. If economic characteristics of the embedded derivative are not closely related with the economic characteristics of the host contract, the embedded derivative is separated from the host contract. The separated embedded derivative is measured at fair value in the balance sheet with changes in fair value booked through profit and loss. The company hedges each embedded derivative, which has been separated from the issued debt security, in its entirety. The fair value changes of the embedded derivative and derivative are recognised in the income statement under Net income from securities and foreign exchange transactions.

Impairment of financial assets

At the end of each reporting period the Group assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment of an item or group recognised under financial assets can include information on the following loss events: the issuer or debtor is experiencing significant financial difficulty, or breach of contract, such as default or delinquency in interest or principal payments.

If objective evidence exists that impairment losses have been incurred for loans and receivables at amortised cost or held-to-maturity investments on the balance sheet, the amount of the loss is determined as the difference between the asset's carrying amount and the present value of its cash flows discounted with the original effective interest rate. The loss is recognized through profit or loss. If the impairment loss decreases in a subsequent financial period and the decrease can objectively considered be associated with an event after the recognition of the impairment loss, the impairment loss is reversed through profit or loss.

If objective evidence exists that impairment losses have been incurred for an item recognised under available-for-sale financial assets, the accumulated loss recognised in other comprehensive income is transferred from equity and recognised in profit or loss. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can objectively be considered to be associated with an event after the recognition of the impairment loss in profit or loss, the impairment loss is reversed through profit or loss.

A financial asset is classified as non-performing, when its payments are over 90 days due, an individual impairment has been made or in the occurrence of other such events, where the solvency of the client can be assumed to be permanently compromised. In other events than above, when payments are received in time or the receivable is less than 90 days due, the financial asset is classified as performing.

If the payment plan of a loan is modified, the reason for the modification is documented. Not all modifications are due to the weakening of the clients ability to pay, some of the modifications of payment plans are done based on the management of the client relationship. These modifications do not affect the recognition of impairment. If the payment plan of a client is modified or some other financially facilitating modification is made to a loan, which the client cannot fulfill due to financial difficulties, the loan is always categorised as a forborne loan. Forborne loans are alleviations to the original payment plan agreed on the client's initiative and their purpose is to aid the client to manage temporary payment difficulties. The loan is not classified as a forborne loan after two years, if the client has been able to fulfill the new payment plan and no impairment on liabilities has been recognised. Forborne loans and payment delays are regularly reported to management as an indicator of anticipated client payment solvency.

Recognition and derecognition of financial assets and liabilities

Loans and other receivables are recognised on the balance sheet when the customer withdraws the loan, available-for-sale financial 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents contains cash and balances with central banks in addition to loans and advances to credit institutions payable on demand. Deposits and investments with maturities less than three months for acquisition can also be included in cash and cash equivalents. The company has amended its definition of cash and cash equivalents during 2015. Previously cash and cash equivalents contained all investments maturing in the following three months. The change in cash and cash equivalents is presented as part of the statement of cash flows.

Determination of fair value

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

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying valuation techniques. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates and valuation methods widely recognised on the market. Fair value levels and valuation methods are described in Note 5.

Hedge accounting

The interest rate and foreign exchange rate risk of the company are managed by entering into derivative transactions. Foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms.

Fair value hedge accounting is applied to financial assets and liabilities, where the interest rate of the hedged item has been swapped to a floating rate using derivatives. In addition hedge accounting is applied to foreign currency denominated financial assets and liabilities, which have been hedged by exchanging the principal into euros and its interest rate into a floating rate. MuniFin does not apply cash flow hedge accounting. The hedging relationships within hedge accounting are properly documented and they are in line with the company's risk management objectives and strategy.

In financial assets, the company applies fair value hedge accounting to fixed-rate and long-term reference rate tied lending and leasing and fixed-rate debt securities denominated in euros. In these financial assets the hedged risk is interest rate risk. In addition the company applies fair value hedge accounting to lending containing structured interest terms, where the hedged risk in addition to interest rate risk can be an optionality contained in the loan or another risk related to the interest terms. The company applies portfolio hedging for fixed and long-term reference rate tied lending and fixed leasing.

For loans and receivables the hedged item is at amortised cost with the exception of the interest rate risk, which is subject to fair value hedge accounting. The change in the value of the hedged risk is accounted for as an adjustment to the carrying amount of the hedged item through profit and loss. The customer margin of lending and leasing is not part of the hedging relationship.

The company applies fair value hedge accounting to debt securities in foreign currencies. The hedged item is, in addition to interest rate risk, also foreign exchange risk. The hedged items have been classified as available-for-sale financial assets. Both the exchange rate difference due to the hedged interest rate risk and foreign exchange risk are recognised in profit and loss. The hedged items classified as available-for-sale financial assets are measured at fair value in their entirety, but the value change in the hedged risk is recognised in the profit and loss.

Interest rate swaps and cross currency interest rate swaps with interest terms equivalent to financial assets are used as hedging instruments.

In financial liabilities, fair value hedge accounting is applied to fixed rate funding denominated in euros, floating and fixed rate funding denominated in foreign currencies and funding with structured interest rate terms, which does not contain embedded derivatives. The hedged item regarding euro denominated funding is interest rate risk. The hedged item can also be an optionality included in the financial liability. For foreign currency denominated financial liabilities the hedged item is foreign exchange and interest rate risk. Regarding funding based on structured interest rate terms the hedged risk can, in addition to interest rate and foreign exchange risk, also be an optionality or another risk related to the interest rate terms.

For other financial liabilities the hedged items is at amortised cost, with the exception of the interest rate risk, which is subject to fair value hedge accounting. The credit risk of MuniFin is not included in the hedging relationship. The change in the value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit and loss. Separating the credit risk from the fair value is a requirement in order to apply hedge accounting only on interest rate and foreign exchange risks. During 2015 the company introduced a new technical way of splitting the credit risk from the fair value of the financial liability for floating rate and fixed rate plain-vanilla liabilities. The new calculation method amends the applicable valuation method and allows the splitting of credit risk from the fair value of the liability in a more automated way, without impacting the figures produced in a material way. MuniFin uses interest rate swaps, cross currency interest rate swaps and interest rate options as hedging instruments.

The fair values of derivatives included in hedge accounting are presented in Note 12. The change in fair value due to foreign exchange differences of derivatives in hedge accounting and the hedged items are recognised in the income statement under Net income from foreign exchange transactions. Other changes in fair value of the hedged balance sheet items and derivatives hedging them are recognized in the income statement under Net income from hedge accounting. The ineffective portion of the hedge relationship is also shown on this line in the profit and loss. The interest received and paid on derivative contracts is recognised as an adjustment to interest expenses regarding hedged liabilities or as an adjustment to interest income regarding hedged assets.

The efficiency of the hedging relationships is evaluated when the relationship is created and during subsequent hedging periods. The hedging has been efficient if the changes in fair value or cash flows of the hedged item as well as the changes in fair value and cash flows of the hedging instrument range between 80% and 125%. The efficiency of hedging is verified at the subscription of a contract object for fair value hedge accounting or portfolio hedge accounting and regularly after that, at least monthly.

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 MuniFin 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 leases are divided into repayments and interest income. Interest income is recognised over the term of the lease so that the remaining net investment yields the same return according to the same rate of return over the period of the lease. Financial leasing agreements are classified under the financial asset category Loans and receivables. Interest received is presented in the income statement under Interest income.

In the case of other leases, MuniFin is the lessee. Other leases are primarily related to office space. Rents payable on the basis of lease agreements are recognised as expenses in the income statement in equal instalments over the duration of the lease.

Intangible and tangible assets

Intangible and tangible assets are recognised in the balance sheet at historical cost, net of accumulated depreciation and impairment. Assets are depreciated on a straight-line basis over their estimated useful lives.

Machinery and equipment are depreciated according to plan on a straight-line basis over five years. Capitalized IT hardware is depreciated on a straight-line basis over four years and capitalized software based on its 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. Real estate is depreciated on a straight-line basis over 25 years.

The assets' residual values and useful lives are reviewed at the end of each financial year and, if necessary, adjusted to reflect the changes in the expected economic benefit.

Impairment of intangible and tangible fixed assets

The company assesses at each financial statement 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 carrying amount of an asset item is greater than the recoverable amount, an impairment loss is recognised in the profit and loss.

Provisions and contingent liabilities

A provision is booked for an obligation, if the obligation is based on a past event and it is probable the obligation will be realized, yet the timing and exact amount are uncertain. The obligation needs to be based on either an actual or legal obligation towards a third party. A contingent liability is a potential obligation based on past events. The existence of the obligation will not be confirmed until the uncertain future event outside the control of the entity occurs. Contingent liabilities can also be such obligations, that do not require an outflow to settle or of which the amount cannot be reliably estimated.

Appropriations

The difference between the depreciation according to plan and the depreciation of assets in taxation the depreciation difference, is shown in the parent company statement of financial position on line Total appropriations. In the income statement the depreciation difference is shown on line Appropriations. The voluntary credit loss provision and depreciation difference 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 credit loss provision and depreciation difference are thus released in the consolidated financial statements into equity and deferred tax liability in accordance with IAS 12 Income Tax.

Equity

Equity contains share capital, retained earnings and reserves of equity (reserve fund, fair value reserve and reserve for invested non-restricted equity). Other instruments issued by the company can be classified into equity based on their nature. Perpetual instruments with interest payments which are at the discretion of the issuer are classified as equity in the consolidated financial statements.

The AT1 capital loan issued by the company is an equity instrument and contained in consolidated equity. The capital loan is perpetual and the interest payments and redemption are at the discretion of MuniFin. The AT1 capital loan is subordinated to other liabilities. It is senior to other items contained in equity. The instrument holders do not bear rights of shareholders, control or voting rights at the Annual General Meeting. Interest payments are treated as a deduction of equity based on the decisions of the issuer. Transaction expenses are deducted from the capital. These are presented in equity decreased by the amount of deferred taxes as a deduction of the capital loan. The deferred tax assets are recognised with tax deductions from transaction expense write-offs. The deferred tax assets and liabilities are presented in Note 18.

Recognition of income and expenses

Net interest income

Interest income and expense are recognized in net interest income. Commissions and fees received and paid, transaction expenses as well as premium or discount are taken into account when the effective interest rate is calculated. For floating rate financial liabilities premium or discount is amortised from the date of issuance to the next interest payment date. For fixed rate financial liabilities the premium or discount is amortised until maturity. For financial assets MuniFin has previously followed the same principle. During 2015 the company amended its principle for amortising the premium or discount of floating rate financial assets. In the current market conditions, the premium or discount on a financial asset is not based on changes in market rates, but credit risk. The market value of a floating rate investment does not reset to the nominal when its interest rate is re-fixed to market interest rates, therefore amortisation to the next interest date is not justifiable. The premium or discount of investments is until further notice amortised until maturity. The company will evaluate the impact of changes in market conditions on the amortisation principle and applying it regularly.

The negative interest income from assets is presented as interest expense and the negative interest expense from liabilities is presented as interest income. The interest income and expenses on derivatives hedging liabilities is recognized in interest expense and the interest income and expenses on derivatives hedging assets is recognized in interest income. In order to maintain comparability, the breakdown of the interest income and expenses during 2015 has been amended accordingly so that negative interest income is noted in interest expenses and that negative interest expense is noted in interest income.

Commission income and expenses

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

Net income from hedge accounting

Net income from hedge accounting includes the net result from recognising financial assets and liabilities and the derivative contracts hedging them at fair value for the hedged risk. Foreign exchange gains and losses on hedged items and hedging instruments are recognized in Net income foreign exchange transactions.

Net income from securities and foreign exchange transactions

Net income from securities includes fair value changes of items valued using the fair value option, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items. Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies. Translation differences related to the hedged items and hedging instruments in hedge accounting are also presented under this item.

Employee benefits

The company's remuneration system is in its entirety contribution based. Its description is available online at www.munifin.fi. 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 profit and loss of the period to which the payments relate.

Income taxes

Income taxes in the consolidated income statement comprise accrual-based taxes that are determined based on the profits generated by the Group companies, and changes in deferred taxes in accordance with IAS 12 Income Taxes. Taxes are recognised in the income statement, except if they relate to items recognised in other comprehensive income or in equity. In this case, the tax is also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

Deferred taxes may be comprised of temporary differences between accounting book value and taxable value, as well as confirmed tax losses. Deferred taxes in the company consist of the release and transfer to equity of the voluntary credit loss provision and depreciation difference recorded by the parent company and the fair value change of available-for-sale investments. In addition, deferred taxes arise from differences in the treatment of the AT1 capital loan and issuance expenses and interest expenses related to the AT1 capital loan in the parent company's separate financial statements and the consolidated financial statements. Deferred taxes are presented in Note 18. Deferred tax liabilities and assets are calculated based on the tax rate that is anticipated to be in force at the time of the temporary difference being released. If a deferred tax arises from balance sheet items and changes in those items do not have an impact on the income statement, the change in deferred tax is recognised in other comprehensive income, not in the profit and loss.

Exceptional items

Transactions that are not part of ordinary business operations and are of exceptional size or nature are recognised as exceptional items. The income statements and cash flow statements for 2016 and the comparison year 2015 do not include any exceptional items.

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 the financial statement date. These are relate to, among other things, the determination of fair value and the impairment of financial assets. Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles used in calculating fair values is presented in Note 5. Fair values of financial assets and liabilities. The Group determines on a monthly basis whether there is objective evidence of impairment of those financial assets that are not recorded at fair value through profit or loss. The risk management principles applied are described as part of the financial statements.

Application of new standards

The consolidated financial statements have been prepared in accordance with the same accounting policies as in 2015, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2016.

Annual Improvements to IFRSs (2012-2014 cycle) (effective for financial years beginning on or after 1 January 2016): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to four standards. Their amendments have not had a significant impact on the consolidated financial statements.

Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. The amended standard has not had a significant impact on the consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016): The amendments state that revenue-based methods of depreciation cannot be used for property, plant and equipment and may only be used in limited circumstances to amortise intangible assets if revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendments have not had an impact on the consolidated financial statements.

Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments have not had an impact on the consolidated financial statements.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016): The amendments to IFRS 10, IFRS 12 and IAS 28 clarify the requirements for preparing consolidated financial statements when there are investment entities within the group. The amendments also provide relief for non-investment entities for equity accounting of investment entities. The amended standard have not had an impact on the consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016): The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments have not had an impact on the consolidated financial statements.

Other new or amended standards that entered into effect in 2016 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted

The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. Standards published by IASB that enter into effect after 1 January 2016:

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The amendments are not expected to have a significant impact on the consolidated financial statements.

Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The standard also include new general hedge accounting requirements. The standard carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The new standard will have an impact on the consolidated financial statements. During 2016, the company launched an IFRS 9 project, which towards the end of the year focused on assessing the scope of the impact. The company's business control and reporting department, risk management and representatives from all business areas participated extensively in the impact analysis. The classification of assets is not expected to have a great impact on the company's income statement or balance sheet. The company's business models on management of various financial assets corresponds quite well to the current classification. Most current available-for-sale financial assets are classified based on the business model, respectively at fair value through other comprehensive income (FVOCI) loans and receivables are classified at amortised cost. For liabilities, the company assesses the possibility to use the fair value option more extensively.

The new IFRS 9 standard is not expected to cause significant reclassifications between assets valued at fair value and assets valued at amortised cost. The assessment of the impact on the liability side is still on-going and possibly the more extensive use of the fair value option might have an impact on reclassification. The reclassification is not expected to have a significant impact on capital adequacy.

For hedge accounting the impact assessment is still on-going.

The IFRS 9 requirements on impairment losses are based on a model of expected credit losses instead of the current model based on realized impairment losses. The general assumption when the standard is introduced is that the expected credit losses calculated by IFRS 9 will increase the amount of impairment losses and thus reduce equity and weaken capital adequacy. The impairment test is conducted according to IFRS 9 on all assets measured at fair value through other comprehensive income and amortised cost, receivables from financial leases and binding credit commitment off balance-sheet. Based on a preliminary impact analysis, MuniFin estimates that the model of expected credit losses will have an impact on the company's result and that the amount of impairment losses will increase, but the impact will not be significant. According to the current analysis most of the assets are included in level 1 (assets, whose credit risk has not increased significantly). During 2017, the company will develop its customer analysis tools so that all necessary input data required for the expected losses model can be taken into account.

The assessment of the final impact of IFRS 9 is still on-going and the implementation project will continue during 2017. The company will adopt the IFRS 9 on its effective date, 1 January 2018.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The amendments are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are not expected to have an impact on the consolidated financial statements.

Amendments to IFRS 2 Sharebased payments - Clarification and Measurement of Sharebased Payment Transactions (effective for financial years beginning on or after 1 January 2018). The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments are not expected to have an impact on the consolidated financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Join Venture (the effective date has been postponed indefinitely). The amendments address to clarify the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are not expected to have an impact on the company's consolidated financial statements.

IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The amendments are not expected to have an impact on the consolidated financial statements.

Amendments to IAS 40 Investment Property - Transfers of Investment Property (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments are not expected to have an impact on the consolidated financial statements.

Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to three standards. Their impacts vary standard by standard but are not significant.

Other standards and interpretations to be applied in future financial periods are not assessed to have an impact on the consolidated financial statements.

Note 2. Risk management principles and the Group's risk position

General principles of risk management

MuniFin's operations require sufficient risk management mechanisms to ensure that the company's risk positions remain within the limits set by the Board of Directors. MuniFin applies very conservative principles to its risk management. The aim is to keep the overall risk profile at such a low level that the company's strong credit rating (Aa1 /AA+) is not compromised.

The company regularly surveys risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognize the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results. The company mitigates risks it has identified with collateral, guarantees, derivatives, insurance and active risk management. According to its own analysis, MuniFin does not have any liabilities containing wrong-way risk (the likelihood of a default by counterparty is positively correlated with general market risk factors).

MuniFin developed a Risk Appetite Framework (RAF) during the first half of 2016, which was subsequently approved by the Board of Directors in August 2016 after a thorough review and revision process by the management and the Board. The purpose of the RAF is to enable the company to:

1. Effectively identify, assess and manage the risks inherent in its strategy as well as its internal risks,
2. Understand and decide on the amount of risk it is willing and able to take in executing its business strategy, and to actively communicate it,
3. Promote sound discussion about the risk appetite of the company and an effective and credible discussion and challenge of business and risk taking decisions.

The Risk Appetite Framework is linked to both short-term and long-term strategic plans, capital and financial plans, the recovery plan and the remuneration policy. It is fully aligned with the ICAAP (Internal Capital Adequacy Process) and the ILAAP (Internal Liquidity Adequacy Process). The RAF is reviewed and recalibrated at least annually.

MuniFin conducts an annual comprehensive stress test in cooperation with an independent external party. The risk management and business functions are both involved in the design process of the stress scenarios. The aim of the latest stress test conducted in the autumn of 2016 were to analyse the development of MuniFin's capital adequacy during the period of 2016–2022. The test applied to business, market and credit risks and their estimated financial impact under different scenarios. The test also included a so called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. As in the previous stress tests, the results showed that with the current capital requirements, the level of the company's capital is sufficient in the covered time period even under highly adverse circumstances. Furthermore, the results showed that the company had an adequate amount of own funds to cover the 3 percent leverage ratio requirement.

There were no material changes in the company's risk position in 2016. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements set for it. The company's risk position is regularly reported to the Board of Directors as a part of monthly risk reporting, and, in addition, the Chief Risk Officer provides the Risk Committee of the Board a semi-annual extended risk review of the company's risk positions.

Organization of risk and capital adequacy management

MuniFin's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The Risk Committee of the Board assists the Board of Directors in matters regarding the risk strategy and risk taking and in supervising of that the company follows the risk strategy defined by the Board. The purpose of risk management is to ensure that the risks associated with lending, funding, investment and other business operations are in line with MuniFin's low risk profile defined in the Risk Appetite Framework and related risk policies. The Board of Directors considers the company to have adequate level of risk management in proportion to the nature and riskiness of its operations.

MuniFin has an extensive risk management organisation which covers all company operations including the tasks and responsibilities of different departments and decision-making bodies.

The Risk Management department, which serves as the 2nd line of defence and is independent of the business functions, is responsible for risk management principles and processes led by the Chief Risk Officer. The Capital Markets function (1st line of defence) is responsible for managing the risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk position and limit usage are reported to the Executive Management Team and Board of Directors on a regular basis. The Business Control and Reporting department, led by the Chief Financial Officer, is responsible for the principles related to capital adequacy and the structure of own funds. The Compliance function (2nd line of defence) monitors the company's compliance with regulation. Finally, the Internal Audit (3rd line of defence) regularly audits different parts of the company's operations.

Strategic risks

Strategic risk means that MuniFin would choose a wrong strategy for financially profitable operations or that the company would fail to adapt its strategy to changes in the operating environment. The management of strategic risks is based on continuous monitoring and analyses of the customers' needs, forecasts of market trends, and changes in the competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The existing strategy extends to 2022, and it is updated at least annually.

Balance sheet and binding loan commitment liabilities

31 Dec 2016 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	13,535,122	9,770,593	-	2,960,638	803,891
Enterprises and housing corporations	12,192,342	11,051,611	-	91,012	1,049,719
Non-profit organisations	403,243	373,535	-	-	29,708
Credit institutions	4,830,180	-	438,811	4,391,369	-
Other	26,419	-	-	26,419	-
Total	**30,987,306**	**21,195,739**	**438,811**	**7,469,437**	**1,883,319**

31 Dec 2015 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	12,696,738	9,472,488	-	3,027,928	196,323
Enterprises and housing corporations	11,637,959	10,486,332	-	88,300	1,063,327
Non-profit organisations	393,971	316,742	-	-	77,230
Credit institutions	4,439,926	-	614,294	3,825,632	-
Other	61,458	-	-	61,458	-
Total	**29,230,054**	**20,275,561**	**614,294**	**7,003,318**	**1,336,880**

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitments to the company. MuniFin 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 a deficiency guarantee issued by a municipality or municipal federation, or by a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or the state. The amount of the primary pledge must equal 1.2 times the amount of the loan. Because such a guarantee 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 residual value risk for the objects of its leasing services. MuniFin has not had any credit losses in the financing of its customers. The company does not have customer limits for lending as all lending is to counterparties which are allocated the risk weight of zero percent in the capital adequacy calculations. The company analyses the credit risk and payment behaviour of its customers regularly.

MuniFin is also exposed to credit risk from its liquidity portfolio investments and derivative instruments. In selecting counterparties, MuniFin evaluates credit risk with principles and limits, approved by the Board of Directors, based on external credit ratings. Nominal values of debt securities and equivalent credit values of derivatives (fair value method) are used in monitoring credit risk.

MuniFin limits credit risk arising from its derivative counterparties with ISDA Credit Support Annexes. The company has 49 Credit Support Annexes in force of which 26 require daily margining. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the derivative counterparty risk of certain counterparties.

The Credit Valuation Adjustment (CVA) that measure counterparty credit risk and MuniFin's own Debt Valuation Adjustment (DVA) are both taken in to account when calculating credit risk exposures arising from derivative counterparties. The CVA is estimated for each derivative counterparty by calculating MuniFin's expected positive exposure throughout the maturity of the derivative portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. Input data for the calculation is based on the terms of CSA agreements, generally excepted assumptions in the markets on the loss given default and expected probabilities of default based on historical credit rating matrices. Similarly, the DVA is determined on the basis of MuniFin's expected negative exposures, taking into account the probability of MuniFin's own default and the loss given default.

In May 2016, MuniFin switched to using central counterparties (CCPs) in the clearing of standard over-the-counter (OTC) derivative contracts, as required by "EMIR", the European Markets Infrastructure Regulation. In this model, at the end of a daily clearing process, a CCP becomes the counterparty to each cleared trade. The purpose of CCP clearing is to reduce counterparty risk. Currently, MuniFin has two global banks providing clearing broker services.

Breakdown of derivative agreements by counterparty credit rating

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Finnish municipalities	2,110,387	2,192,748
Central counterparty	2,877,791	-
AAA	-	-
AA	14,512,222	18,619,734
A	36,513,128	40,757,782
BBB	5,464,418	1,993,544
Total	**61,477,946**	**63,563,808**

Given and received cash collateral based on CSA agreements

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Given collateral	−425,399	−461,900
Given collateral to central counterparty	−46,038	-
Received collateral	2,157,680	2,232,310
Net collateral	**1,686,243**	**1,770,410**

Domestic and foreign currency denominated funding

31 Dec 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	5,268,229	94,088	5,362,317
Liabilities to the public and public sector entities	590,874	282,045	872,919
Debt securities issued	2,377,486	22,206,683	24,584,169
Total	**8,236,590**	**22,582,816**	**30,819,406**

Distribution of funding by currency based on carrying amounts and hedges

31 Dec 2016 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	9,790,352	4,106,564	1,579,468	1,702,558	4,264,525	21,443,467
Short-term funding	1,139,348	-	-	-	-	1,139,348
Currency risk total	**10,929,701**	**4,106,564**	**1,579,468**	**1,702,558**	**4,264,525**	**22,582,816**
Hedging derivatives	−10,929,701	−4,106,564	−1,579,468	−1,702,558	−4,264,525	−22,582,816
Unhedged currency risk	**0**	**0**	**0**	**0**	**0**	**0**

Domestic and foreign currency denominated funding

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	2,567,304	93,656	2,660,960
Liabilities to the public and public sector entities	685,153	268,873	954,026
Debt securities issued	1,963,064	22,841,427	24,804,490
Total	**5,215,521**	**23,203,956**	**28,419,477**

Distribution of funding by currency based on carrying amounts and hedges

31 Dec 2015 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	11,476,621	3,018,775	2,035,696	1,909,066	3,789,060	22,229,218
Short-term funding	974,738	-	-	-	-	974,738
Currency risk total	**12,451,359**	**3,018,775**	**2,035,696**	**1,909,066**	**3,789,060**	**23,203,956**
Hedging derivatives	−12,451,359	−3,018,775	−2,035,696	−1,909,066	−3,789,060	−23,203,956
Unhedged currency risk	**0**	**0**	**0**	**0**	**0**	**0**

Financial assets in domestic and foreign currencies

31 Dec 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	988,949	-	988,949
Loans and advances to credit institutions	432,402	6,131	438,533
Loans and advances to the public and public sector entities	21,195,739	-	21,195,739
Debt securities	7,237,952	231,486	7,469,437
Shares and participations	9,695	-	9,695
Other assets	58,816	3,799	62,615
Total	**29,923,553**	**241,416**	**30,164,969**

Distribution of assets by currency based on carrying amounts and hedges

31 Dec 2016 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	5,466	7	240	379	40	6,131
Debt securities	117,753	48,625	17,536	37,102	10,470	231,486
Other assets	3,799	-	-	-	-	3,799
Currency risk total	**127,018**	**48,632**	**17,776**	**37,481**	**10,509**	**241,416**
Hedging derivatives	−117,753	−48,625	−17,536	−37,102	−10,470	−231,486
Unhedged currency risk	**9,265**	**7**	**240**	**379**	**40**	**9,930**

Financial assets in domestic and foreign currencies

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	1,813,813	-	1,813,813
Loans and advances to credit institutions	613,701	594	614,294
Loans and advances to the public and public sector entities	20,275,561	-	20,275,561
Debt securities	6,796,328	206,990	7,003,318
Shares and participations	9,620	-	9,620
Total	**29,509,022**	**207,584**	**29,716,606**

Distribution of assets by currency based on carrying amounts and hedges

31 Dec 2015 (EUR 1,000)	USD	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	35	159	376	24	594
Debt securities	127,187	47,781	32,022	-	206,990
Currency risk total	**127,223**	**47,940**	**32,398**	**24**	**207,584**
Hedging derivatives	−127,187	−47,781	−32,022	-	−206,990
Unhedged currency risk	**35**	**159**	**376**	**24**	**594**

Market risk

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, foreign exchange, share price and other price risks. MuniFin manages the interest rate risk arising from business operations by means of derivative contracts. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. The company does not bear any material foreign exchange risk. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes.

The company has specified limits for the following market risks:

- Currency position
- Interest rate risk
  - Duration
  - Value-at-Risk
  - Economic Value
- Income risk
- Price risk of liquidity portfolio investments

Currency position

The currency position is calculated as the euro-denominated difference between assets and liabilities in various currencies.

(EUR 1,000)	Currency position
31 Dec 2016	9 930
31 Dec 2015	594

Duration

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

	Receivables	Liabilities	Difference
31 Dec 2016	2.187 years	2.172 years	4 days
31 Dec 2015	2.094 years	2.026 years	25 days

Value-at-Risk

The VaR figure describes the maximum negative change in the market value of the balance sheet for a 10-day period 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.

(EUR 1,000)	31 Dec	Year's average	Year's lowest	Year's highest
2016	3,290	4,128	3,290	5,860
2015	4,900	2,447	770	5,940

Economic Value

Economic Value describes the interest rate sensitivity of the present value of the balance sheet. It is measured by calculating the change in the present value of interest rate sensitive cash flows for different interest rate curve changes. The basic scenario is a 200 basis point increase and decrease of the interest rate curve (floored at zero %).

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2016	6,200	0.56%
31 Dec 2015	0	0.0%

Income risk

Income risk refers to the negative impact of interest rate changes on the company's net interest income. The basis scenario is a 100 basis point shift throughout the interest rate curve. The impact is evaluated in proportion to the company's profitability and own funds.

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2016	0	0.0%
31 Dec 2015	−8,594	5.4%

Price risk

Price risk refers to the possibility of changes in the market values of liquidity investments due to a change in the market's required return as a consequence of a change in the investment's risk or in the market's risk sensitivity. The change in required return is calculated at a 99% confidence level.

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2016	0.50%	-83,399	7.4%
31 Dec 2015	0.43%	-67,540	6.3%

Liquidity risk

Liquidity risk means the risk of the company not being able to perform its payment obligations arising from settling funding agreements or other funding activities on their due date. The company manages the liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a minimum level for available liquidity (survival horizon) which should be sufficient for at least six months' liquidity needs. The Board of Directors of MuniFin has set the following limits on liquidity risks: refinancing gap and survival horizon.

Breakdown of financial liabilities by maturity is presented using nominals and future interest payments translated into euros using year end foreign exchange rates. Financial liabilities containing a call option are shown in the table at the amount at which the liability can be called on the next call date. These liabilities are also shown in the maturity bucket corresponding to the next call date. The financial statement line Liabilities to credit institutions contains CSA-collateral totalling EUR 2,157,680 thousand. These are presented in the maturity bucket 0-3 months although their outflow date is not known and is dependent on the development of derivative fair values. Part of the financial liabilities presented as maturing during the next 12 months are callable. Based on the current call forecast 40 – 60% is expected to be called.

The company hedges all its funding to floating rate euros. In addition all lending is hedges to floating rates. For evaluating the impact of derivatives, the interest flows of derivative assets and liabilities are shown on one line.

Liquid assets can be used to pay off future maturing liabilities. In addition, the company has well diversified funding sources, which allows the company to acquire new funding flexibly on various markets. New funding can be acquired to cover outflows on maturing liabilities.

The company is a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against these collaterals (Note 26 to the consolidated financial statements).

Breakdown of financial liabilities by maturity

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Liabilities to credit institutions	2,274,489	78,721	563,980	1,169,587	1,764,812	5,851,589
Liabilities to the public and public sector entities	36,571	176,232	376,097	220,595	113,152	922,647
Debt securities issued	4,676,960	6,147,547	12,614,496	2,091,948	683,321	26,214,272
Subordinated liabilities	-	-	-	-	-	-
Total	**6,988,020**	**6,402,501**	**13,554,573**	**3,482,130**	**2,561,285**	**32,988,508**

Breakdown of derivatives by maturity

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Derivative assets	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Derivative liabilities	−47,774	−185,837	−1,014,586	−183,305	−245,356	−1,676,859
Interest flows related to derivatives assets and liabilities	160,611	355,263	1,016,462	342,200	987,519	2,862,055
Total	**170,986**	**721,005**	**1,825,989**	**901,566**	**1,199,952**	**4,819,498**

Breakdown of financial liabilities by maturity

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Liabilities to credit institutions	2,245,597	66,267	358,029	1,220,027	1,849,509	5,739,428
Liabilities to the public and public sector entities	51,359	29,854	539,391	228,030	252,159	1,100,792
Debt securities issued	4,526,157	6,451,011	12,875,274	1,565,845	1,017,883	26,436,170
Subordinated liabilities	-	36,575	-	-	-	36,575
Total	**6,823,113**	**6,583,706**	**13,772,693**	**3,013,902**	**3,119,551**	**33,312,966**

Breakdown of derivatives by maturity

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Derivative assets	245,007	750,537	1,918,127	378,925	632,428	3,925,025
Derivative liabilities	−25,966	−130,021	−1,224,992	−220,058	−198,655	−1,799,692
Interest flows related to derivatives assets and liabilities	115,422	316,995	755,563	330,505	140,617	1,659,102
Total	**334,463**	**937,511**	**1,448,699**	**489,372**	**574,390**	**3,784,435**

Liquidity management

The company has presented the maturities of financial assets based on their maturity dates in Note 6. Despite the maturities shown in the table, the company has the following assets for managing liquidity. Irrespective of their contractual maturity dates, the assets can be sold in order to manage liquidity.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Cash and balances with central banks (deposits at central banks payable on demand)	988,949	1,813,813
Loans and advances to credit institutions		
Loans and advances to credit institutions payable on demand	7,530	131,896
Deposits	-	11,500
Repo agreements	-	-
Debt securities		
Debt securities classified as available-for-sale	6,024,134	5,322,733
Debt securities using the fair value option	449,445	507,716
Shares in investment funds	9,695	9,592
Total	**7,479,754**	**7,797,250**

Based on decision by the Municipal Guarantee Board in March 2016 Municipality Finance is no longer required to pledge its liquidity portfolio debt securities to the Municipal Guarantee Board. Liquidity portfolio debt securities were pledged to the Municipal Guarantee Board at the end of year 2015.

Debt securities are shown by issuer type in note 10.

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 a 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 transacted. Almost all market values of 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.

Operational risks

Operational risk means the risk of loss due to insufficient or failed internal processes, insufficient or failed policies, 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 level. The management of operational risks is the responsibility of each function and department. In addition, the company's Risk Management and Legal and Compliance departments support the other functions and departments and have the responsibility at the company level for coordinating the management of operational risks.

MuniFin uses various methods for managing operational risks. The company has internal policies approved by the Board and supplementing internal guidelines approved by the management in order to guide operations. Operational risks are also covered by the Risk Appetite Framework approved by the Board of Directors. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis, and the compliance with them is supervised. The tasks related to business activities, 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 developed through regular development discussions and training plans. MuniFin has the insurance policies related to its operations and assesses the level of insurance cover on a regular basis. MuniFin has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure that the company is able to continue functioning and to limit its losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process support the company's continuity planning. A significant revision of the continuity plan was performed in 2016.

MuniFin'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 concerning the operations of credit institutions have faced significant changes during the past few years and will continue to change in the future, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this by active contact with the authorities and interest groups as well as organisation of the company's internal compliance function (incl. reporting, evaluation of effects).

The company has significant information system and business process related projects aimed at improving the quality, efficiency and regulatory compliance of current operations. The extent of these projects creates operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting) and ensuring sufficient resources. The risks related to development projects are surveyed and monitored regularly. In addition the projects have been part subject to an internal audit.

The company has an approval process for new products and services. The process aims to ensure that all material risks and operational requirements are taken into account when developing new products and services. The company does not have material outsourced functions in its operations. The main outsourced items are related to custody services for securities, IT support and back-up facilities of IT-servers and internal audit.

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operational risk events are reported to the Executive Management Team and the Board of Directors. No material losses were incurred as a result of operational risks in 2016.

Note 3 Capital adequacy management principles

MuniFin's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to the following five years, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan annually.

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 management and the Board. The Board of the company approves the final strategy. Management ensures that the operative measures of the company correspond with the principles determined in the strategy approved by the Board. As part of the 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 actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored through monthly business analyses.

The Group calculates its capital adequacy based on the EU Capital Requirements Regulation (EU 575/2013) and Directive (2013/36/EU). The capital adequacy requirement for credit risk is calculated using the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. In capital adequacy calculations for the credit risk, MuniFin uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Capital adequacy disclosures according to Pillar III are presented in the consolidated notes 43 to 59 and parent company notes 46 to 49.

Notes to the statement of financial position

Note 4. Financial assets and liabilities

Financial assets

31 Dec 2016 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	988,949	-	-	-	-	-	988,949	988,949
Loans and advances to credit institutions	438,811	-	-	-	-	-	438,811	438,811
Loans and advances to the public and public sector entities	21,009,974	-	-	185,765	-	-	21,195,739	23,246,456
Debt securities	-	6,024,134	995,858	449,445	-	-	7,469,437	7,469,787
Shares and participations	-	9,695	-	-	-	-	9,695	9,695
Derivative contracts	-	-	-	-	392,715	3,241,587	3,634,302	3,634,302
Total	**22,437,735**	**6,033,829**	**995,858**	**635,209**	**392,715**	**3,241,587**	**33,736,934**	**35,788,002**

Loans and advances to the public sector entities includes EUR 285,987 thousand receivables based on leasing agreements.

Fair value hedge accounting is applied to EUR 4,052,339 thousand of debt securities classified as available-for-sale financial assets in 2016. Loans and advances to the public and public sector entities includes EUR 6,819,068 thousand in loans and receivables included in fair value hedge accounting.

Financial liabilities

31 Dec 2016 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	5,362,317	-	-	-	5,362,317	5,531,362
Liabilities to the public and public sector entities	872,919	-	-	-	872,919	888,677
Debt securities issued	23,444,821	1,139,348	-	-	24,584,169	24,650,226
Derivative contracts	-	-	362,154	1,314,705	1,676,859	1,676,859
Subordinated liabilities	-	-	-	-	-	-
Total	**29,680,057**	**1,139,348**	**362,154**	**1,314,705**	**32,496,265**	**32,747,124**

Fair value hedge accounting is applied to EUR 23,907,845 thousand of financial liabilities at amortised cost in 2016.

Financial assets

31 Dec 2015 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	1,813,813	-	-	-	-	-	1,813,813	1,813,813
Loans and advances to credit institutions	614,294	-	-	-	-	-	614,294	614,306
Loans and advances to the public and public sector entities	20,068,421	-	-	207,141	-	-	20,275,561	21,652,231
Debt securities	-	5,322,733	1,172,869	507,716	-	-	7,003,318	6,999,366
Shares and participations	-	9,620	-	-	-	-	9,620	9,620
Derivative contracts	-	-	-	-	388,485	3,536,539	3,925,025	3,925,025
Total	**22,496,528**	**5,332,353**	**1,172,869**	**714,857**	**388,485**	**3,536,539**	**33,641,630**	**35,014,360**

Loans and advances to the public sector entities includes EUR 187,108 thousand receivables based on leasing agreements.

Fair value hedge accounting is applied to EUR 3,491,854 thousand of debt securities classified as available-for-sale financial assets in 2015. Loans and advances to the public and public sector entities includes EUR 6,453,692 thousand in loans and receivables included in fair value hedge accounting.

Financial liabilities

31 Dec 2015 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	4,893,270	-	-	-	4,893,270	4,981,987
Liabilities to the public and public sector entities	954,026	-	-	-	954,026	958,744
Debt securities issued	23,829,753	974,738	-	-	24,804,490	24,820,262
Derivative contracts	-	-	367,183	1,432,509	1,799,692	1,799,692
Subordinated liabilities	35,542	-	-	-	35,542	35,572
Total	**29,712,591**	**974,738**	**367,183**	**1,432,509**	**32,487,021**	**32,596,258**

Fair value hedge accounting is applied to EUR 24,329,750 thousand of financial liabilities at amortised cost in 2015.

Note 5. Fair values of financial assets and liabilities

		Fair value			
31 Dec 2016 (EUR 1,000)	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,971,795	1,968,603	3,193	-	1,971,795
Shares in investment funds	9,695	9,695	-	-	9,695
Fair value option					
Debt securities	449,445	15,573	433,872	-	449,445
Loans and advances to the public and public sector entities	185,765	-	185,765	-	185,765
Held-for-trading					
Derivative assets	392,715	-	325,262	67,453	392,715
Derivatives in hedge accounting	3,241,587	-	3,241,587	-	3,241,587
Total financial assets at fair value	**6,251,002**	**1,993,871**	**4,189,678**	**67,453**	**6,251,002**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,819,068	-	7,271,774	-	7,271,774
Available-for-sale financial assets					
Debt securities	4,052,339	4,052,339	-	-	4,052,339
Total in fair value hedge accounting	**10,871,407**	**4,052,339**	**7,271,774**	**-**	**11,324,113**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	988,949	988,949	-	-	988,949
Loans and advances to credit institutions	438,811	438,811	-	-	438,811
Loans and advances to the public and public sector entities	14,190,906	-	15,788,918	-	15,788,918
Held-to-maturity					
Debt securities	995,858	-	996,208	-	996,208
Total financial assets at amortised cost	**16,614,525**	**1,427,760**	**16,785,126**	**-**	**18,212,887**
Total financial assets	**33,736,934**	**7,473,970**	**28,246,578**	**67,453**	**35,788,002**

31 Dec 2016 (EUR 1,000)	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	1,139,348	-	1,139,348	-	1,139,348
Held-for-trading					
Derivative liabilities	362,153	-	294,700	67,453	362,153
Derivatives in hedge accounting	1,314,705	-	1,314,705	-	1,314,705
Total financial liabilities at fair value	**2,816,207**	**-**	**2,748,754**	**67,453**	**2,816,207**
In fair value hedge accounting					
Liabilities to credit institutions	3,162,981	-	3,332,007	-	3,332,007
Liabilities to the public and public sector entities	693,109	-	710,025	-	710,025
Debt securities issued	20,051,756	-	20,063,292	-	20,063,292
Subordinated liabilities	-	-	-	-	-
Total in fair value hedge accounting	**23,907,846**	**-**	**24,105,324**	**-**	**24,105,324**
Financial liabilities at amortised cost					
Liabilities to credit institutions	2,199,337	-	2,199,355	-	2,199,355
Liabilities to the public and public sector entities	179,811	-	178,652	-	178,652
Debt securities issued	3,393,064	-	3,447,585	-	3,447,585
Total financial liabilities at amortised cost	**5,772,211**	**-**	**5,825,592**	**-**	**5,825,592**
Total financial liabilities	**32,496,265**	**-**	**32,679,671**	**67,453**	**32,747,124**

31 Dec 2015 (EUR 1,000)	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,830,879	1,826,852	4,026	-	1,830,879
Shares in investment funds	9,620	9,620	-	-	9,620
Fair value option					
Debt securities	507,716	141,642	366,074	-	507,716
Loans and advances to the public and public sector entities	207,141	-	207,141	-	207,141
Held-for-trading					
Derivative assets	388,485	-	266,765	121,720	388,485
Derivatives in hedge accounting	3,536,539	-	3,536,539	-	3,536,539
Total financial assets at fair value	**6,480,379**	**1,978,113**	**4,380,545**	**121,720**	**6,480,379**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,453,692	-	6,792,933	-	6,792,933
Available-for-sale financial assets					
Debt securities	3,491,854	3,428,251	63,604	-	3,491,854
Total in fair value hedge accounting	**9,945,546**	**3,428,251**	**6,856,537**	**-**	**10,284,787**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	1,813,813	1,813,813	-	-	1,813,813
Loans and advances to credit institutions	614,294	614,306	-	-	614,306
Loans and advances to the public and public sector entities	13,614,729	-	14,652,157	-	14,652,157
Held-to-maturity					
Debt securities	1,172,869	-	1,168,918	-	1,168,918
Total financial assets at amortised cost	**17,215,705**	**2,428,119**	**15,821,075**	**-**	**18,249,194**
Total financial assets	**33,641,630**	**7,834,483**	**27,058,157**	**121,720**	**35,014,360**

31 Dec 2015 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	974,738	-	974,738	-	974,738
Held-for-trading					
Derivative liabilities	367,183	-	245,463	121,720	367,183
Derivatives in hedge accounting	1,432,509	-	1,432,509	-	1,432,509
Total financial liabilities at fair value	**2,774,430**	**-**	**2,652,710**	**121,720**	**2,774,430**
In fair value hedge accounting					
Liabilities to credit institutions	2,640,335	-	2,729,043	-	2,729,043
Liabilities to the public and public sector entities	765,158	-	772,128	-	772,128
Debt securities issued	20,888,716	-	20,899,100	-	20,899,100
Subordinated liabilities	35,542	-	35,572	-	35,572
Total in fair value hedge accounting	**24,329,750**	**-**	**24,435,844**	**-**	**24,435,844**
Financial liabilities at amortised cost					
Liabilities to credit institutions	2,252,935	-	2,252,944	-	2,252,944
Liabilities to the public and public sector entities	188,869	-	186,616	-	186,616
Debt securities issued	2,941,037	-	2,946,424	-	2,946,424
Total financial liabilities at amortised cost	**5,382,841**	**-**	**5,385,984**	**-**	**5,385,984**
Total financial liabilities	**32,487,021**	**-**	**32,474,538**	**121,720**	**32,596,258**

Level 1
Valuation is based on quoted prices for identical assets or liabilities on active and functioning markets. A market is considered to be functioning if trading is frequent and price data is regularly available. Level 1 financial assets comprise investments in debt securities.

Level 2
Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability. Fair value may be based on quotations of similar assets or liabilities in functioning markets or quotations of equivalent or similar assets or liabilities in markets that are not liquid. Fair value may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include bank rates and profit curves for which regular quotations are available, implicit volatilities and credit margins.

Valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial market. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

Level 3
Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities. All instruments that are valued using historical volatilities are classified to level 3.

Any input data that is not directly observable on the market must reflect assumptions that market participants would use in valuing a financial asset or liability, including assumptions regarding the risk. The company gathers input data that is not directly observable from the market based on the best available information at the time. Data may include information known by the company. If such information is used, the company readjusts the information if any other information that is available at a reasonable cost suggests that market participants would use different information.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

Transfers in the fair value hierarchy

During 2016 and 2015 financial years, no reclassifications have been made between Level 1 and Level 2.

During 2016 no financial assets or liabilities have been transfered into Level 3. Due to changes in input data used in the valuation, derivatives and embedded derivatives separated from issued bonds have been transferred from Level 3 to Level 2. The transfers are presented using fair values of 31 December 2015.

2016 (EUR 1,000)	Derivative assets Held-for-trading	Derivative liabilities Held-for-trading	Total
1 Jan 2016	121,720	−121,720	0
Change in fair value in the income statement	−13,078	13,078	0
Purchases	18,843	−18,843	0
Sales	−32,510	32,510	0
Transfers into Level 3	-	-	-
Transfers out of Level 3	−27,521	27,521	0
31 Dec 2016	**67,454**	**−67,454**	**0**

In the 2015 financial statements 117 derivatives, which hedge issued bonds, were transfered from level 2 to 3 based on the use of input data, which is not directly observable from the markets.

2015 (EUR 1,000)	Derivative assets Held-for-trading	Derivative liabilities Held-for-trading	Total
1 Jan 2015			
Change in fair value in the income statement	-	-	-
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	121,720	−121,720	0
Transfers out of level 3	-	-	-
31 Dec 2015	**121,720**	**−121,720**	**0**

The transfer from level 2 to 3 was performed based on fair values on 31 Dec 2015. All transfered derivatives hedge funding, in which the company has identified an embedded derivative. The value transfered into level 3 includes the fair value of the derivative and the value of the bifurcated embedded derivative.

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2015 and 2016 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 47.2 million (2015: EUR 46 million) and the fair value of the embedded derivative of the debt instrument decreases by EUR 47.2 million (2015: EUR 46 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 33.8 million (2015: EUR 38 million) and the fair value of the embedded derivative of the debt instrument increases by EUR 33.8 million (2015: EUR 38 million)

Note 6. Breakdown of the balance sheet by maturity

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Cash and balances with central banks	988,949	-	-	-	-	988,949
Loans and advances to credit institutions	429,130	-	-	-	9,681	438,811
Loans and advances to the public and public sector entities	256,276	1,406,061	6,656,690	4,107,314	8,769,398	21,195,739
Debt securities	1,690,641	948,826	3,788,300	1,038,477	3,193	7,469,437
Shares and participations	-	-	-	-	9,695	9,695
Derivative contracts	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Intangible assets	-	-	-	6,776	-	6,776
Tangible assets	-	-	1,709	-	753	2,462
Other assets	62,946	-	-	-	-	62,946
Accrued income and prepayments	134,173	106,225	2,644	19	7	243,068
Total	**3,620,265**	**3,012,691**	**12,273,457**	**5,895,257**	**9,250,516**	**34,052,186**

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,258,289	47,421	363,254	977,491	1,715,862	5,362,317
Liabilities to the public and public sector entities	28,902	162,231	363,593	232,531	85,662	872,919
Debt securities issued	4,463,726	5,697,652	11,755,878	2,013,916	652,997	24,584,169
Derivative contracts	47,774	185,837	1,014,586	183,305	245,356	1,676,859
Other liabilities	4,444	-	-	-	-	4,444
Accrued expenses and deferred income	93,608	90,524	9,851	869	7	194,860
Subordinated liabilities	-	-	-	-	-	-
Deferred tax liabilities	172,185	-	-	-	-	172,185
Equity	-	-	-	-	1,184,433	1,184,433
Total	**7,068,929**	**6,183,666**	**13,507,162**	**3,408,112**	**3,884,317**	**34,052,186**

Liabilities that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2017. In 2016, the company called 40% of its callable liabilities.

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Cash and balances with central banks	1,813,813	-	-	-	-	1,813,813
Loans and advances to credit institutions	604,794	9,500	-	-	-	614,294
Loans and advances to the public and public sector entities	370,505	1,524,344	5,809,248	4,196,255	8,375,210	20,275,561
Debt securities	1,580,197	1,222,516	2,892,733	1,280,645	27,227	7,003,318
Shares and participations	-	-	-	-	9,620	9,620
Derivative contracts	245,007	750,537	1,918,127	378,925	632,428	3,925,025
Intangible assets	-	-	-	5,812	-	5,812
Tangible assets	-	-	1,865	-	434	2,298
Other assets	6,277	-	-	-	-	6,277
Accrued income and prepayments	121,371	111,421	-	-	-	232,792
Total	**4,741,964**	**3,618,318**	**10,621,973**	**5,861,638**	**9,044,918**	**33,888,811**

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,232,310	41,660	122,860	820,286	1,676,154	4,893,270
Liabilities to the public and public sector entities	43,597	14,666	499,564	214,029	182,171	954,026
Debt securities issued	4,289,979	5,992,095	12,074,575	1,484,364	963,477	24,804,490
Derivative contracts	25,966	130,021	1,224,992	220,058	198,655	1,799,692
Other liabilities	2,131	-	-	-	-	2,131
Accrued expenses and deferred income	104,185	93,228	19,334	1,020	-	217,768
Subordinated liabilities	-	35,542	-	-	-	35,542
Deferred tax liabilities	138,576	-	-	-	-	138,576
Equity	-	-	-	-	1,043,314	1,043,314
Total	**6,836,745**	**6,307,212**	**13,941,325**	**2,739,758**	**4,063,770**	**33,888,811**

Liabilities that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimated that it will call 40-60% of its callable liabilities in 2016. In 2015, the company called 60% of its callable liabilities.

Note 7. Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to enforceable master netting agreements:
Cash given as collateral is included in the balance sheet line item Loans and advances to credit institutions. Cash received as collateral is included in the balance sheet on line Liabilities to credit institutions.

				Amounts not offset in the statement of financial position		
31 Dec 2016 (EUR 1,000)	**Carrying amount, gross**	**Offset in the statement of financial position, gross**	**Carrying amount, net**	**Received cash collateral**	**Given cash collateral***	**Net**
Financial assets						
Derivative contracts	3,634,302	-	3,634,302	−2,157,680	-	1,476,622
Total	**3,634,302**	**-**	**3,634,302**	**−2,157,680**	**-**	**1,476,622**
Financial liabilities						
Derivative contracts	1,676,859	-	1,676,859	-	−471,438	1,205,421
Total	**1,676,859**	**-**	**1,676,859**	**-**	**−471,438**	**1,205,421**

The company has not offset any financial assets or liabilities in its statement of financial position in 2016.
*Includes EUR 46,038 thousands of cash collateral given to central counterparties.

				Amounts not offset in the statement of financial position		
31 Dec 2015 (EUR 1,000)	**Carrying amount, gross**	**Offset in the statement of financial position, gross**	**Carrying amount, net**	**Received cash collateral**	**Given cash collateral***	**Net**
Financial assets						
Derivative contracts	3,925,025	-	3,925,025	−2,232,310	-	1,692,715
Total	**3,925,025**	**-**	**3,925,025**	**−2,232,310**	**-**	**1,692,715**
Financial liabilities						
Derivative contracts	1,799,692	-	1,799,692	-	−461,900	1,337,792
Total	**1,799,692**	**-**	**1,799,692**	**-**	**−461,900**	**1,337,792**

The company has not offset any financial assets or liabilities in its statement of financial position in 2015.

Note 8. Cash and cash equivalents

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Cash	7	6
Central bank deposits payable on demand	988,943	1,813,807
Cash and balances with central banks	**988,949**	**1,813,813**
Loans and advances to credit institutions payable on demand	7,530	131,896
Total cash and cash equivalents	**996,480**	**1,945,709**

Note 9. Loans and advances to credit institutions

31 Dec 2016 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	125,231	6,450	118,781
Foreign credit institutions	313,580	1,080	312,500
Total	**438,811**	**7,530**	**431,281**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2016.

31 Dec 2015 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	196,673	131,175	65,498
Foreign credit institutions	417,622	722	416,900
Total	**614,294**	**131,896**	**482,398**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2015.

Note 10. Debt securities

Debt securities issued by public sector entities 31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**881,620**	**881,620**
Municipal commercial papers	-	881,620	881,620
Available-for-sale	**2,010,365**	**-**	**2,010,365**
Government bonds	527,317	-	527,317
Bonds issued by other public sector entities	1,483,048	-	1,483,048
Fair value option	**-**	**68,652**	**68,652**
Government treasury bills	-	48,625	48,625
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	20,028	20,028
Total	**2,010,365**	**950,273**	**2,960,638**
Eligible for central bank refinancing	1,839,015	20,028	1,859,042

Debt securities issued by other than public sector entities 31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**114,238**	**114,238**
Commercial papers	-	91,012	91,012
Other debt securities	-	23,226	23,226
Available-for-sale	**4,010,577**	**3,193**	**4,013,769**
Bank bonds	4,010,577	-	4,010,577
Other debt securities	-	3,193	3,193
Fair value option	**15,573**	**365,219**	**380,792**
Bank commercial paper	-	365,219	365,219
Bank bonds	15,573	-	15,573
Total	**4,026,149**	**482,650**	**4,508,799**
Eligible for central bank refinancing	3,516,932	90,048	3,606,980
Debt securities total	**6,036,514**	**1,432,923**	**7,469,437**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2016.

Debt securities issued by public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**1,027,138**	**1,027,138**
Municipal commercial papers	-	1,027,138	1,027,138
Available-for-sale	**1,871,751**	**22,809**	**1,894,560**
Government bonds	439,602	-	439,602
Bonds issued by other public sector entities	1,432,149	22,809	1,454,958
Fair value option	**20,216**	**86,014**	**106,230**
Government treasury bills	-	15,000	15,000
Bonds issued by other public sector entities	20,216	-	20,216
Commercial paper issued by other public sector entities	-	71,014	71,014
Total	**1,891,967**	**1,135,961**	**3,027,928**
Eligible for central bank refinancing	1,805,483	86,014	1,891,497

Debt securities issued by other than public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**145,732**	**145,732**
Commercial papers	-	88,300	88,300
Other debt securities	-	57,432	57,432
Available-for-sale	**3,383,352**	**44,821**	**3,428,173**
Bank bonds	3,383,352	40,794	3,424,146
Other debt securities	-	4,026	4,026
Fair value option	**121,426**	**280,060**	**401,486**
Bank commercial paper	-	280,060	280,060
Bank bonds	121,426	-	121,426
Total	**3,504,778**	**470,613**	**3,975,390**
Eligible for central bank refinancing	3,121,021	66,155	3,187,176
Debt securities total	**5,396,744**	**1,606,574**	**7,003,318**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2015.

Reclassification (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
	Total	**206,902**

(EUR 1,000)	Impact on fair value reserve, if not reclassified	Valuation difference released from fair value reserve
2016	4,194	24
2015	2,018	84
2014	7,001	92
2013	1,139	167
2012	2,182	272
2011	5,238	652
2010	3,903	765
2009	−3,487	953
2008	−22,319	852
	−131	**3,861**

Note 11. Shares and participations

31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,668	27	9,695	-
Total	**9,668**	**27**	**9,695**	**-**

31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,592	27	9,620	-
Total	**9,592**	**27**	**9,620**	**-**

Note 12. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2016 (EUR 1,000)	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,388,063	14,736,546	12,677,923	**31,802,532**	650,615	−470,835
Cleared by the central counterparty*	10,000	2,337,940	144,100	**2,492,040**	11,776	−5,749
Interest rate options	6,006	-	-	**6,006**	0	0
Currency derivatives						
Cross currency interest rate swaps	4,654,761	11,890,445	2,260,638	**18,805,844**	2,590,972	−843,870
Total	**9,048,830**	**26,626,991**	**14,938,561**	**50,614,382**	**3,241,587**	**−1,314,705**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	482,176	3,077,964	2,771,390	**6,331,530**	190,920	−193,443
Cleared by the central counterparty*	-	300,000	85,752	**385,752**	2,575	−172
Interest rate options	-	245	42,000	**42,245**	546	−550
Currency derivatives						
Cross currency interest rate swaps	-	9,708	-	**9,708**	841	−841
Forward exchange contracts	1,032,416	161,275	-	**1,193,691**	35,502	−2,412
Equity derivatives	571,265	2,659,624	-	**3,230,889**	158,284	−158,284
Other derivatives	-	55,500	-	**55,500**	6,622	−6,622
Total	**2,085,857**	**5,964,316**	**2,813,390**	**10,863,563**	**392,715**	**−362,153**
Grand total	**11,134,687**	**32,591,307**	**17,751,951**	**61,477,945**	**3,634,302**	**−1,676,859**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

* In May 2016 Municipality Finance Plc commenced to clear OTC derivative contracts through central counterparty

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2015 (EUR 1,000)	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,309,588	16,054,679	13,072,232	**33,436,498**	553,489	−402,602
Interest rate options	4,582	6,006	-	**10,588**	-	−99
Currency derivatives						
Cross currency interest rate swaps	4,989,570	13,231,613	2,129,328	**20,350,511**	2,983,050	−1,029,808
Total	**9,303,739**	**29,292,298**	**15,201,560**	**53,797,597**	**3,536,539**	**−1,432,509**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	383,861	2,784,303	2,987,696	**6,155,860**	149,993	−153,949
Interest rate options	10,071	315	42,000	**52,386**	512	−518
Currency derivatives						
Cross currency interest rate swaps	5,169	10,577	-	**15,746**	1,241	−1,240
Forward exchange contracts	975,475	-	-	**975,475**	25,263	-
Equity derivatives	269,715	2,222,471	5,500	**2,497,686**	202,551	−202,551
Other derivatives	49,058	20,000	-	**69,058**	8,925	−8,925
Total	**1,693,349**	**5,037,666**	**3,035,196**	**9,766,211**	**388,485**	**−367,183**
Grand total	**10,997,088**	**34,329,964**	**18,236,756**	**63,563,808**	**3,925,025**	**−1,799,692**

Note 13. Intangible assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
IT systems	6,776	5,812
Total	**6,776**	**5,812**

Note 14. Tangible assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Real estate	753	793
Office renovation expenses	106	153
Other tangible assets	1,603	1,352
Total	**2,462**	**2,298**

Note 15. Changes in intangible and tangible assets during the financial year

	Intangible assets	Tangible assets		
31 Dec 2016 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	10,491	1,207	4,513	5,719
+ Additions	2,051	-	1,096	1,096
− Disposals	-	-	−509	−509
Acquisition cost 31 Dec	12,542	1,207	5,100	6,306
Accumulated depreciation 1 Jan	4,679	413	3,008	3,421
− Accumulated depreciation on disposals	-	-	−308	−308
+ Depreciation for the financial year	1,087	40	691	731
Accumulated depreciation 31 Dec	5,766	453	3,391	3,844
Carrying amount 31 Dec	**6,776**	**753**	**1,709**	**2,462**

	Intangible assets	Tangible assets		
31 Dec 2015 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	8,547	1,207	4,271	5,477
+ Additions	1,955	-	533	533
− Disposals	−11	-	−291	−291
Acquisition cost 31 Dec	10,491	1,207	4,513	5,719
Accumulated depreciation 1 Jan	3,790	373	2,639	3,012
− Accumulated depreciation on disposals	−11	-	−289	−289
+ Depreciation for the financial year	900	40	658	698
Accumulated depreciation 31 Dec	4,679	413	3,008	3,421
Carrying amount 31 Dec	**5,812**	**793**	**1,505**	**2,298**

Note 16. Other assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Leasing receivables	4,387	4,592
Given cash collateral to Central Counterparty Clearing House	49,838	-
Other	8,721	1,685
Total	**62,946**	**6,277**

Note 17. Accrued income and prepayments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Interest	240,780	226,796
Other	2,287	5,996
Total	**243,068**	**232,792**

Note 18. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2015	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2016
Other temporary differences					
On fair value reserve	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2015	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2016
Other temporary differences					
On fair value reserve	2,838	-	2,041	-	4,880
On change in cumulative depreciation difference	172	288	-	-	460
On change in voluntary provisions	135,396	29,600	-	-	164,996
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	783	3,156	-	−1,575	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	−613	98	-	-	−515
Total	**138,576**	**33,142**	**2,041**	**−1,575**	**172,185**

The different treatment of the AT1 capital loan in the consolidated and parent company financial statements creates deferred taxes.

Deferred tax assets (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2015
Other temporary differences					
On fair value reserve	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2015
Other temporary differences					
On fair value reserve	7,728	-	−4,890	-	2,838
On change in cumulative depreciation difference	-	172	-	-	172
On change in voluntary provisions	106,396	29,000	-	-	135,396
On reversing the accrued interest of the AT1 capital loan booked in the parent company financial statements	-	783	-	-	783
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-	24	-	−637	−613
Total	**114,124**	**29,979**	**−4,890**	**−637**	**138,576**

The different treatment of the AT1 capital loan in the consolidated and the parent company financial statements creates deferred taxes.

Note 19. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Bilateral loans to credit institutions	3,204,637	2,660,960
Received collateral on derivatives	2,157,680	2,232,310
Total	**5,362,317**	**4,893,270**

Note 20. Debt securities issued

(EUR 1,000)	31 Dec 2016 Carrying amount	31 Dec 2016 Nominal value	31 Dec 2015 Carrying amount	31 Dec 2015 Nominal value
Bonds	23,444,821	25,456,304	23,574,719	27,838,525
Other	1,139,348	1,141,258	1,229,771	1,230,475
Total	**24,584,169**	**26,597,562**	**24,804,490**	**29,069,000**

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

Note 21. Other liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Other	4,444	2,131
Total	**4,444**	**2,131**

Note 22. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Interest	185,518	208,581
Other	9,342	9,187
Total	**194,860**	**217,768**

Note 23. Subordinated liabilities

No subordinated liabilities on 31 December 2016.

31 Dec 2015 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,542	Fixed	9th May 2016
Total		**35,000**	**35,542**		

Loan terms and conditions:

1) The maturity date of the loan is 9 May 2021. The company has 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 was tied to a fixed coupon rate until 9 May 2016 as stated in the loan agreement and thereafter to a floating coupon rate. The loan has at least the same seniority as any debenture loan with a maturity date and equivalent commitments potentially issued or subscribed by the company in the future. Municipality Finance applied for permission from European Central Bank to repay the debenture loan. The ECB granted permission on 18 July 2016, and Municipality Finance repaid the debenture loan at the time of interest payment on August 9, 2016. A more detailed description of the instrument is in note 57.

Note 24. Equity

(EUR 1,000)	Number of shares	Share capital
1 Jan 2015	39,063,798	42,583
31 Dec 2015	39,063,798	42,583
31 Dec 2016	39,063,798	42,583

There were no changes to the number of shares during the financial year:

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.

Reserves in equity
The reserve fund is 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.

Other issued equity instruments
Instruments included in AT1 capital contains an unsecured debenture loan with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. Due to terms stated above AT1 capital loan is recognised as equity in consolidated financial statements.

The terms of equity instruments are explained in note 57.

(1,000 EUR)	31 Dec 2016	31 Dec 2015
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	19,519	11,354
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	734,107	601,065
Total equity attributable to parent company equity holders	**836,852**	**695,645**
Non-controlling interest	**127**	**216**
Other equity instruments issued	350,000	350,000
Transaction costs deducted from other equity instruments issued	−2,546	−2,546
Total other equity instruments issued	**347,454**	**347,454**
Total equity	**1,184,433**	**1,043,314**

Note 25. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totalling 9.5 million as per 31th December 2016. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. In the comparative period of 2015, the company had a contingent liability of 3.1 million, which realised upon interest payment on 1st April 2016. The group does not have any contingent assets in 2016 or 2015.

Note 26. Pledged assets

Liabilities and collateral (EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans pledged to the central bank	2,284,380	2,456,918
Loans pledged to the Municipal Guarantee Board	18,364,852	17,385,787
Debt securities pledged to the Municipal Guarantee Board	-	5,455,469
Total	**20,649,231**	**25,298,174**

Pledged assets:

1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) Municipality Finance has pledged amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

3) Based on decision by the Municipal Guarantee Board in March 2016 Municipality Finance is no longer required to pledge its liquidity portfolio debt securities to the Municipal Guarantee Board. Liquidity portfolio debt securities were pledged to the Municipal Guarantee Board at the end of year 2015.

Off-balance-sheet commitments (EUR 1,000)	31 Dec 2016	31 Dec 2015
Binding loan commitments	1,883,319	1,336,880
Total	**1,883,319**	**1,336,880**

Note 27. Lease and other rental commitments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Maturing within one year	1,593	1,273
Maturing in one to five years	2,410	2,979
Maturing in more than five years	-	-
Total	**4,003**	**4,251**

Note 28. Related-party transactions

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

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

Transactions with the subsidiary

(EUR 1,000)	2016	2015
Sales	46	38
Purchases	96	-

Intercompany receivables and liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Receivables	-	-
Liabilities	7	-

Note 29. Salaries and remuneration

Employee benefits for management
Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Executive Management Team subject to withholding tax:

Salaries and remuneration (EUR 1,000)	2016	2015
President and CEO	489	489
Deputy to the CEO	388	387
Other members of the Executive Management Team in total	1,043	1019
Total	**1,920**	**1,895**

The salaries and remuneration shown in the table include both the fixed remuneration and paid variable remuneration. According to regulation on credit institutions, the payment of variable remuneration earned each year is delayed and paid over to following years if a person's remuneration exceeds EUR 50,000. More information on the salary and remuneration principles is available on the company's website.

The company has provided Executive Management Team members with a contribution-based group pension insurance. Executive Management Team members are entitled to pension from the insurance after they have turned 63 years.

In the event of termination of employment on the company's initiative, the CEO and Deputy to the CEO are entitled to a severance pay of six months. The period of notice for termination of employment is six months for the CEO and the Deputy to the CEO. The CEO's and Deputy to the CEO's employee benefits are terminated at the end of the period of notice.

The retirement age of the CEO and Deputy to the CEO is determined by the Employees' Pensions Act.

The company has paid the following statutory pension contributions related to the CEO, the Deputy to the CEO and other Executive Management Team members.

Statutory pension contributions (EUR 1,000)	2016	2015
President and CEO	82	82
Deputy to the CEO	70	71
Other members of the Executive Management Team (total)	187	186
Total	**339**	**339**

Remuneration of the Board of Directors
The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General 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.

Salaries and remuneration (EUR 1,000) Members of the Board of Directors	2016	2015
Eva Liljeblom, Chairman until 22 March 2016	24	41
Helena Walldén, Chairman 22 March 2016 onwards	22	-
Tapani Hellstén, Vice Chairman	23	25
Fredrik Forssell	27	22
Teppo Koivisto	26	22
Sirpa Louhevirta	25	21
Vivi Marttila, member 22 March 2016 onwards	13	-
Tuula Saxholm	26	21
Asta Tolonen, member until 22 March 2016	12	22
Juha Yli-Rajala	26	23
Total	**221**	**197**

Salaries and remuneration
The remuneration paid to the management and employees of Municipality Finance consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. Principles of remuneration system are confirmed by the Board of Directors on annual basis. The Remuneration Committee of the Board of Directors is responsible for preparatory work concerning the matters of remuneration system. More information about salaries and remuneration is available on the company's website www.munifin.fi.

Notes to the income statement

Note 30. Interest income and expense

31 Dec 2016 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	40	−9,838	−9,798
Loans and advances to the public and public sector entities	213,034	-	213,034
Debt securities	9,586	−1,092	8,494
Derivatives in hedge accounting	−99,302	-	−99,302
Derivatives held-for-trading	50,131	−28,411	21,719
Other interest income	1,046	-	1,046
Interest on assets	**174,535**	**−39,341**	**135,194**
Liabilities			
Liabilities to credit institutions	5,935	−56,572	−50,636
Liabilities to the public and public sector entities	-	−18,185	−18,185
Debt securities issued	33	−442,773	−442,739
Derivatives in hedge accounting	-	583,243	583,243
Subordinated liabilities	-	−559	−559
Other interest expense	-	−188	−188
Interest on liabilities	**5,968**	**64,966**	**70,934**
Total	**180,503**	**25,625**	**206,128**

Negative interest income on assets is presented in interest expenses and negative interest expenses on liabilities as interest income. To allow comparability between 2016 and 2015, the interest income and expense note for 2015 has been restated following the same principle.

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Interest income on liabilities to credit institutions consists of interest received on collaterals. Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

31 Dec 2015 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	123	−3,479	−3,356
Loans and advances to the public and public sector entities	234,961	-	234,961
Debt securities	82,970	−316	82,654
Derivatives in hedge accounting	−153,466	−19	−153,485
Derivatives held-for-trading	28,719	−25,855	2,864
Other interest income	1,393	-	1,393
Interest on assets	**194,700**	**−29,669**	**165,031**
Liabilities			
Liabilities to credit institutions	904	−47,170	−46,265
Liabilities to the public and public sector entities	-	−20,276	−20,276
Debt securities issued	254	−652,927	−652,673
Derivatives in hedge accounting	-	728,323	728,323
Subordinated liabilities	-	−1,572	−1,572
Other interest expense	-	−322	−322
Interest on liabilities	**1,158**	**6,055**	**7,214**
Total	**195,858**	**−23,613**	**172,245**

Note 31. Commission income

(EUR 1,000)	2016	2015
Financial advisory services	2,138	2,311
Other operations	600	2,846
Total	**2,738**	**5,157**

Note 32. Commission expenses

(EUR 1,000)	2016	2015
Commission fees paid	205	183
Other	3,822	3,592
Total	**4,026**	**3,776**

“Other” includes paid guarantee fees, custody fees and funding programme update costs.

Note 33. Net income from securities and foreign exchange transactions

2016 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	644	644
Debt securities	-	−2,293	−1,071	−3,363
ECPs	-	0	−45	−45
Issued ECPs	-	-	−239	−239
Total items valued with the fair value option	**-**	**−2,293**	**−711**	**−3,004**
Derivative contracts held-for-trading	-	−13	858	845
Total net income from securities transactions	**-**	**−2,306**	**147**	**−2,159**
Net income from foreign exchange transactions	**434**	**−450**	**415**	**400**
Total	**434**	**−2,756**	**562**	**−1,759**

2015 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	−125	−125
Debt securities	446	−1,455	−8,581	−9,590
ECPs	3	-	35	38
Issued ECPs	-	-	100	100
Total items valued with the fair value option	**449**	**−1,455**	**−8,571**	**−9,577**
Derivative contracts held-for-trading	9,638	−9,277	5,319	5,680
Total net income from securities transactions	**10,086**	**−10,732**	**−3,252**	**−3,897**
Net income from foreign exchange transactions	**-**	**−29**	**62**	**33**
Total	**10,086**	**−10,761**	**−3,190**	**−3,865**

Note 34. Financial assets designated using fair value option

2016 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	185,765	644	0	644
Debt securities	15,573	−1,071	−159	−912
ECPs	433,872	−45	0	−45
Total financial assets	**635,209**	**−472**	**−159**	**−313**

2016 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	1,139,348	−239	0	−239
Total financial liabilities	**1,139,348**	**−239**	**0**	**−239**

2015 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	207,141	−125	0	−125
Debt securities	141,642	−8,581	−1,232	−7,348
ECPs	366,074	35	0	35
Total financial assets	**714,857**	**−8,671**	**−1,232**	**−7,438**

2015 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	974,738	100	0	100
Total financial liabilities	**974,738**	**100**	**0**	**100**

Debt securities and ECPs valued with the fair value option are exposed to credit risk up to the carrying amounts of those securities in 2016 and 2015. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee.

Note 35. Net income from available-for-sale financial assets

(EUR 1,000)	2016	2015
Income from shares in investment funds	94	206
Capital gains from financial assets	338	79
Capital losses from financial assets	−999	−511
Unrealised gains transferred from the fair value reserve	685	6,566
Unrealised losses transferred from the fair value reserve	−586	−4
Total	**−468**	**6,336**

Note 36. Net income from hedge accounting

(EUR 1,000)	2016	2015
Unrealized gains from hedging instruments	262,336	85,759
Unrealized losses from hedging instruments	−14,748	−373,591
Net income from hedging instruments	**247,588**	**−287,833**
Unrealized gains from hedged items	16,577	372,099
Unrealized losses from hedged items	−261,579	−83,683
Net income from hedged items	**−245,001**	**288,416**
Net income from hedge accounting	**2,587**	**583**

Unrealized gains and losses include risks to which fair value hedge accounting is applied, with the exception of the foreign exchange difference of hedging instruments and hedged items. The foreign exchange difference of both items is shown on line item Net income from foreign exchange transactions in Note 33.

Note 37. Other operating income

(EUR 1,000)	2016	2015
Other income from credit institution operations	139	21
Total	**139**	**21**

Note 38. Administrative expenses

(EUR 1,000)	2016	2015
Personnel expenses		
Wages and salaries	9,483	8,745
Pension costs	1,905	1,728
Other personnel-related costs	516	417
Total	**11,904**	**10,891**
Other administrative expenses	6,917	5,762
Total	**18,820**	**16,653**

	2016		2015	
Personnel	**Average**	**End of year**	**Average**	**End of year**
Permanent full-time	97	99	88	90
Permanent part-time	2	3	3	2
Fixed term	5	4	3	3
Total	**104**	**106**	**94**	**95**

Note 39. Other operating expenses

(EUR 1,000)	2016	2015
Expenses to authorities		
Contributions to the resolution fund	2,613	1,053
Other administrative and supervisory fees	1,212	810
Rental expenses	2,038	2,009
Other expenses from credit institution operations	4,587	2,775
Total	**10,451**	**6,646**

Note 40. Impairment losses on other financial assets

MuniFin has not made any impairment losses or reversed impairment losses in 2016 or 2015.

Note 41. Income tax expense

(EUR 1,000)	2016	2015
Tax based on the profit for the financial year	1,740	408
Tax based on the profit for previous financial years	-	−80
Deferred tax	33,142	29,979
Total	**34,882**	**30,307**
Profit before tax	174,250	151,801
Taxes at domestic tax rate	34,850	30,360
Non-taxable income	−3	−2
Other deductibles	−5	−6
Non-deductible expenses	40	34
Change in corporate tax rate	-	−80
Total	**34,882**	**30,307**

Note 42. Events after the reporting period

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

Pillar III disclosures

Disclosures on capital adequacy according to EU Capital requirements regulation N:o 575/2013 (CRR) are presented in Notes 43-59.

Note 43. Minimum own funds requirements and capital buffers

Minimum own funds requirements (% of total risk exposure)	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 (CET1) capital ratio	4.5%	4.5%
Tier 1 Capital (T1) capital ratio	6.0%	6.0%
Total Capital ratio	8.0%	8.0%

Capital buffers (% of total risk exposure)	31 Dec 2016	31 Dec 2015
Capital conservation buffer 1)	2.5%	2.5%
Countercyclical buffer 2)	0.0%	0.0%
Other systemically important institution (O-SII) 3)	0.5%	0.0%

1) Act on Credit Institutions (610/2014) Sect 10:3 § and Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). Valid from January 2015 onwards.
2) Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). On 20th December 2016, the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement.
3) Act on Credit Institutions (610/2014) Sect 10:8 § and Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). Additional capital requirement (O-SII) for Municipality Finance Plc is 0.5%. The decision of the Board of FIN-FSA on 6th July 2015, valid from 7th January 2016 onwards.

As part of the yearly SREP (Supervisory Review and Evaluation Process) decision on MuniFin, the ECB imposed an additional 1.5 percent CET1 capital buffer requirement (P2R), together with a 4.2 percent capital adequacy guidance (P2G).

Note 44. Own Funds

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	734,107	601,065
Fair value reserve, transitional provision	19,519	11,354
Other reserves	277	277
Minority interest, transitional provision	-	129
Foreseeable dividend to minority interest	-	−68
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	−9,459	−3,133
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**827,393**	**692,573**
Intangible assets	−6,776	−5,812
Deductions due to prudential filters on Common Equity Tier 1	−43,985	−432
Common Equity Tier 1 (CET1) capital	**776,633**	**686,329**
Instruments included in Additional Tier 1 capital	347,454	347,454
Capital loans to which transitional provision is applied	-	-
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,124,086**	**1,033,782**
Debenture loans	-	35,000
Tier 2 (T2) capital	**-**	**35,000**
Total own funds	**1,124,086**	**1,068,782**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015 - 31 December 2017). Common Equity Tier 1 capital includes the net profit for the year 2016. The result for the period has been subject to a review by the auditors, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA) and other value adjustments (AVA).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1st 2015.

At the end of 2016, the own funds of the subsidiary Financial Advisory Services Inspira Ltd were not taken into account in the Group's own funds because, according to the interpretation of the Finnish Financial Supervisory Authority (27 January 2016), shares which a company, according to its Articles of Association, has the right to redeem as stipulated in Chapter 3, Section 7 of the Limited Liability Companies Act (624/2006), cannot be classified as CET1 instruments. At the end of 2015, 60% of the minority interest in Inspira was taken into account as CET1 capital in the Group's own funds in line with the transitory provisions.

At the end of 2015, Tier 2 capital included a EUR 35 million debenture loan. Municipality Finance applied for permission from European Central Bank to repay the debenture loan. The ECB granted permission on July 18th 2016, and Municipality Finance repaid the debenture loan at the time of interest payment on August 9th 2016.

Detailed descriptions of capital loans and debenture loans included in own funds can be found in Note 23.

Note 45. Consolidated key figures for capital adequacy

Consolidated key figures for capital adequacy	31 Dec 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	46.21	41.49
Ratio of Tier 1 (T1) capital to risk-weighted assets, %	66.89	62.49
Ratio of total own funds to risk-weighted assets, %	66.89	64.61

Note 46. Consolidated minimum requirement for own funds

The capital requirement for credit risk is calculated using the standard method. In calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic indicator approach.

(EUR 1,000)	31 Dec 2016 Capital requirement	31 Dec 2016 Risk-weighted assets	31 Dec 2015 Capital requirement	31 Dec 2015 Risk-weighted assets
Credit and counterparty risk, standard method	**107,756**	**1,346,956**	**107,434**	**1,342,928**
Exposures to central governments or central banks	778	9,725	-	-
Exposures to regional governments or local authorities	379	4,735	368	4,598
Exposures to multilateral development banks	965	12,068	1,367	17,089
Exposures to institutions	79,937	999,213	69,645	870,561
Exposures to public sector entities	4,275	53,435	3,320	41,501
Exposures in the form of covered bonds	20,303	253,793	16,283	203,542
Items representing securitisation positions	423	5,284	15,743	196,792
Exposures in the form of shares in CIUs	107	1,331	108	1,354
Other items	590	7,372	599	7,490
Market risk	**794**	**9,930**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,304**	**16,299**	**1,009**	**12,613**
Operational risk, basic indicator approach	**24,589**	**307,364**	**23,851**	**298,143**
Total	**134,444**	**1,680,550**	**132,342**	**1,654,278**

The capital requirement for counterparty risk is EUR 4,826 thousand (2015: EUR 3,001 thousand).

Note 47. Consolidated exposure by class

31 Dec 2016 (EUR 1,000) Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk-weighted assets
Exposures to central governments or central banks	1,564,884	-	-	1,564,884	2,381,066	9,725
Exposures to regional governments or local authorities	10,126,880	716,850	223,150	11,066,880	10,945,192	4,735
Exposures to international organisations	133,691	-	-	133,691	149,090	-
Exposures to multilateral development banks	256,452	-	-	256,452	270,561	12,068
Exposures to institutions	3,670,578	-	741,487	4,412,065	4,588,931	999,213
Exposures to public sector entities	267,177	-	-	267,177	263,780	53,435
Exposures to corporates	4,832,744	337,577	-	5,170,321	5,126,996	-
Exposures secured by mortgages on immovable property	7,208,747	828,892	-	8,037,639	7,863,384	-
Exposures in the form of covered bonds	2,055,196	-	-	2,055,196	1,987,623	253,793
Items representing securitisation positions	26,419	-	-	26,419	35,593	5,284
Exposures in the form of shares in CIUs	9,668	-	-	9,668	9,820	1,331
Other items	92,442	-	-	92,442	95,673	7,372
Total	**30,244,877**	**1,883,319**	**964,637**	**33,092,833**	**33,717,708**	**1,346,956**

31 Dec 2015 (EUR 1,000) Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk-weighted assets
Exposures to central governments or central banks	2,268,410	-	-	2,268,410	2,131,775	-
Exposures to regional governments or local authorities	10,198,342	156,156	141,441	10,495,939	10,478,794	4,598
Exposures to international organisations	195,593	-	-	195,593	228,276	-
Exposures to multilateral development banks	310,064	-	-	310,064	280,475	17,089
Exposures to institutions	3,466,241	-	937,401	4,403,642	4,790,929	870,561
Exposures to public sector entities	207,504	-	-	207,504	201,041	41,501
Exposures to corporates	4,465,042	331,705	-	4,796,747	4,696,044	-
Exposures secured by mortgages on immovable property	6,727,614	849,019	-	7,576,633	7,441,182	-
Exposures in the form of covered bonds	1,806,712	-	-	1,806,712	1,920,674	203,542
Items representing securitisation positions	61,458	-	-	61,458	78,990	196,792
Exposures in the form of shares in CIUs	9,592	-	-	9,592	9,658	1,354
Other items	98,785	-	-	98,785	156,449	7,490
Total	**29,815,359**	**1,336,880**	**1,078,843**	**32,231,081**	**32,414,287**	**1,342,928**

Note 48. Exposure by geographic region and exposure class

31 Dec 2016 (EUR 1,000)	Finland	Other Nordic countries	Other EU countries	Other count-ries
Exposures to central governments or central banks	1,103,026	-	413,233	48,625
Exposures to regional governments or local authorities	10,350,030	-	-	-
Exposures to international organisations	-	-	133,691	-
Exposures to multilateral development banks	-	-	256,452	-
Exposures to institutions	347,481	556,130	2,408,592	1,099,862
Exposure to public sector entities	34,489	-	201,590	31,098
Exposures to corporates	4,832,744	-	-	-
Exposures secured by mortgages on immovable property	7,208,747	-	-	-
Exposures in the form of covered bonds	378,279	559,637	634,546	482,734
Items representing securitisation positions	-	-	26,419	-
Exposures in the form of shares in CIUs	-	-	9,668	-
Other items	61,178	7,052	17,682	6,529
Off-balance-sheet items	1,883,319	-	-	-
Total	**26,199,292**	**1,122,820**	**4,101,873**	**1,668,847**

31 Dec 2015 (EUR 1,000)	Finland	Other Nordic countries	Other EU countries	Other count-ries
Exposures to central governments or central banks	1,947,597	-	320,813	-
Exposures to regional governments or local authorities	10,339,783	-	-	-
Exposures to international organisations	-	-	195,593	-
Exposures to multilateral development banks	-	24,947	199,669	85,447
Exposures to institutions	343,966	547,256	2,574,407	938,013
Exposure to public sector entities	34,177	-	150,518	22,809
Exposures to corporates	4,465,042	-	-	-
Exposures secured by mortgages on immovable property	6,727,614	-	-	-
Exposures in the form of covered bonds	268,938	725,666	583,396	228,712
Items representing securitisation positions	-	-	61,458	-
Exposures in the form of shares in CIUs	-	-	9,592	-
Other items	61,545	9,618	20,876	6,746
Off-balance-sheet items	1,336,880	-	-	-
Total	**25,525,544**	**1,307,487**	**4,116,322**	**1,281,728**

Note 49. Remaining maturity of exposures by category

31 Dec 2016 (EUR 1,000) Exposure category	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Exposures to central governments or central banks	1,067,732	77,304	272,190	147,658	-	1,564,884
Exposures to regional governments or local authorities	1,045,327	1,121,333	4,122,878	2,443,219	1,617,272	10,350,030
Exposures to international organisations	-	58,129	31,652	43,910	-	133,691
Exposures to multilateral development banks	10,453	10,038	182,564	53,397	-	256,452
Exposures to institutions	1,014,469	653,493	2,289,159	263,912	191,033	4,412,065
Exposure to public sector entities	60,096	-	124,171	82,910	-	267,177
Exposures to corporates	119,197	291,341	1,159,669	1,312,678	1,949,860	4,832,744
Exposures secured by mortgages on immovable property	21,245	98,206	676,963	506,737	5,905,595	7,208,747
Exposures in the form of covered bonds	167,256	82,354	1,335,975	469,611	-	2,055,196
Items representing securitisation positions	-	-	-	23,226	3,193	26,419
Exposures in the form of shares in CIUs	-	-	-	-	9,668	9,668
Other items	55,280	34,142	2,266	-	753	92,442
Off-balance-sheet items	1,883,319	-	-	-	-	1,883,319
Total	**5,444,375**	**2,426,341**	**10,197,486**	**5,347,258**	**9,677,373**	**33,092,833**

31 Dec 2015 (EUR 1,000) Exposure category	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Exposures to central governments or central banks	1,828,807	-	216,163	223,439	-	2,268,410
Exposures to regional governments or local authorities	1,246,176	1,253,732	3,960,925	3,295,749	583,201	10,339,783
Exposures to international organisations	14,000	47,576	78,262	55,755	-	195,593
Exposures to multilateral development banks	10,056	30,448	121,394	148,165	-	310,064
Exposures to institutions	999,421	802,409	2,119,894	286,740	195,178	4,403,642
Exposure to public sector entities	-	-	127,974	79,530	-	207,504
Exposures to corporates	62,993	233,299	1,176,521	1,242,229	1,750,001	4,465,042
Exposures secured by mortgages on immovable property	98,052	117,184	686,389	508,447	5,317,542	6,727,614
Exposures in the form of covered bonds	113,307	347,536	821,383	524,487	-	1,806,712
Items representing securitisation positions	-	-	-	34,231	27,227	61,458
Exposures in the form of shares in CIUs	-	-	-	-	9,592	9,592
Other items	55,939	40,548	1,865	-	434	98,785
Off-balance-sheet items	1,336,880	-	-	-	-	1,336,880
Total	**5,765,631**	**2,872,732**	**9,310,770**	**6,398,773**	**7,883,175**	**32,231,081**

Note 50. Exposures by main lines of business

Not disclosed due to MuniFin's limited customer base.

Note 51. Exposures by risk weight before and after credit risk mitigation

31 Dec 2016 (EUR 1,000) Risk weight, %	Exposure before credit risk mitigation	Exposure after credit risk mitigation	Risk-weighted assets
0	12,979,372	27,620,549	-
2	59,929	59,929	1,199
10	1,585,016	1,585,016	158,502
20	3,300,656	2,416,230	483,246
50	1,946,318	1,397,526	698,763
100	13,211,875	3,916	3,916
Other risk weights	9,668	9,668	1,331
Total	**33,092,833**	**33,092,833**	**1,346,956**

31 Dec 2015 (EUR 1,000) Risk weight, %	Exposure before credit risk mitigation	Exposure after credit risk mitigation	Risk-weighted assets
0	13,252,785	27,298,583	-
10	1,596,490	1,596,490	159,649
20	3,204,705	2,209,629	441,926
50	1,775,926	1,098,586	549,293
100	12,376,583	3,202	3,202
Other risk weights	24,593	24,593	188,858
Total	**32,231,081**	**32,231,081**	**1,342,928**

Note 52. Collateral utilised in the capital adequacy calculation

31 Dec 2016 (EUR 1,000) Exposure category	Exposure	Guarantees	Financial collateral	Other	Exposure after utilised collateral
Exposures to regional governments or local authorities	11,066,880	−171,426	-	-	10,895,453
Exposures to institutions	4,412,065	−845,756	-	-	3,566,309
Exposures to corporates *	5,170,321	−4,832,744	-	-	-
Exposures secured by mortgages on immovable property *	8,037,639	−7,208,747	-	-	-
Total	**28,686,904**	**−13,058,673**	**-**	**-**	**14,461,762**

* In addition to guarantees, the exposures to corporates and exposures secured by mortgages on immovable property include other collateral.

31 Dec 2015 (EUR 1,000) Exposure category	Exposure	Guarantees	Financial collateral	Other	Exposure after utilised collateral
Exposures to regional governments or local authorities	10,198,342	−164,353	-	-	10,033,989
Exposures to institutions	3,466,241	−833,026	-	-	2,633,215
Exposures to corporates *	4,465,042	−4,465,042	-	-	-
Exposures secured by mortgages on immovable property *	6,727,614	−6,727,614	-	-	-
Total	**24,857,240**	**−12,190,036**	**-**	**-**	**12,667,204**

* In addition to guarantees, the exposures to corporates and exposures secured by mortgages on immovable property include other collateral.

Note 53. Derivatives and counterparty risk

31 Dec 2016 (EUR 1,000)	Gross exposure	Benefits from netting	Exposure after netting	Received collateral	Exposure
Derivatives	4,626,574	−1,508,886	3,117,688	−2,153,051	964,637
Total	**4,626,574**	**−1,508,886**	**3,117,688**	**−2,153,051**	**964,637**

31 Dec 2015 (EUR 1,000)	Gross exposure	Benefits from netting	Exposure after netting	Received collateral	Exposure
Derivatives	5,014,088	−1,707,831	3,306,257	−2,227,414	1,078,843
Total	**5,014,088**	**−1,707,831**	**3,306,257**	**−2,227,414**	**1,078,843**

Note 54. Items representing securitisation positions

	31 Dec 2016		31 Dec 2015	
(EUR 1,000)	Exposure	Risk-weighted assets	Exposure	Risk-weighted assets
Non-trading book positions				
Aaa	24,230	4,846	6,656	1,331
Aa1-Aa3	2,189	438	39,802	7,960
A1-A3			-	-
Baa1-Baa3			-	-
Ba1-Ba3			-	-
B1 or lower			15,000	187,500
Total	**26,419**	**5,284**	**61,458**	**196,792**

The classification has been done using Moody’s ratings.
In 2016 risk-weight 1250% has not been applied to any items representing securitisation positions (EUR 15 million in 2015).
Items representing securitisation positions do not contain any assets which are past due or impaired in 2016 or 2015.

Note 55. Past due or impaired exposures by exposure class

No exposures past due or impaired.

Note 56. Transitional own funds

31 Dec 2016 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1. Capital instruments and the related share premium accounts	42,583	26 (1), 27, 28, 29, EBA list 26 (3)	-
2. Retained earnings	594,765	26 (1) c	-
3. Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	60,162	26 (1)	-
5. Minority interest (amount allowed in consolidated CET1)	-	84, 479, 480	-
5a. Independently reviewed interim profits net of any foreseeable charge or dividends	129,883	26 (2)	-
6. Common Equity Tier 1 (CET1) capital before regulatory adjustments	**827,393**		**-**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7. Additional value adjustments (negative amount)	-43,661	34, 105	-
8. Intangible assets (net of related tax liability) (negative amount)	-6,776	36 (1) (b), 37, 472 (4)	-
14. Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-323	33 (b)	-
28. Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-50,760**		**-**
29. Common Equity Tier 1 (CET1) capital	**776,633**		**-**
Additional Tier 1 (AT1) capital: instruments			
30. Capital instruments and the related share premium	347,454	51, 52	-
31. of which: classified as equity under applicable accounting standards	347,454		-
36. Additional Tier 1 (AT1) capital before regulatory adjustments	**347,454**		**-**
Additional Tier 1 (AT1): regulatory adjustments	**-**		
43. Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		**-**
44. Additional Tier 1 (AT1) capital	**347,454**		**-**
45. Tier 1 capital (T1 = CET1 + AT1)	**1,124,086**		**-**
58. Tier 2 (T2) capital	**-**		**-**
59. Total capital (TC = T1 + T2)	1,124,086		-
60. Total risk weighted assets	**1,680,550**		**-**
Capital ratios and buffers			
61. Common Equity Tier 1 (as percentage of risk exposure amount)	46.21%	92 (2) (a), 465	
62. Tier 1 (as percentage of risk exposure amount)	66.89%	92 (2) (b), 465	
63. Total capital (as percentage of risk exposure amount)	66.89%	92 (2) (c)	
64. Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII), expressed as a percentage of risk exposure amount)	2.50%	CRD 129, 129, 130	
65. of which: capital conservation buffer requirement	2.50%		
66. of which: countercyclical buffer requirement	0.00%		
67. of which: systemic risk buffer requirement	0.00%		
67a. of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.50%	CRD 131	
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	38.30%	CRD 128	

31 Dec 2015 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1. Capital instruments and the related share premium accounts	42,583	26 (1), 27, 28, 29, EBA list 26 (3)	-
2. Retained earnings	479,686	26 (1) c	-
3. Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	51,997	26 (1)	-
5. Minority interest (amount allowed in consolidated CET1)	129	84, 479, 480	0
5a. Independently reviewed interim profits net of any foreseeable charge or dividends	118,178	26 (2)	-
6. Common Equity Tier 1 (CET1) capital before regulatory adjustments	**692,573**		**0**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8. Intangible assets (net of related tax liability) (negative amount)	-5,812	36 (1) (b), 37, 472 (4)	-
14. Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-432	33 (b)	-
28. Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-6,244**		**-**
29. Common Equity Tier 1 (CET1) capital	**686,329**		**-**
Additional Tier 1 (AT1) capital: instruments			
30. Capital instruments and the related share premium	347,454	51, 52	-
31. of which: classified as equity under applicable accounting standards	347,454		-
36. Additional Tier 1 (AT1) capital before regulatory adjustments	**347,454**		**-**
Additional Tier 1 (AT1): regulatory adjustments	**-**		
43. Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		**-**
44. Additional Tier 1 (AT1) capital	**347,454**		**-**
45. Tier 1 capital (T1 = CET1 + AT1)	**1,033,782**		**-**
Tier 2 (T2) capital: instruments and provisions			
46. Capital instruments and the related share premium accounts	35,000	62, 63	-
51. Tier 2 (T2) capital before regulatory adjustments	**35,000**		**-**
Tier 2 (T2) capital: regulatory adjustments			
57. Total regulatory adjustments to Tier 2 (T2) capital	**-**		**-**
58. Tier 2 (T2) capital	**35,000**		**-**
59. Total capital (TC = T1 + T2)	**1,068,782**		**-**
60. Total risk weighted assets	**1,654,278**		**-**
Capital ratios and buffers			
61. Common Equity Tier 1 (as percentage of risk exposure amount)	41.49%	92 (2) (a), 465	
62. Tier 1 (as percentage of risk exposure amount)	62.49%	92 (2) (b), 465	
63. Total capital (as percentage of risk exposure amount)	64.61%	92 (2) (c)	
64. Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII), expressed as a percentage of risk exposure amount)	2.50%	CRD 129, 129, 130	
65. of which: capital conservation buffer requirement	2.50%		
66. of which: countercyclical buffer requirement	0.00%		
67. of which: systemic risk buffer requirement	0.00%		
67a. of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	CRD 131	
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	34.29%	CRD 128	

Note 57. Main features of capital instruments

(EUR 1,000)	Common equity Tier 1 capital Shares A and B of share capital, reserve for invested non-restricted equity, retained earnings and reserve fund	Addional Tier 1 instrument EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities	Tier 2 instruments Debenture loan (Paid 9 August 2016)
1. Issuer	Municipality Finance Plc	Municipality Finance Plc	Municipality Finance Plc
2. Unique identifier	N/A	ISIN: XS1299724911	ISIN: FI00002002403
3. Governing law(s) of the instrument	Finnish Law	English law, except for the provisions of Status and Subordination (section 3) and Enforcement Events (section 10) which are governed by Finnish law.	Finnish Law
Regulatory treatment			
4. Transitional CRR rules	CET1	AT1	Tier 2
5. Post-transitional CRR rules	CET1	AT1	Tier 2
6. Eligible at solo/consolidated / solo&consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7. Instrument type (types to be specified by each jurisdiction)	Share capital as defined in Regulation No (EU) 575/2013 Article 28	Additional Tier 1 as defined in Regulation No (EU) 575/2013 Article 52	Tier 2 as defined in Regulation No (EU) 575/2013 Article 63
8. Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	816,039	347,454	35,000
9. Nominal amount of instrument	N/A	350,000	35,000
9a. Issue price	N/A	100%	100.452%
9b. Redemption price	Redemption price according to the Articles of Association depending of the redemption situation	100%	100%
10. Accounting classification	Shareholders' equity	Liability, amortized cost	Liability, amortized cost
11. Original date of issuance	N/A	Oct 1, 2015	May 9, 2006
12. Perpetual or dated	Perpetual	Perpetual	Dated
13. Original maturity date	No maturity	No maturity	May 9, 2021
14. Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15. Optional call date, contingent call dates and redemption amount	N/A	1) Right to redeem on April 1, 2022 and subsequently on each annual coupon payment date; 2) Right to redeem subsequent to a Capital or Tax Event as defined in the terms. Redemption price 100%	The issuer may prepay the loan in whole on each coupon payment date after 10 years.
16. Subsequent call dates, if applicable	N/A	Annually April 1 after the first call date.	Since August 9, 2016, always on August 9, November 11, February 9 and May 9
Coupons/Dividends			
17. Fixed or floating dividend/coupon	N/A	Fixed coupon until April 1, 2022, thereafter floating	Fixed coupon until May 9, 2015, thereafter floating

18. Coupon rate and any related index	N/A	4.5% to but excluding the first call date 1 April 2022. After 1 April 2022 the rate is the 5 year swap rate plus a margin of 3.960% and reset each fifth anniversary.	Fixed coupon of 4.5% p.a until 9 May 2016, then floating 3m Euribor +25bp
19. Existence of a dividend stopper	No	No	No
20a. Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
20b. Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
21. Existence of step up or other incentive to redeem	N/A	No	No
22. Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23. Convertible or non-convertible	N/A	Non-convertible	Non-convertible
24. If convertible, conversion trigger(s)	N/A	N/A	N/A
25. If convertible, fully or partially	N/A	N/A	N/A
26. If convertible, conversion rate	N/A	N/A	N/A
27. If convertible, mandatory or optional conversion	N/A	N/A	N/A
28. If convertible, specify instrument type convertible into	N/A	N/A	N/A
29. If convertible, specify issuer of instrument it converts to	N/A	N/A	N/A
30. Write-down features	N/A	Yes	No
31. If write-down, write-down trigger(s)	N/A	CET1 of the Issuer and/ or the Group less than 5.125%	N/A
32. If write-down, full or partial	N/A	Full or partially	N/A
33. If write-down, permanent or temporary	N/A	Temporary	N/A
34. If temporary write-down, description of write-up mechanism	N/A	Fully discretionary	N/A
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1	Tier 2	Senior debt
36. Non-compliant transitioned features	No	No	No
37. If yes, specify non-compliant features	N/A	N/A	N/A

Municipality Finance applied for permission from European Central Bank to repay the debenture loan. The ECB granted permission on 18 July 2016, and Municipality Finance repaid the debenture loan at the time of interest payment on 9 August 2016.

Note 58. Asset encumberance

The tables below provide information on asset encumbrance and liabilities related to encumbered assets. Encumbered assets mainly relate to lending receivables that have been pledged to the Municipal Guarantee Board as counter collateral for guarantees it has given to Municipality Finance's funding, collateral pertaining to derivatives and collateral related to repo agreements. Presented figures for years 2015 and 2016 are based on median values of quarterly data on a rolling basis over the previous twelve months.

Assets 2016 (EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	9,844	9,844
Debt securities	-	-	7,584,900	7,594,268
Other assets	20,873,222	-	6,819,519	-
Total	**20,873,222**	**-**	**14,414,263**	**7,604,112**

Assets 31 Dec 2015 (EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	9,789	9,783
Debt securities	-	-	7,622,103	7,827,311
Other assets	19,632,830	-	6,530,724	-
Total	**19,632,830**	**-**	**14,162,616**	**7,837,094**

Debt securities have been pledged to Municipal Guarantee Board at the end of 2015. The company has, however, treated these debt securities as unencumbered assets based on the agreed practices and excess collateral position with Municipal Guarantee Board. As such, debt securities have been free to use by the company.

Based on decision by the Municipal Guarantee Board in March 2016 Municipality Finance is no longer required to pledge its liquidity portfolio debt securities to the Municipal Guarantee Board.

	2016		31 Dec 2015	
Collateral received (EUR 1,000)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Other assets	-	1,978,350	-	389,200
Total	**-**	**1,978,350**	**-**	**389,200**

	2016		31 Dec 2015	
Encumbered assets/collateral received and associated liabilities (EUR 1,000)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Derivatives	2,106,503	551,032	1,517,577	389,200
Other sources for encumbrance	-	20,278,103	-	19,632,830

Note 59. Leverage ratio

Exposures (EUR 1,000)	31 Dec 2016	31 Dec 2015
On-balance sheet exposures (excl. Derivatives and intangible assets)	29,773,440	29,815,359
Derivatives exposure	1,022,941	1,239,463
Off-balance sheet exposure	941,659	1,715,877
Total	**31,738,039**	**32,770,698**

Exposures (EUR 1,000)	31 Dec 2016	31 Dec 2015
Tier 1 capital (T1)	1,124,086	1,033,782
Total exposure	31,738,039	32,770,698
Leverage ratio, %	3.54	3.15

Breakdown of on-balance sheet exposure (EUR 1,000)	31 Dec 2016 Leverage ratio exposure value	31 Dec 2015 Leverage ratio exposure value
Covered bonds	2,055,196	1,806,712
Exposures treated as sovereigns	9,341,332	9,482,614
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	15,895,000	15,722,982
Institutions	2,363,052	2,642,807
Other exposures	118,861	160,244
Total	**29,773,440**	**29,815,359**

Municipality Finance Plc Parent Company

Financial Statements

Balance Sheet

(EUR 1,000)	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash and balances with central banks		988,949	1,813,813
Cash		7	6
Central bank receivables payable on demand		988,943	1,813,807
Debt securities eligible for central bank refinancing	(4)	5,466,022	5,078,673
Government treasury bills		527,317	454,603
Other		4,938,706	4,624,071
Loans and advances to credit institutions	(2, 20)	438,533	613,799
Payable on demand		7,252	131,401
Other		431,281	482,398
Loans and advances to the public and public sector entities	(3)	20,909,752	20,088,453
Leasing assets	(5)	285,987	187,108
Debt securities	(4)	2,003,415	1,924,645
From public sector entities		944,043	1,027,138
From others		1,059,372	897,507
Shares and participations	(6)	9,695	9,620
Shares and participations in Group companies	(6)	112	112
Derivative contracts	(7)	3,634,302	3,925,025
Intangible assets	(8, 10)	6,881	5,965
Tangible assets	(9, 10)	2,349	2,145
Other tangible assets		2 ,349	2,145
Other assets	(11)	62,615	6,029
Accrued income and prepayments	(12)	243,005	232,700
TOTAL ASSETS	(18, 19, 21)	**34,051,617**	**33,888,086**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(20)	5,362,317	4,893,270
To credit institutions		5,362,317	4,893,270
Other		5,362,317	4,893,270
Liabilities to the public and public sector entities		872,919	954,026
Other liabilities		872,919	954,026
Debt securities issued	(14)	24,584,169	24,804,490
Bonds		23,444,821	23,574,719
Other		1,139,348	1,229,771
Derivative contracts	(7)	1,676,859	1,799,692
Other liabilities	(15)	4,264	2,008
Accrued expenses and deferred income	(16)	206,463	221,375
Subordinated liabilities	(17)	347,426	382,477
Deferred tax liabilities	(13)	4,880	2,838
TOTAL LIABILITIES	(18, 19, 21)	**33,059,297**	**33,060,177**
APPROPRIATIONS			
Depreciation difference		2,298	859
Voluntary provisions		824,980	676,980
TOTAL APPROPRIATIONS		**827,278**	**677,839**
EQUITY	(23, 24, 25)		
Share capital		43,008	43,008
Other restricted reserves		19,796	11,630
Reserve fund		277	277
Fair value reserve		19,519	11,354
Change in fair value		19,519	11,354
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		54,688	53,158
Profit for the financial period		6,808	1,530
TOTAL EQUITY		**165,043**	**150,070**
TOTAL LIABILITIES AND EQUITY	(18, 19)	**34,051,617**	**33,888,086**
OFF-BALANCE SHEET COMMITMENTS	(41)		
Irrevocable commitments given in favour of customer		1,883,319	1,336,880

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Interest income	(26)	178,206	193,619
Net income from leasing operations	(27)	2,297	2,239
Interest expense	(26)	9,352	−27,647
NET INTEREST INCOME		**189,855**	**168,211**
Income from equity investments		63	129
In Group companies	(28)	63	129
Commission income	(29)	601	2,847
Commission expense	(29)	−4,023	−3,773
Net income from securities and foreign exchange transactions	(30)	−1,759	−3,865
Net income from securities		−2,159	−3,897
Net income from foreign exchange transactions		400	33
Net income from available-for-sale financial assets	(31)	−468	6,336
Net income from hedge accounting	(32)	2,587	583
Other operating income	(33)	185	59
Administrative expenses		−17,134	−15,066
Personnel expenses		−10,481	−9,532
Salaries and fees	(42)	−8,319	−7,657
Personnel-related costs		−2,162	−1,875
Pension costs		−1,669	−1,512
Other personnel-related costs		−493	−363
Other administrative expenses		−6,653	−5,534
Depreciation and impairment on tangible and intangible assets	(35)	−1,815	−1,598
Other operating expenses	(34)	−10,122	−6,192
OPERATING PROFIT		**157,971**	**147,672**
Appropriations		−149,438	−145,859
Income taxes		−1,725	−283
PROFIT FOR THE PERIOD		**6,808**	**1,530**

Statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
CASH FLOW FROM OPERATING ACTIVITIES	**–911,177**	**812,996**
Net change in long-term funding	471,015	1,139,992
Net change in short-term funding	–101,832	–11,297
Net change in long-term loans	–915,040	–1,021,891
Net change in short-term loans	142,736	–270,112
Net change in investments	–576,223	204,767
Net change in collaterals	–84,168	609,050
Interest on assets	130,575	187,169
Interest on liabilities	43,354	–18,290
Other income	30,114	36,716
Payments of operating expenses	–54,087	–40,500
Taxes paid	2,378	–2,609
CASH FLOW FROM INVESTING ACTIVITIES	**–2,834**	**–2,500**
Acquisition of tangible assets	–669	–533
Acquisition of intangible assets	–2,165	–1,955
Change in shares and participations	-	–12
CASH FLOW FROM FINANCING ACTIVITIES	**–35,000**	**346,366**
Change in subordinated liabilities	–35,000	346,366
CHANGE IN CASH AND CASH EQUIVALENTS	**–949,012**	**1,156,862**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,945,214**	**788,352**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**996,202**	**1,945,214**

Cash and cash equivalents include the following balance sheet items: Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Cash and balances with central banks	988,949	1,813,813
Loans and advances to credit institutions	7,252	131,401
TOTAL CASH AND CASH EQUIVALENTS	**996,202**	**1,945,214**

Notes to the parent company financial statements, FAS

Notes to the balance sheet

Notes to the income statement

Notes on collateral and contingent liabilities

Notes on personnel and management

Related party transactions

Holdings in other companies

Other notes

Pillar III disclosures

Notes to the parent company financial statements

Note 1. Significant accounting policies of the parent company financial statements

Municipality Finance Plc, the parent company of the Municipality Finance Group, prepares its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervisory Authority Regulations and Guidelines 2/2016. 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 of its pre-funding investments based on the amendments to the IAS 39 and IFRS 7 standards. The Finnish Financial Supervision Authority approved the amendments to the IFRS standards as part of the national accounting principles. The transfers are shown in Note 4. The parent company's credit loss provisions are made in accordance with tax law.

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

Notes to the balance sheet

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

Note 2. Loans and advances to credit institutions

31 Dec 2016 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	124,953	6,172	118,781
Foreign credit institutions	313,580	1,080	312,500
Total	**438,533**	**7,252**	**431,281**

31 Dec 2015 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	196,177	130,679	65,498
Foreign credit institutions	417,622	722	416,900
Total	**613,799**	**131,401**	**482,398**

Note 3. Loans and advances to the public and public sector entities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Enterprises and housing corporations	11,051,611	10,482,100
Public sector entities	9,493,314	9,289,611
Non-profit organisations	364,827	316,742
Total	**20,909,752**	**20,088,453**

Loans and advances to the public and public sector entities does not include any impairment losses.

At the end of 2016 loans and advances to the public and public sector entities included 6,790 thousand of forborne loans (2015: -).

Note 4. Debt securities

Debt securities issued by public sector entities 31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**881,620**	**881,620**
Municipal commercial papers	-	881,620	881,620
Available-for-sale	**2,010,365**	**-**	**2,010,365**
Government bonds	527,317	-	527,317
Bonds issued by other public sector entities	1,483,048	-	1,483,048
Fair value option	**-**	**68,652**	**68,652**
Government treasury bills	-	48,625	48,625
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	20,028	20,028
Total	**2,010,365**	**950,273**	**2,960,638**
Eligible for central bank refinancing	1,839,015	20,028	1,859,042

Debt securities issued by other than public sector entities 31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**114,238**	**114,238**
Commercial papers	-	91,012	91,012
Other debt securities	-	23,226	23,226
Available-for-sale	**4,010,577**	**3,193**	**4,013,769**
Bank bonds	4,010,577	-	4,010,577
Other debt securities	-	3,193	3,193
Fair value option	**15,573**	**365,219**	**380,792**
Bank commercial paper	-	365,219	365,219
Bank bonds	15,573	-	15,573
Total	**4,026,149**	**482,650**	**4,508,799**
Eligible for central bank refinancing	3,516,932	90,048	3,606,980
Debt securities total 31 Dec 2016	**6,036,514**	**1,432,923**	**7,469,437**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2016.

Reclassification (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
Total		**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR 4,194 thousand on the fair value reserve in 2016. In 2016 EUR 24 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

Without this reclassification, changes in fair value of investments would have had an impact of EUR 2,018 thousand on the fair value reserve in 2015. In 2015 EUR 84 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

Debt securities issued by public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**1,027,138**	**1,027,138**
Municipal commercial papers	-	1,027,138	1,027,138
Available-for-sale	**1,871,751**	**22,809**	**1,894,560**
Government bonds	439,602	-	439,602
Bonds issued by other public sector entities	1,432,149	22,809	1,454,958
Fair value option	**20,216**	**86,014**	**106,230**
Government treasury bills	-	15,000	15,000
Bonds issued by other public sector entities	20,216	-	20,216
Commercial paper issued by other public sector entities	-	71,014	71,014
Total	**1,891,967**	**1,135,961**	**3,027,928**
Eligible for central bank refinancing	1,805,483	86,014	1,891,497

Debt securities issued by other than public sector entities 31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**145,732**	**145,732**
Commercial papers	-	88,300	88,300
Other debt securities	-	57,432	57,432
Available-for-sale	**3,383,352**	**44,821**	**3,428,173**
Bank bonds	3,383,352	40,794	3,424,146
Other debt securities	-	4,026	4,026
Fair value option	**121,426**	**280,060**	**401,486**
Bank commercial paper	-	280,060	280,060
Bank bonds	121,426	-	121,426
Total	**3,504,778**	**470,613**	**3,975,390**
Eligible for central bank refinancing	3,121,021	66,155	3,187,176
Debt securities total 31 Dec 2015	**5,396,745**	**1,606,574**	**7,003,318**

Note 5. Assets leased under financial leasing

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Prepayments	102,870	43,762
Machinery and equipment	137,859	121,008
Fixed assets and buildings	43,342	18,899
Other assets	1,916	3,439
Total	**285,987**	**187,108**

Note 6. Shares and participations

31 Dec 2016 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,668	27	9,695	-
Shares and participations in group companies	-	112	112	-
Total	**9,668**	**139**	**9,807**	**-**
of which at acquisition cost	-	139	139	-

31 Dec 2015 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,593	27	9,620	-
Shares and participations in group companies	-	112	112	-
Total	**9,593**	**139**	**9,732**	**-**
of which at acquisition cost	-	139	139	-

Note 7. Derivative contracts

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2016 (EUR 1,000)	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,388,063	14,736,546	12,677,923	**31,802,532**	650,615	−470,835
Cleared by the central counterparty*	10,000	2,337,940	144,100	**2,492,040**	11,776	−5,749
Interest rate options	6,006	-	-	**6,006**	0	0
Currency derivatives						
Cross currency interest rate swaps	4,654,761	11,890,445	2,260,639	**18,805,844**	2,590,972	−843,870
Total	**9,048,830**	**26,626,990**	**14,938,562**	**50,614,382**	**3,241,587**	**−1,314,705**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	482,176	3,077,964	2,771,390	**6,331,530**	190,920	−193,443
Cleared by the central counterparty*	-	300,000	85,752	**385,752**	2,575	−172
Interest rate options	-	245	42,000	**42,245**	546	−550
Currency derivatives						
Cross currency interest rate swaps	-	9,708	-	**9,708**	841	−841
Forward exchange contracts	1,032,416	161,275	-	**1,193,691**	35,502	−2,412
Equity derivatives	571,265	2,659,624	-	**3,230,889**	158,284	−158,284
Other derivatives	-	55,500	-	**55,500**	6,622	−6,622
Total	**2,085,857**	**5,964,317**	**2,813,390**	**10,863,563**	**392,715**	**−362,153**
Grand total	**11,134,687**	**32,591,307**	**17,751,952**	**61,477,946**	**3,634,302**	**−1,676,859**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

* In May 2016 Municipality Finance Plc commenced to clear OTC derivative contracts through central counterparty.

	Nominal value of underlying instrument Remaining maturity				Fair value	
31 Dec 2015 (EUR 1,000)	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,309,588	16,054,679	13,072,232	**33,436,498**	553,489	−402,602
Interest rate options	4,582	6,006	-	**10,588**	-	−99
Currency derivatives						
Cross currency interest rate swaps	4,989,570	13,231,613	2,129,328	**20,350,511**	2,983,050	−1,029,808
Total	**9,303,739**	**29,292,298**	**15,201,560**	**53,797,597**	**3,536,539**	**−1,432,509**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	383,861	2,784,303	2,987,696	**6,155,860**	149,993	−153,949
Interest rate options	10,071	315	42,000	**52,386**	512	−518
Currency derivatives						
Cross currency interest rate swaps	5,169	10,577	-	**15,746**	1,241	−1,240
Forward exchange contracts	975,475	-	-	**975,475**	25,263	-
Equity derivatives	269,715	2,222,471	5,500	**2,497,686**	202,551	−202,551
Other derivatives	49,058	20,000	-	**69,058**	8,925	−8,925
Total	**1,693,349**	**5,037,666**	**3,035,196**	**9,766,211**	**388,485**	**−367,183**
Grand total	**10,997,088**	**34,329,964**	**18,236,756**	**63,563,808**	**3,925,025**	**−1,799,692**

Note 8. Intangible assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
IT systems	6,776	5,812
Other intangible assets	105	152
Total	**6,881**	**5,965**

Note 9. Tangible assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Real estate		
Buildings	319	359
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	1,596	1,352
Total	**2,349**	**2,145**

Note 10. Changes in intangible and tangible assets during the financial year

	Intangible assets	Tangible assets		
31 Dec 2016 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	11,824	1,207	3,173	4,379
+ Additions	2,166	-	970	970
– Disposals	-	-	−509	−509
Acquisition cost 31 Dec	13,990	1,207	3,634	4,840
Accumulated depreciation 1 Jan	5,859	413	1,821	2,234
– Accumulated depreciation on disposals	-	-	−308	−308
+ Depreciation for the financial year	1,250	40	524	564
Accumulated depreciation 31 Dec	7,109	453	2,038	2,491
Book value 31 Dec	**6,881**	**753**	**1,596**	**2,349**

	Intangible assets	Tangible assets		
31 Dec 2015 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	9,874	1,207	2,936	4,142
+ Additions	1,961	-	528	528
– Disposals	−11	-	−291	−291
Acquisition cost 31 Dec	11,824	1,207	3,173	4,379
Accumulated depreciation 1 Jan	4,743	373	1,680	2,053
– Accumulated depreciation on disposals	−11	-	−289	−289
+ Depreciation for the financial year	1,127	40	430	470
Accumulated depreciation 31 Dec	5,859	413	1,821	2,234
Book value 31 Dec	**5,965**	**793**	**1,351**	**2,145**

Note 11. Other assets

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Leasing receivables	4,387	4,592
Given cash collateral to Central Counterparty Clearing House	49,838	-
Other	8,390	1,437
Total	**62,615**	**6,029**

Note 12. Accrued income and prepayments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Interest	240,780	226,796
Other	2,224	5,904
Total	**243,005**	**232,700**

Note 13. Deferred tax assets and liabilities

Deferred tax assets (EUR 1,000)	31 Dec 2015	Recognised in the income statement	Recognised in equity	31 Dec 2016
On other temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2015	Recognised in the income statement	Recognised in equity	31 Dec 2016
On other temporary differences				
On fair value reserve	2,838	-	2,041	4,880
Total	**2,838**	**-**	**2,041**	**4,880**

Voluntary provisions and depreciation difference include EUR 165,456 thousand in non-recognised deferred tax liabilities.

Deferred tax assets (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in equity	31 Dec 2015
On other temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

Deferred tax liabilities (EUR 1,000)	31 Dec 2014	Recognised in the income statement	Recognised in equity	31 Dec 2015
On other temporary differences				
On fair value reserve	7,728	-	−4,890	2,838
Total	**7,728**	**-**	**−4,890**	**2,838**

Voluntary provisions and depreciation difference include EUR 135,568 thousand in non-recognised deferred tax liabilities.

Note 14. Debt securities issued

	31 Dec 2016		31 Dec 2015	
(EUR 1,000)	Book value	Nominal value	Book value	Nominal value
Bonds	23,444,821	25,456,304	23,574,719	27,838,525
Other	1,139,348	1,141,258	1,229,771	1,230,475
Total	**24,584,169**	**26,597,562**	**24,804,490**	**29,069,000**

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 15. Other liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Other	4,264	2,008
Total	**4,264**	**2,008**

Note 16. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Interest	197,342	212,497
Other	9,121	8,878
Total	**206,463**	**221,375**

Note 17. Subordinated liabilities

31 Dec 2016 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
2) AT1 capital loan	EUR	350,000	347,426	Fixed	1st April 2022
Total		**350,000**	**347,426**		

31 Dec 2015 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,542	Fixed	9th May 2016
2) AT1 capital loan	EUR	350,000	346,935	Fixed	1st April 2022
Total		**385,000**	**382,477**		

Loan terms and conditions:

1) The maturity date of the loan is 9 May 2021. The company has 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 was tied to a fixed coupon rate until 9 May 2016 as stated in the loan agreement and thereafter to a floating coupon rate. The loan has at least the same seniority as any debenture loan with a maturity date and equivalent commitments potentially issued or subscribed by the company in the future. Municipality Finance applied for permission from European Central Bank to repay the debenture loan. The ECB granted permission on 18 July 2016, and Municipality Finance repaid the debenture loan at the time of interest payment on August 9, 2016. A more detailed description of the instrument is in Group's note 57.

2) The loan is an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The loan capital will be written off if the proportion of the company's Common Equity Tier 1 (CET1) capital to risk-weighted assets falls below 5.125%. The company may decide to re-book the loan capital partially or entirely if the Capital Requirements Regulation permits this based on an improvement in the company's finances. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. The regulatory authority may authorise the repayment of the loan also for particular reasons, for example if legislation or regulatory practice should change in such a way that the company loses the right to deduct the interest in full, or if the company should be forced to make the additional payments mentioned in the loan terms. The authorities may also permit repayment of the loan if the loan's official classification changes in such a way that the loan would be likely to be excluded from the company's own funds, or if it is reclassified as lower-value funds. The loan capital, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's dissolution or bankruptcy. AT1 capital loan is recognised as equity in consolidated financial statements. In parent's company's financial statements AT1 capital loan is recognised in balance sheet item Subordinated liabilities.

Note 18. Breakdown of financial assets and liabilities by maturity

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	540,431	691,657	3,258,656	975,278	-	5,466,022
Loans and advances to credit institutions	428,852	-	-	-	9,681	438,533
Loans and advances to the public and public sector entities	247,407	1,379,858	6,478,029	4,072,226	8,732,233	20,909,752
Debt securities	1,150,210	257,169	529,645	63,199	3,193	2,003,415
Derivative contracts	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Total	**2,425,050**	**2,880,263**	**12,090,443**	**5,853,374**	**9,202,895**	**32,452,025**

31 Dec 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,258,289	47,421	363,254	977,491	1,715,862	5,362,317
Liabilities to the public and public sector entities	28,902	162,231	363,593	232,531	85,662	872,919
Debt securities issued	4,463,726	5,697,652	11,755,878	2,013,916	652,997	24,584,169
Subordinated liabilities	-	-	347,426	-	-	347,426
Derivative contracts	47,774	185,837	1,014,586	183,305	245,356	1,676,859
Total	**6,798,692**	**6,093,141**	**13,844,737**	**3,407,242**	**2,699,877**	**32,843,690**

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2017. In 2016, the company called 40% of its callable liabilities.

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	366,582	966,021	2,525,326	1,219,599	1,146	5,078,673
Loans and advances to credit institutions	604,299	9,500	-	-	-	613,799
Loans and advances to the public and public sector entities	370,505	1,518,249	5,789,905	4,106,845	8,302,950	20,088,453
Debt securities	1,213,615	256,496	367,408	61,047	26,080	1,924,645
Derivative contracts	245,007	750,537	1,918,127	378,925	632,428	3,925,025
Total	**2,800,008**	**3,500,802**	**10,600,766**	**5,766,416**	**8,962,604**	**31,630,595**

31 Dec 2015 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,232,310	41,660	122,860	820,286	1,676,154	4,893,270
Liabilities to the public and public sector entities	43,597	14,666	499,564	214,029	182,171	954,026
Debt securities issued	4,289,979	5,992,095	12,074,575	1,484,364	963,477	24,804,490
Subordinated liabilities	-	35,542	-	346,935	-	382,477
Derivative contracts	25,966	130,021	1,224,992	220,058	198,655	1,799,692
Total	**6,591,852**	**6,213,984**	**13,921,991**	**3,085,672**	**3,020,456**	**32,833,956**

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2016. In 2015, the company called 60% of its callable liabilities.

Note 19. Breakdown of the balance sheet items into domestic and foreign currency

31 Dec 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	5,448,487	17,536	5,466,022
Loans and advances to credit institutions	432,402	6,131	438,533
Loans and advances to the public and public sector entities	20,909,752	-	20,909,752
Debt securities	1,789,465	213,950	2,003,415
Derivative contracts	3,634,302	-	3,634,302
Other assets incl. cash and balances in central banks	1,595,793	3,799	1,599,593
Total	**33,810,201**	**241,416**	**34,051,617**

31 Dec 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	5,268,229	94,088	5,362,317
Liabilities to the public and public sector entities	590,874	282,045	872,919
Debt securities issued	2,377,486	22,206,683	24,584,169
Derivative contracts	1,676,859	-	1,676,859
Subordinated liabilities	347,426	-	347,426
Other liabilities	1,207,927	-	1,207,927
Total	**11,468,802**	**22,582,816**	**34,051,617**

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	5,030,893	47,781	5,078,673
Loans and advances to credit institutions	613,206	594	613,799
Loans and advances to the public and public sector entities	20,088,453	-	20,088,453
Debt securities	1,765,435	159,209	1,924,645
Derivative contracts	3,925,025	-	3,925,025
Other assets incl. cash and balances in central banks	2,257,491	-	2,257,491
Total	**33,680,503**	**207,584**	**33,888,086**

31 Dec 2015 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	4,799,614	93,656	4,893,270
Liabilities to the public and public sector entities	685,153	268,873	954,026
Debt securities issued	1,963,064	22,841,427	24,804,490
Derivative contracts	1,799,692	-	1,799,692
Subordinated liabilities	382,477	-	382,477
Other liabilities	1,054,131	-	1,054,131
Total	**10,684,130**	**23,203,956**	**33,888,086**

Note 20. Repurchase agreements

Nothing to report.

Note 21. Fair values and book values of financial assets and liabilities

Financial assets (EUR 1,000)	31 Dec 2016 Book value	31 Dec 2016 Fair value	31 Dec 2015 Book value	31 Dec 2015 Fair value
Cash and balances with central banks	988,949	988,949	1,813,813	1,813,813
Debt securities eligible for central bank refinancing	5,466,022	5,466,022	5,078,673	5,078,673
Loans and advances to credit institutions	438,533	438,533	613,799	613,811
Loans and advances to the public and public sector entities	20,909,752	22,957,711	20,088,453	21,462,659
Debt securities	2,003,415	2,003,896	1,924,645	1,920,693
Shares and participations	9,695	9,695	9,620	9,620
Shares and participations in group companies	112	112	112	112
Derivative contracts	3,634,302	3,634,302	3,925,025	3,925,025
Total	**33,450,782**	**35,499,222**	**33,454,140**	**34,824,406**

Financial liabilities (EUR 1,000)	31 Dec 2016 Book value	31 Dec 2016 Fair value	31 Dec 2015 Book value	31 Dec 2015 Fair value
Liabilities to credit institutions	5,362,317	5,531,362	4,893,270	4,981,987
Liabilities to the public and public sector entities	872,919	888,677	954,026	958,744
Debt securities issued	24,584,169	24,650,226	24,804,490	24,820,262
Derivative contracts	1,676,859	1,676,859	1,799,692	1,799,692
Subordinated liabilities	347,426	430,947	382,477	385,572
Total	**32,843,691**	**33,178,071**	**32,833,956**	**32,946,257**

Note 22. Hierarchy of fair values of financial assets and liabilities

31 Dec 2016 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	15,573	433,872	-	449,445
Loans and advances to the public and public sector entities *	-	7,271,774	-	7,271,774
Derivative contracts	-	325,262	67,453	392,715
Hedging derivatives	-	3,241,587	-	3,241,587
Available-for-sale assets				
Debt securities	6,020,942	3,193	-	6,024,134
Shares in investment funds	9,668	-	-	9,668
Total	**6,046,182**	**11,275,687**	**67,453**	**17,389,323**

31 Dec 2016 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions *	-	3,162,981	-	3,162,981
Liabilities to the public and public sector entities *	-	693,109	-	693,109
Debt securities issued *	-	20,051,756	-	20,051,756
Subordinated liabilities *	-	-	-	-
Derivative contacts	-	294,700	67,453	362,153
Hedging derivatives	-	1,314,705	-	1,314,705
Total	**-**	**25,517,251**	**67,453**	**25,584,704**

31 Dec 2015 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	141,642	366,074	-	507,716
Loans and advances to the public and public sector entities *	-	7,000,074	-	7,000,074
Derivative contracts	-	266,765	121,720	388,485
Hedging derivatives	-	3,536,539	-	3,536,539
Available-for-sale assets				
Debt securities	5,255,103	67,630	-	5,322,733
Shares in investment funds	9,620	-	-	9,620
Total	**5,406,364**	**11,237,082**	**121,720**	**16,765,166**

31 Dec 2015 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions *	-	2,729,043	-	2,729,043
Liabilities to the public and public sector entities *	-	772,128	-	772,128
Debt securities issued *	-	21,873,838	-	21,873,838
Subordinated liabilities *	-	35,572	-	35,572
Derivative contacts	-	245,463	121,720	367,183
Hedging derivatives	-	1,432,509	-	1,432,509
Total	**-**	**27,088,553**	**121,720**	**27,210,273**

* The rows in question contain items which are in fair value hedge account and are valued at fair value only in terms of the hedged risk. The carrying amounts of these items differ from the fair values shown in the table above.

Level 1
Valuation is based on quoted prices for identical assets or liabilities on active and functioning markets. A market is considered to be functioning if trading is frequent and price data is regularly available. Level 1 financial assets comprise investments in debt securities.

Level 2
Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability. Fair value may be based on quotations of similar assets or liabilities in functioning markets or quotations of equivalent or similar assets or liabilities in markets that are not liquid. Fair value may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include bank rates and profit curves for which regular quotations are available, implicit volatilities and credit margins.

Valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial market. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

Level 3
Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities. All instruments that are valued using historical volatilities are classified to level 3.

Any input data that is not directly observable on the market must reflect assumptions that market participants would use in valuing a financial asset or liability, including assumptions regarding the risk. The company gathers input data that is not directly observable from the market based on the best available information at the time. Data may include information known by the company. If such information is used, the company readjusts the information if any other information that is available at a reasonable cost suggests that market participants would use different information.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

Transfers in the fair value hierarchy

During 2016 and 2015 financial years, no reclassifications have been made between Level 1 and Level 2.

During 2016 no financial assets or liabilities have been transfered into Level 3. Due to changes in input data used in the valuation, derivatives and embedded derivatives separated from issued bonds have been transferred from Level 3 to Level 2. The transfers are presented using fair values of 31 December 2015.

	Derivative assets	Derivative liabilities	
2016 (EUR 1,000)	Held-for-trading	Held-for-trading	Total
1 Jan 2016	**121,720**	**–121,720**	**0**
Change in fair value in the income statement	–13,078	13,078	0
Purchases	18,843	–18,843	0
Sales	–32,510	32,510	0
Transfers into level 3	-	-	-
Transfers out of level 3	–27,521	27,521	0
31 Dec 2016	**67,454**	**–67,454**	**0**

In the 2015 financial statements 117 derivatives, which hedge issued bonds, were transfered from level 2 to 3 based on the use of input data, which is not directly observable from the markets.

	Derivative assets	Derivative liabilities	
2015 (EUR 1,000)	Held-for-trading	Held-for-trading	Total
1 Jan 2015			
Change in fair value in the income statement	-	-	-
Purchases	-	-	-
Sales	-	-	-
Transfers into level 3	121,720	–121,720	0
Transfers out of level 3	-	-	-
31 Dec 2015	**121,720**	**–121,720**	**0**

The transfer from level 2 to 3 was performed based on fair values on 31 Dec 2015. All transfered derivatives hedge funding, in which the company has identified an embedded derivative. The value transfered into level 3 includes the fair value of the derivative and the value of the bifurcated embedded derivative.

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2015 and 2016 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 47.2 million (2015: EUR 46 million) and the fair value of the embedded derivative of the debt instrument decreases by EUR 47.2 million (2015: EUR 46 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 33.8 million (2015: EUR 38 million) and the fair value of the embedded derivative of the debt instrument increases by EUR 33.8 million (2015: EUR 38 million) .

Note 23. Equity

31 Dec 2016 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2016	43,008	277	11,354	40,743	54,688	150,070
+ increase	-	-	8,165	-	6,808	14,973
– decrease	-	-	-	-	-	-
Book value 31 Dec 2016	**43,008**	**277**	**19,519**	**40,743**	**61,496**	**165,043**

31 Dec 2015 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2015	43,008	277	30,914	40,743	53,158	168,100
+ increase	-	-	-	-	1,530	1,530
– decrease	-	-	−19,560	-	-	−19,560
Book value 31 Dec 2015	**43,008**	**277**	**11,354**	**40,743**	**54,688**	**150,070**

Note 24. 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 2016, 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 which is divided to A shares (26,331,646) and B shares (12,732,152).

Note 25. Largest shareholders

The ten largest shareholders in terms of voting rights and the number of shares held by them, 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 2016	No. Of shares	Per cent
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	903,125	2.31%
8. City of Turku	615,681	1.58%
9. City of Kuopio	573,350	1.47%
10. City of Lahti	537,926	1.38%

The total number of shareholders is 278 (2015: 281).

The number of shares in the table does not include possible shares held by shareholders' group companies.

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.

Note 26. Interest income and expense

31 Dec 2016 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	40	−9,838	−9,798
Loans and advances to the public and public sector entities	210,737	-	210,737
Debt securities	9,586	−1,092	8,494
Derivatives in hedge accounting	−99,302	-	−99,302
Derivatives held-for-trading	50,131	−28,411	21,719
Other interest income	1,046	0	1,046
Interest on assets	**172,238**	**−39,341**	**132,897**
Liabilities			
Liabilities to credit institutions	5,935	−56,571	−50,636
Liabilities to the public and public sector entities	-	−18,185	−18,185
Debt securities issued	33	−442,773	−442,739
Derivatives in hedge accounting	-	583,243	583,243
Subordinated liabilities	-	−16,833	−16,833
Other interest expense	-	−188	−188
Interest on liabilities	**5,968**	**48,693**	**54,661**
Total	**178,206**	**9,352**	**187,558**

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 articles 99 ja 104 negative interest income on assets is presented in interest expenses and negative interest expense on liabilities as interest income. To allow comparability between 2016 and 2015, the interest income and expense note for 2015 has been restated following the same principle.

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Interest income on liabilities to credit institutions consists of interest received on collaterals. Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

31 Dec 2015 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	123	−3,479	−3,356
Loans and advances to the public and public sector entities	232,722	-	232,722
Debt securities	82,970	−316	82,654
Derivatives in hedge accounting	−153,466	−19	−153,485
Derivatives held-for-trading	28,719	−25,855	2,864
Other interest income	1,393	-	1,393
Interest on assets	**192,461**	**−29,669**	**162,792**
Liabilities			
Liabilities to credit institutions	904	−47,170	−46,265
Liabilities to the public and public sector entities	-	−20,276	−20,276
Debt securities issued	254	−652,927	−652,673
Derivatives in hedge accounting	-	728,323	728,323
Subordinated liabilities	-	−5,606	−5,606
Other interest expense	-	−322	−322
Interest on liabilities	**1,158**	**2,022**	**3,180**
Total	**193,619**	**−27,647**	**165,972**

Note 27. Net income from leasing operations

(EUR 1,000)	2016	2015
Leasing income	27,239	24,000
Depreciation on leased assets according to plan	−24,945	−21,951
Capital gains and losses on leased assets	3	190
Total	**2,297**	**2,239**

Note 28. Income from equity investments

(1 000 €)	2016	2015
Dividend income from group companies	63	129
Total	**63**	**129**

Note 29. Commission income and expense

Commission income (EUR 1,000)	2016	2015
From other operations	601	2,847
Total	**601**	**2,847**

Commission expense (EUR 1,000)	2016	2015
Commission fees paid	202	180
Other	3,822	3,593
Total	**4,023**	**3,773**

Item Other includes paid guarantee fees, custody fees and funding programme update costs.

Note 30. Net income from securities and foreign exchange transactions

2016 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	−13	858	845
Items valued with the fair value option	−2,293	−711	−3,004
Total net income from securities transactions	**−2,306**	**147**	**−2,159**
Net income from foreign exchange transactions	−16	415	400
Total	**−2,322**	**562**	**−1,759**

2015 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	361	5,319	5,680
Items valued with the fair value option	−1,006	−8,571	−9,577
Total net income from securities transactions	**−645**	**−3,252**	**−3,897**
Net income from foreign exchange transactions	−29	62	33
Total	**−674**	**−3,190**	**−3,865**

Note 31. Net income from available-for-sale financial assets

(EUR 1,000)	2016	2015
Income from shares in investment funds	94	206
Disposal of financial assets	−661	−432
Transfers from the fair value reserve	99	6,562
Total	**−468**	**6,336**

Note 32. Net income from hedge accounting

(EUR 1,000)	2016	2015
Net income from hedging instruments	247,588	−287,833
Net income from hedged items	−245,001	288,416
Total	**2,587**	**583**

Note 33. Other operating income

(EUR 1,000)	2016	2015
Other income from credit institution operations	185	59
Total	**185**	**59**

Note 34. Other operating expenses

(EUR 1,000)	2016	2015
Expenses to authorities		
Contributions to the resolution fund	2,613	1,053
Other administrative and supervisory fees	1,212	810
Rental expenses	1,865	1,860
Other expenses from credit institution operations	4,432	2,469
Total	**10,122**	**6,192**

Note 35. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

Note 36. Impairment losses on other financial assets

MuniFin has not made any impairment losses or reversed impairment losses in 2016 or 2015.

Note 37. Information on business areas and geographical market

Municipality Finance Plc's operating segment is credit institution operations and the market for lending is Finland.

Notes on collateral and contingent liabilities

Note 38. Collateral given

Pledges for own debt (EUR 1,000)	31 Dec 2016	31 Dec 2015
Liabilities to credit institutions	5,362,317	4,893,270
Liabilities to the public and public sector entities	872,919	954,026
Debt securities issued	24,584,169	24,804,490
Total	**30,819,405**	**30,651,787**

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

Liabilities and collateral (EUR 1,000)	31 Dec 2016	31 Dec 2015
Loans pledged to the central bank	2,284,380	2,456,918
Loans pledged to the Municipal Guarantee Board	18,364,852	17,385,787
Debt securities pledged to the Municipal Guarantee Board	-	5,455,469
Total	**20,649,231**	**25,298,174**

Pledged assets:

1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) Municipality Finance has pledged amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

3) Based on decision by the Municipal Guarantee Board in March 2016 Municipality Finance is no longer required to pledge its liquidity portfolio debt securities to the Municipal Guarantee Board. Liquidity portfolio debt securities were pledged to the Municipal Guarantee Board at the end of year 2015.

Note 39. Pension liabilities

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

Note 40. Leasing and other rental liabilities

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Maturing within one year	1,425	1,134
Maturing in one to five years	2,205	2,759
Maturing in more than five years	-	-
Total	**3,630**	**3,893**

Note 41. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Binding loan commitments	1,883,319	1,336,880
Total	**1,883,319**	**1,336,880**

Notes on personnel and management

Note 42. Personnel

	2016		2015	
	Average	End of year	Average	End of year
Permanent full-time	82	84	75	78
Permanent part-time	2	2	3	2
Fixed term	5	4	3	3
Total	**89**	**90**	**81**	**83**

Employee benefits for management
Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Executive Management Team subject to withholding tax:

Salaries and remuneration (EUR 1,000)	2016	2015
President and CEO	489	489
Deputy to the CEO	388	387
Other members of the Executive Management Team (Total)	1,043	1,019
Total	**1,920**	**1,895**

Remuneration of the Board of Directors
The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General 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.

Salaries and remuneration (EUR 1,000) Members of the Board of Directors	2016	2015
Eva Liljeblom, Chairman until 22 March 2016	24	41
Helena Walldén, Chairman 22 March 2016 onwards	22	-
Tapani Hellstén, Vice Chairman	23	25
Fredrik Forssell	27	22
Teppo Koivisto	26	22
Sirpa Louhevirta	25	21
Vivi Marttila, member 22 March 2016 onwards	13	-
Tuula Saxholm	26	21
Asta Tolonen, member until 22 March 2016	12	22
Juha Yli-Rajala	26	23
Total	**221**	**197**

Related party transactions

Note 43. 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.

Holdings in other companies

Note 44. Holdings in other companies

	2016		2015	
(EUR 1,000)	Proportion of all shares (%)	Book value	Proportion of all shares (%)	Book value
Subsidiaries				
Financial Advisory Services Inspira Ltd	64.4	112	64.4	112
Total	**64.4**	**112**	**64.4**	**112**

Other notes

Note 45. Audit and other fees paid to the audit firm

(EUR 1,000)	2016	2015
Audit	222	268
Tax advisory services	17	14
Other services	252	243
Total	**491**	**525**

Pillar III disclosures

Notes 46-49 disclose a summary of information on the capital adequacy of Municipality Finance Plc as specified in the EU Capital Requirements Regulation (EU No 575/2013) (CRR). Complete Pillar III disclosures can be found in Municipality Finance Group's financial statements.

Note 46. Own funds

(EUR 1,000)	31 Dec 2016	31 Dec 2015
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	61,496	54,688
Fair value reserve, transitional provision	19,519	11,354
Other reserves	662,099	542,548
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**826,865**	**692,341**
Intangible assets	−6,881	−5,965
Deductions due to prudential filters on Common Equity Tier 1	−43,985	−432
Common Equity Tier 1 (CET1) capital	**776,000**	**685,945**
Instruments included in Additional Tier 1 capital	347,426	346,935
Additional Tier 1 (AT1) capital	**347,426**	**346,935**
Tier 1 (T1) capital	**1,123,426**	**1,032,879**
Debenture loans	-	35,000
Tier 2 (T2) capital	**-**	**35,000**
Total own funds	**1,123,426**	**1,067,879**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015 - 31 December 2017). Common Equity Tier 1 capital includes the net profit for the year 2016. The result for the period has been subject to a review by the auditors, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA) and other value adjustments (AVA).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1st 2015.

At the end of 2015, Tier 2 capital included a EUR 35 million debenture loan. Municipality Finance applied for permission from European Central Bank to repay the debenture loan. The ECB granted permission on July 18th 2016, and Municipality Finance repaid the debenture loan at the time of interest payment on August 9th 2016.

The terms of Tier 1 instruments are explained in note 17.

Note 47. Key figures for capital adequacy

Key figures for capital adequacy	31 Dec 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	46.35	41.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	67.11	62.58
Ratio of total own funds to risk-weighted assets, %	67.11	64.70

Note 48. Minimum requirement for own funds

The capital requirement for credit risk is calculated using the standard method. In calculating the capital requirements for market risk, only foreign exhange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic indicator approach.

	31 Dec 2016		31 Dec 2015	
(EUR 1,000)	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**107,749**	**1,346,863**	**107,416**	**1,342,696**
Exposures to central governments or central banks	778	9,725	-	-
Exposures to regional governments or local authorities	379	4,735	368	4,598
Exposures to multilateral development banks	965	12,068	1,367	17,089
Exposures to institutions	79,933	999,157	69,637	870,462
Exposures to public sector entities	4,275	53,435	3,320	41,501
Exposures in the form of covered bonds	20,303	253,793	16,283	203,542
Items representing securitisation positions	423	5,284	15,743	196,792
Exposures in the form of shares in CIUs	107	1,331	108	1,354
Other items	587	7,334	589	7,356
Market risk	**794**	**9,930**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,304**	**16,299**	**1,009**	**12,613**
Operational risk, basic indicator approach	**24,083**	**301,035**	**23,569**	**294,618**
Total	**133,930**	**1,674,128**	**132,042**	**1,650,520**

The capital requirement for counterparty risk is EUR 4,826 thousand (2015: EUR 3,001 thousand).

Note 49. Exposure by class

Exposure classes 31 Dec 2016 (EUR 1,000)	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	1,564,884	-	-	1,564,884	9,725
Exposures to regional governments or local authorities	10,126,880	716,850	223,150	11,066,880	4,735
Exposures to international organisations	133,691	-	-	133,691	0
Exposures to multilateral development banks	256,452	-	-	256,452	12,068
Exposures to institutions	3,670,300	-	741,487	4,411,787	999,157
Exposures to public sector entities	267,177	-	-	267,177	53,435
Exposures to corporates	4,832,744	337,577	-	5,170,321	0
Exposures secured by mortgages on immovable property	7,208,747	828,892	-	8,037,639	0
Exposures in the form of covered bonds	2,055,196	-	-	2,055,196	253,793
Items representing securitisation positions	26,419	-	-	26,419	5,284
Exposures in the form of shares in CIUs	9,668	-	-	9,668	1,331
Other items	92,046	-	-	92,046	7,334
Total	**30,244,204**	**1,883,319**	**964,637**	**33,092,159**	**1,346,863**

Exposure classes 31 Dec 2015 (EUR 1,000)	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	2,268,410	-	-	2,268,410	-
Exposures to regional governments or local authorities	10,198,342	156,156	141,441	10,495,939	4,598
Exposures to international organisations	195,593	-	-	195,593	-
Exposures to multilateral development banks	310,064	-	-	310,064	17,089
Exposures to institutions	3,465,746	-	937,401	4,403,147	870,462
Exposures to public sector entities	207,504	-	-	207,504	41,501
Exposures to corporates	4,465,042	331,705	-	4,796,747	-
Exposures secured by mortgages on immovable property	6,727,614	849,019	-	7,576,633	-
Exposures in the form of covered bonds	1,806,712	-	-	1,806,712	203,542
Items representing securitisation positions	61,458	-	-	61,458	196,792
Exposures in the form of shares in CIUs	9,592	-	-	9,592	1,354
Other items	98,404	-	-	98,404	7,356
Total	**29,814,482**	**1,336,880**	**1,078,843**	**32,230,205**	**1,342,696**

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 10 February 2017

MUNICIPALITY FINANCE PLC

Helena Walldén
Chairman of the Board

Tapani Hellstén
Vice Chairman of the Board

Fredrik Forssell
Member of the Board

Teppo Koivisto
Member of the Board

Sirpa Louhevirta
Member of the Board

Vivi Marttila
Member of the Board

Tuula Saxholm
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, 10 February 2017
KPMG Oy Ab

Marcus Tötterman
Authorized Public Accountant

Auditor’s Report

This document is an English translation of the Finnish auditor’s report.
Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Municipality Finance Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Municipality Finance Plc (business identity code 1701683-4) for the year ended 31 December, 2016. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company’s balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group’s financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of financial assets and financial liabilities measured at fair value
(Refer to Summary of significant accounting policies and notes 4, 5, 12 and 34 to the consolidated financial statements, and notes 4, 7, 21 and 22 for the parent company's separate financial statements)

- Assessing the accuracy of valuation of financial instruments measured at fair value (below referred to as "investments") was one of our focus areas, as valuation of investments partly involves management judgement. In addition, Municipality Finance uses fair value models for valuation purposes, when quotations or prices are not directly available in an active market.
- Investments account for a substantial part of assets and liabilities in the statement of financial position, consequently their valuation was considered a key audit matter.

Our audit procedures included, among others:

- We tested key internal controls over the accuracy of investment valuation process. We also assessed valuation processes and practices used by Municipality Finance as well as valuation techniques, inputs, assumptions and procedures applied in fair value measurement.
- We tested the accuracy of investment valuations on a sample basis. We also assessed the inputs used in fair value models on a sample basis by comparing with market information at the financial year-end.
- Furthermore, we considered the appropriateness of the notes in respect of investments.

Hedge accounting
(Refer to Summary of significant accounting policies and notes 4, 5, 12 and 36 to the consolidated financial statements and notes 7 and 32 for the parent company's separate financial statements)

- Municipality Finance applies hedge accounting to reduce the accounting mismatch between financial assets and liabilities and the related derivative contracts hedging market risks of borrowing and lending activities.
- Due to the application of hedge accounting, the carrying values of those financial assets and financial liabilities to which hedge accounting is applied, include unrealized fair value change related to hedged risks.
- The hedge accounting process includes various accounting phases. Due to its significant impact on financial statements, hedge accounting was considered as key audit matter.

Our audit procedures included, among others:

- We evaluated the hedge accounting practices applied for compliance with the relevant financial reporting standards, and the adequacy of the related notes to the financial statements.
- We also assessed the functionality of accounting data processing in Municipality Finance.
- In addition, we considered the hedge effectiveness testing prepared by Municipality Finance.

IT environment and controls over financial reporting

- In Municipality Finance, the information systems related to financial reporting process and the associated controls play an essential role in data managing and processing.
- Data processing involves operational risks relating to data completeness, information security, automatic accounting rules and the functionality of manual controls.
- In the financial year 2016 Municipality Finance carried out reforms in the IT environment related to management of investment instrument. Management and processing of investment instruments in the IT environment was identified as a key audit matter.

Our procedures included, among others:

- We evaluated the integrity of data flows and the functionality of data transfers.
- We also assessed and tested key internal controls over the essential IT systems related to financial reporting.
- We inspected the functionality of automatic accounting rules and tested the effectiveness of the related internal controls.
- Furthermore, we considered matters related to general IT control environment, such as user rights, system development and procedures related to continuity management.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors on the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinion

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors, the Managing Director and the Deputy Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 10 February, 2017
KPMG OY AB

Marcus Tötterman
Authorised Public Accountant, KHT

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