



Interim Report  
**2010**



## CEO'S REVIEW

The first six months of the year have continued to be challenging for the financial sector. Political decision-makers in the euro zone were called on to take quick and decisive action to put together a rescue package for Greece. The publication of the results of the stress tests for European banks was met with speculation concerning the reliability of the tests. There are questions surrounding whether the measures taken thus far are sufficient to strengthen mutual trust among banks. The past summer has made European citizens realise the value of stable financial institutions that operate on a healthy basis.

Municipality Finance has managed to maintain profitability despite the challenging operating environment. Growth has continued at a satisfactory, controlled rate, and operating profit for the first six months of the year is EUR 31 million, compared to the full-year operating profit of EUR 34 million in 2009. Demand for lending remained at the same level compared to the previous year. The lending portfolio grew 11% during the first half of the year.

Due to excellent credit rating of Finnish State and its municipalities, Municipality Finance has been successful in acquiring funding from the international market. To some, it may even appear that the gravest challenges in the financial industry do not apply to Municipality Finance. However, the fact is that they do. The prevailing challenges will also concern Municipality Finance's customers and shareholders, Finnish municipalities and the State, if the amendments to the Capital Requirements Directive currently being drafted by the EU Commission enter into force as planned.

The amendments to the Capital Requirements Directive that are currently being prepared aim to prevent new banking crises, which is obviously a perfectly valid objective. However, the reforms to the regulation proposed by the Basel Committee on Banking Supervision and the European Commission would present serious challenges to special credit institutions such as Municipality Finance should capital adequacy requirements be tightened both qualitatively and quantitatively. It

is probable that this would force Municipality Finance to cut back on the volume of its operations, due to which the prices of loans to our customers would rise.

There are fewer than one hundred special credit institutions like Municipality Finance in Europe and the rest of the world. In the public sector operating environment, the operation of these types of special credit institutions is based on a low risk approach in all aspects of their business. The Capital Requirements Directive in its planned form does not recognise the situation of credit institutions with low risk profile such as Municipality Finance.

Regulation is obviously also needed in the future, but proposed increase of capital requirements would compromise the operating conditions of the healthiest institutions in the financial sector. If we want to ensure reasonably priced funding for municipalities, decision-makers must understand the effects of their policies before rather than after their implementation. Political decision-makers are well aware of the fact that European taxpayers expect to see tighter regulation of banks. However, the reform of rules for financial markets can not be done only based on voters', even justified, short-sighted reaction but for the decades in the future. If special credit institutions are lumped into the same category with traditional banks, this will lead to the increase of funding cost for public investments and municipalities. Whose interests would this serve?



**Pekka Averio**  
CEO



## INTERIM REPORT 2010

The Municipality Finance Group consists of Municipality Finance Plc (the parent company or Municipality Finance) and Financial Advisory Services Inspira Ltd (subsidiary or Inspira).

The role of Municipality Finance is to offer market-based funding to municipalities, municipal federations, municipality-controlled entities, and non-profit organisations by acquiring funding from capital markets at competitive costs.

Inspira offers expert financial services to the public sector. The company's services include arranging alternative forms of funding for clients' investments and their analysis. In addition, Inspira offers its services for different public sector ownership arrangements by planning them, making value assessments, and assisting in contract

negotiations. Inspira helps the public sector to arrange its services more effectively and to invest more economically.

Except where otherwise noted, the figures presented in this interim report are consolidated figures.

The financial statements of the Municipality Finance Group have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements also conform to the Act on Credit Institutions and the standards of the Finnish Financial Supervisory Authority.

This interim report observes the EU-approved standard IAS 34 Interim Financial Reporting. The comparison figures have been prepared using the same principles.

The Municipality Finance Group's balance sheet totalled EUR 19,375 million at the end of June (31 December 2009: EUR 14,577 million). The net operating profit for January-June was EUR 30.5 million (1 January - 30 June, 2009: EUR 11.4 million). The long-term loan portfolio stood at EUR 10,815 million. The loan portfolio increased by 11.0% from the end of 2009.

### Operating result

Net operating profit for January-June was higher than in the previous year. Net operating profit before taxes for the period 1 January - 30 June 2010 was EUR 30.5 million (1 January - 30 June 2009: EUR 11.4 million).

Net interest income for January-June was EUR 38.1 million (1 January - 30 June 2009: EUR 25.6 million), which includes profits of EUR 7.3 million from the repurchase of the company's own debt securities (1 January - 30 June 2009: EUR 4.0 million). The net income includes EUR 0.7 million in unrealised fair value changes (1 January - 30 June 2009: EUR -5.8 million).

The main factors contributing to increased operating profit during the first half of the year were successful funding acquisition, repurchases of the company's own bonds, successful hedging against interest risks, and balance sheet growth. The

operational result for the whole of 2010 is anticipated to be better than that for 2009.

### Lending

The Group's long-term loan portfolio at the end of June amounted to EUR 10,815 million (31 December 2009: EUR 9,741 million). The loan portfolio increased by 11.0% from the end of 2009 and 23.3% from the end of June 2009.

Long-term loans amounting to EUR 1,410 million were issued in January-June (1 January - 30 June 2009: EUR 1,450 million). At the end of June, there were also accepted offers amounting to approximately EUR 1,142 million (30 June 2009: EUR 1,219 million).

Demand for lending has been at a high level during the first six months of the year. Municipal investments and the resulting need for financing in the municipal sector have remained at a similar level compared to the same period last year.

The number of requests for proposals from municipally owned corporations decreased compared to the first half of 2009.

While activity in state-subsidised housing has fallen somewhat from the record levels seen in 2009, it remains above the long-term average. Non-subsidised housing production has slowly picked up speed and taken over market share from

state-subsidised production. The decline in the relative share represented by financing for housing production can also be attributed to decreased home loan conversions compared to the previous year.

Municipality Finance's market share has remained at a high level. The competitive situation in lending has yet to return to the level preceding the financial crisis. Competitors have primarily focused on the largest competitive bids on the markets. It is not expected that the competitive situation will change significantly in the short term due to the debt levels of European states and the prevailing uncertainty in the financial sector caused by upcoming new banking regulations. Competition has been the most intense in derivative products offered to municipalities. With interest rates remaining at historically low levels, our clients have shown a new interest in taking advantage of the circumstances.

In the early part of the year, the company began financial leasing operations to expand its product range. The aim is to bring more alternatives and transparency to the leasing market. The recruitment and systems purchases required for launching leasing operations have already been concluded. Municipality Finance has signed its first leasing contracts and expects the operations to grow during the second half of the year.

## Funding

The company's funding acquisition takes place on several capital markets mainly within the framework of the following debt programmes:

EMTN	EUR 20,000 million
Domestic debt programme	EUR 800 million
Treasury Bill programme	EUR 2,000 million
Australian debt programme	AUD 1,000 million

The company acquired EUR 3,155 million in long-term funding during January-June (1 January – 30 June 2009: EUR 3,937 million). A total of EUR 668 million was issued in short-term debt instruments under the Treasury Bill programme in January-June (1 January – 30 June 2009: EUR 1,060 million). Total funding at the end of June amounted to EUR 16,438 million (31 December 2009: EUR 13,136 million). Of that amount, 20% was denominated in euros and 80% in other currencies.

Five Municipal Bonds have been issued during the present year.

The year 2010 has been characterised by continued unrest on the markets. The surprisingly grave public sector imbalance in Greece has led to a lack of confidence in Mediterranean economies. This has kept euro markets very quiet and the emphasis on emissions by large issuers has been on USD-denominated transactions. Nordic economies have maintained good credit ratings and untarnished reputations through the financial crisis, which has further increased interest among investors in bonds issued by Municipality Finance. Finland and the Finnish public sector have a very strong reputation on the financial markets despite the challenges facing our economy.

A very significant portion of Municipality Finance's funding is sourced from international capital markets. The most

active among these are still the Asian markets, Taiwan and Japan in particular, as well as Switzerland and, in the euro zone, Germany. After a slower period, the Nordic countries are also beginning to show renewed interest in the company's bonds. Active cooperation with investors has boosted awareness of the company on various markets and increasing use of diversified sources of funding has proved to be a successful strategy on unstable markets. Despite the prevailing challenges, the company has managed to keep the costs of funding acquisition at a competitive level.

## Investment

Municipality Finance invests advance funding in liquid financial instruments with good credit ratings to ensure the continuation of business operations in all market situations. Under the company's liquidity policy, the size of the investment portfolio must enable it to continue its operations uninterrupted for a minimum of six months.

At the end of June, investments totalled EUR 3,887 million (31 December 2009: EUR 3,785 million) and the average credit rating of all investments was AA+.

Liquidity continues to be excellent as a result of adequate funding acquisition. The main emphasis in the company's new investments has been on bonds with a maturity of a few years issued by banks and on banks' certificates of deposit with a maturity of less than one year.

## Inspira

Inspira's turnover grew positively during the first half of the year. Inspira's turnover in January-June was EUR 0.9 million (1 January – 30 June 2009: EUR 0.8 million).

Turnover comprised a wide range of assignments related to various new investment funding arrangements in the public sector and, in the local government sector, to internal ownership arrangements.

Inspira participated in several competitive bids for financial advisory services and it works as an advisor for several clients' investments projects. Demand for financial advisory services has increased especially in the field of investment financing. The State and local governments are increasingly interested in new models of investment implementation. During the first six months of the year 2010 Inspira has won several competitive biddings concerning financial advisory services related to investment implementation projects. Number of Inspira's personnel has increased with two during the first half of the year and at the end of June the number of personnel was eight.

## Capital management

Municipality Finance's capital adequacy objectives relating to the company's risk taking and operating environment are defined in connection with annual planning. The planning horizon is three years. The Board of Directors approves the capital adequacy plan and monitors it. Municipality Finance revised and updated its capital management plan in December 2009.

### Own funds and capital adequacy

Municipality Finance's capital adequacy ratio on 30 June 2010 stood at 15.56% (30 June 2009: 16.29 %) and Tier 1 capital adequacy ratio was 10,54 %. As the operating result for the period in question (after tax EUR 22,6 million) is unaudited, it is not included in own funds in calculation. The provision for dividend distribution (EUR 9,0 million) corresponding to the projected result is taken into account in the calculation. If the unaudited profit for the interim period 1 January - 30 June 2010 had been taken into account, the capital adequacy

ratio of the the company would have been 17.32%. The share capital on 30 June 2010 totalled EUR 42.6 million and own funds came to EUR 199.9 million. The capital requirement relating to credit risk is calculated using the standard method and that relating to operational risk is calculated using the basic method. As the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in these capital adequacy calculations for market risk.

The company has not had any non-performing assets or credit losses during its operations.

Own funds and capital adequacy		
Group, EUR 1,000	Jun 30, 2010	Jun 30, 2009
<b>Own funds</b>		
Share capital	42,583	42,583
Minority interest	122	55
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	33,052
Retained profit	51,540	36,551
Planned dividend distribution (estimate)	-9,024	-3,552
Capital loans	11,009	11,177
Intangible assets	-1,393	-679
<b>Total primary own funds</b>	<b>135,480</b>	<b>119,464</b>
Fair value reserve	-10,531	-31,835
Subordinated liabilities, included in upper secondary own funds	40,000	40,000
Subordinated liabilities, included in lower secondary own funds	35,000	35,000
<b>Total secondary own funds</b>	<b>64,469</b>	<b>43,165</b>
<b>Total own funds</b>	<b>199,949</b>	<b>162,629</b>
<b>Risk-weighted receivables</b>		
<b>Credit risk, standard method</b>	<b>1,224,680</b>	<b>959,634</b>
<b>Minimum requirement for own funds</b>		
Credit risk, standard method	97,974	76,771
Market risk	0	0
Operational risk, basic method	4,821	3,103
<b>Total minimum requirement for own funds</b>	<b>102,795</b>	<b>79,874</b>
<b>Capital adequacy ratio, %</b>	<b>15.56</b>	<b>16.29</b>
<b>Capital adequacy ratio, primary own funds, %</b>	<b>10.54</b>	<b>11.97</b>

As the operating result for the period in question (EUR 22,561 thousand) is unaudited, it is not included in own funds in the calculation above. The provision for dividend distribution (EUR 9,024 thousand) corresponding to the projected result is taken into account in the calculation.

$$\text{Capital adequacy ratio \%} = \frac{\text{Total own funds and capital adequacy}}{\text{Total minimum requirement for own funds}} * 8$$

Key indicators for Municipality Finance Group			
	Jun 30, 2010	Jun 30, 2009	Dec 31, 2009
Turnover, EUR million	92.2	175.8	285.3
Net operating profit, EUR million	30.5	11.4	33.7
% of turnover	33.07%	6.49%	11.82%
Balance sheet total, EUR million	19,374.7	13,912.8	14,557.5
Return on equity (ROE), %	32.33%	24.66%	27.84%
Return on assets (ROA), %	0.45%	0.13%	0.31%
Cost-to-income ratio	0.22	0.38	0.31

Turnover is the total of interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income. Profit before appropriations and taxes is derived directly from the income statement.

Return on assets (ROA) is calculated as follows:

$$\frac{\text{net operating profit - taxes}}{\text{balance sheet total (average of year beginning and year end)}} \times 100$$

Return on equity (ROE) is calculated as follows:

$$\frac{\text{net operating profit - taxes}}{\text{equity and minority interest (average of year beginning and year end)}} \times 100$$

Cost-to-income ratio:

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

## Risk management

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

The general principles, limits and benchmarks for Municipality Finance's risk management are decided by the Board of Directors. The purpose of risk management is to make sure that the risks associated with lending, funding acquisition, investment, and other business operations remain within the company's established risk profile.

The Investments unit is responsible for the use of counterparty limits in the company's investment operations. The Treasury unit is in charge of the practical implementation of market and financial risk management. The Risk Control unit is responsible for the supervision of investment operations and counterparty and market risks, and reports on them. Risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance performs risk analyses on different risk areas at regular intervals with the aim of identifying any changes that have taken place after the previous charting and new risks, as well as of prioritising risks and their management on the basis of the analysis results.

### • Strategic risks

Strategic risk means that the company chose the wrong strategy for running financially profitable operations or the company failed to adjust the selected strategy to changes in the operating environment.

The Group's strategic risk management is based on continuous monitoring and analyses of clients' needs, forecasts on market trends, and changes in the competitive situation and operating environment. Risks and their importance are assessed annually when the operating plan is drawn up. The Group's existing strategy extends until 2015.

### • Credit risk

Credit risk means the risk of a counterparty defaulting on its commitment to the company.

Municipality Finance may only grant loans without a separate security directly to a municipality or municipal federation. For other loans, only an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee serve as security. Because such security is required to reduce the credit risk, all granted loans are classified as zero-risk in calculating capital adequacy. Municipality Finance has not had any non-performing assets or credit losses during its operations.

Municipality Finance carries credit risk from investment instruments and derivative contracts. In the assessment of credit

risks, principles and limits that are based on external credit ratings and have been approved by the company's Board of Directors are applied to the selection of counterparties. Nominal values of debt certificates and market values of derivatives (fair value method) are used for monitoring credit risk.

The exceptional circumstances in international financing markets in 2007–2009 have increased counterparty credit risk. The financial crisis has resulted in a larger yield difference between debt securities and the risk-free interest rate, which has led to a decrease in market prices. Market prices were at their lowest in March 2009, after which the gradual normalisation of the market conditions has led to a marked improvement in the market values of debt securities. At the same time, liquidity on the markets has improved.

On June 30 2010 EUR 9 million of Municipality Finance's pre-funding was invested in the instruments of two banks, Hypo Real Estate Holding Ag and Caixa Destalvis de Catalunya, which did not pass the stress test of the Committee of European Banking Supervisors (CEBS). The investments mature on 6 October 2010 (EUR 5 million) and 12 October 2011 (EUR 4 million). According to the company's current opinion these investments do not include a risk of credit losses.

The fair value method is used to measure credit risk for each derivatives counterparty, taking netting into account. Municipality Finance limits credit risk by concluding credit support agreements (ISDA/Credit Support Annexes) with the most significant derivative counterparties. The company has 38 Credit Support annexes in force. Additionally, the Municipal Guarantee Board's (MGB) guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

### • Market risk

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

For hedging against interest rate risk, Municipality Finance uses derivative contracts to change the fixed-rate cash flows from lending and funding into floating-rate cash flows. At present, 47% of lending and 91% of funding fall within the scope of fair value hedge accounting.

80% of the funding acquired by the company is denominated in foreign currencies. The company hedges against currency risk by translating all foreign-currency funding into euro with derivative contracts.

Derivative contracts are also used for hedging against other price risks. Derivatives may only be used for hedging purposes.

The Board of Directors of the company has set the following limits on market risks:

- currency position risk
- interest rate risk based on duration
- Value-at-Risk

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

### • Financial risk

Financial risk means the risk of the company not being able to perform on the due date its payment obligations arising from the implementation of funding agreements or other funding activities.

Loans that may be called in prematurely have been entered in the table in the maturity class corresponding to the first possible date of calling in. The company expects to call in 25–35% of its loans in 2010. In the first half of 2010, the company called in 26.7% of its loans.

The Board of Directors of Municipality Finance has set the following limits on financing risks:

- refinancing risk/sustainability of financing
- refinancing gap
- minimum and maximum amounts of liquid assets
- sufficiency of liquid assets measured as a minimum time

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

### • Market liquidity risk

Market liquidity risk means the risk of the company not being able to sell or cover its position at market price because the market does not have sufficient liquidity or the market is not functioning because of a disruption.

The company monitors the liquidity of markets and products on a continuous basis. Additionally, the established market standards are adhered to when concluding derivative contracts.

The market values of most debt securities measured at fair value are calculated on the basis of price quotations received from the markets. The market values of some debt certificates are calculated using other market data.

Valuation methods applied to debt securities recognised in the fair value fund

Debt securities quoted on market	97,0 %
Debt securities calculated based on other market data	3,0 %
New issues of banks guaranteed by issuer's state of domicile	0,9 %
Yield curve based on credit rating (calculation of cash flows)	2,1 %

### • Operational risk

Operational risk means the risk of loss due to insufficient or failed internal processes, personnel, systems, or external factors.

Municipality Finance has managed operational risk by separating the trading, risk management, risk monitoring, back office, documentation, and bookkeeping duties and by creating a substitute organisation. Municipality Finance has numerous internal policies and operational guidelines that are

revised and updated on a regular basis and compliance with them is monitored. Key duties and processes have been charted and described. The descriptions are revised and updated on a regular basis. Employees' professional skills are maintained and improved by drafting a training plan in conjunction with annual appraisals.

Municipality Finance maintains adequate insurance cover and the level of insurance cover is reviewed on a regular basis.

Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help the company continue functioning and limit its losses in different disruptive scenarios.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to.

The realisation of operational risks is monitored with systematic damage reporting, which is used to update processes where necessary. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No material losses were incurred as a result of operational risks in the first half of 2010.

### Internal audit

Internal audit is carried out by Deloitte & Touche. The tasks of internal auditing include monitoring the reliability and authenticity of Municipality Finance's financial and other management information. Its task is also to ensure that the company has sufficient and adequately arranged manual and IT systems for operations and that the risks related to operations are sufficiently managed. The internal audit reports to the Audit Committee and the Board of Directors.

### Corporate Governance

The Board of Directors of Municipality Finance has confirmed the company's Corporate Governance Policy. The Policy has been prepared in compliance, where applicable, with the Corporate Governance Code of the Finnish Securities Market Association. The Finnish Corporate Governance Code applies to listed share issuers and does not therefore concern Municipality Finance directly, as it issues bonds. Municipality Finance's shares are not subject to public trading and can only be owned by the parties mentioned in the Articles of Association. Nevertheless, as an issuer of bonds and an active party on the international capital markets, the company wanted to draft its Corporate Governance Policy on the basis of the recommendation issued to listed companies. The Board of Directors is responsible for making sure that the company complies with the Corporate Governance Policy and is committed to developing it further in line with effective legislation and market practices.

The Corporate Governance Policy is available online on the company's website ([www.munifin.fi](http://www.munifin.fi)).



### Credit ratings

The best possible credit ratings have been confirmed for Municipality Finance Plc:

	Long-term funding	Short-term funding	Outlook
Moody's Investors Service	Aaa	P1	stable
Standard & Poor's	AAA	A-1+	stable

### Future prospects

Demand for Municipality Finance's lending in the second half of the year is expected to remain high, albeit at a slightly lower level than in the same period last year. The need for financing in the municipal sector is anticipated to be close to 2009 levels. Due to increased non-subsidised housing production, lending for state-subsidised housing financing is expected to be lower than last year. No significant changes are expected in the competitive situation during the second half of the year.

Municipality Finance's newly launched leasing operations have been very well received. Leasing operations are expected to strengthen its position among the company's service selection.

Due to its excellent credit rating and strong position on the funding acquisition markets, as well as the reputation of reliability enjoyed by the Finnish public sector, the company foresees no problems in terms of the availability of funding in the second half of the year.

Inspira's turnover is anticipated to develop as budgeted by the end of the year and to meet the turnover of EUR 1.7 million in 2010.

The operational result for the whole of 2010 is anticipated to be better than that for 2009.

### Annual General Meeting

Municipality Finance Plc's Annual General Meeting held on 23 March 2010 approved the proposal of the Board of Directors for the distribution of a dividend of EUR 0.25 per share for 2009, total EUR 9,8 million. The dividend was paid on 25 March 2010. The term of the Board of Directors is two years and the current Board of Directors was elected on the Annual General Meeting held on spring 2009. Thus, the current Board of Directors continues working until the end of the Annual General Meeting of 2011. The Annual General Meeting held on 23 March 2010 resolved to establish a Nomination Committee of the owners. The purpose of the committee is to prepare a proposal to the Annual General Meeting of 2011 concerning number of Board Members, term of the Board of Directors, members of the Board of Directors and the remuneration to the Board of Directors.

### Municipality Finance's personnel and management

The number of personnel at Municipality Finance is 61. There are 53 members of staff in the parent company.

In accordance with the Articles of Association, the Board of Directors of the parent company has eleven members. The Board of Directors (primary position outside the company given in brackets):

- Markku Pohjola, Chairman (M.Sc. Economics, Helsinki)
- Sisko Seppä, Vice Chairman (Secretary General, Social Democratic Parliamentary Group)
- Pekka Alanen (Director, Local Government Pensions Institution)
- Tapio Korhonen (Finance Director, City of Helsinki)
- Eva Liljebloom (Professor, Hanken School of Economics, Helsinki) (since 1 August 2010 Rector, Hanken School of Economics)
- Liisa Linna-Angelvuori (Ministerial Counsellor, Ministry of the Environment)
- Hannes Manninen (Member of Parliament)
- Mikko Pukkinen (Mayor, City of Turku) (since 1 September 2010 Director General, Confederation of Finnish Industries)
- Antti Rantakangas (Member of Parliament)
- Hanna Tainio (Medical Advisor, Pirkanmaa Hospital District)
- Pekka Timonen (Head of Department, Prime Minister's Office)

Eva Liljebloom (Chairman), Pekka Alanen, and Tapio Korhonen continue as members of the Audit Committee.

Markku Pohjola (Chairman), Sisko Seppä, and Pekka Timonen continue as members of the Remuneration Committee.

The composition and work of the Board of Directors and its committees is described in more detail in the company's Corporate Governance Policy ([www.munifin.fi](http://www.munifin.fi)).

The parent company's Board of Management is comprised of:

- Pekka Averio, CEO
- Esa Kallio, Deputy to the CEO, Executive Vice President
- Toni Heikkilä, Senior Vice President
- Marjo Tomminen, Senior Vice President
- Jarkko Vuorenmaa, Senior Vice President

The parent company's auditor is KPMG Oy Ab with Authorised Public Accountant Raija-Leena Hankonen as the accountable auditor.

The CEO of Inspira is Kimmo Lehto. Inspira's personnel numbers 8.

The Board of Directors of Inspira (primary position outside the company given in brackets):

- Pekka Averio, Chairman (CEO, Municipality Finance Plc)
- Marjo Tomminen (Senior Vice President, Municipality Finance Plc)
- Kimmo Lehto

Inspira's auditor is KPMG Oy Ab with Authorised Public Accountant Riitta Pyykkö as the accountable auditor.

Helsinki, 26 August 2010

Municipality Finance PLC

Board of Directors

#### Further information:

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## Municipality Finance Group

**CONSOLIDATED BALANCE SHEET**

	Jun 30, 2010	Dec 31, 2009
<b>ASSETS</b>		
Liquid assets	34,643,329.82	40,484,136.91
Loans and advances to credit institutions	290,969,691.61	87,321,308.95
Loans and advances to the public and public sector entities	10,814,956,139.64	9,740,501,908.40
Debt securities	5,249,814,238.35	3,785,444,184.48
Shares and participations	27,219.06	27,219.06
Derivative contracts	2,805,537,738.41	730,326,574.15
Intangible assets	1,393,057.94	708,268.31
Tangible assets	1,473,790.37	1,318,607.71
Other assets	172,069.61	273,049.02
Accrued income and prepayments	172,025,844.39	166,624,356.00
Deferred tax assets	3,699,985.00	4,461,452.00
<b>TOTAL ASSETS</b>	<b>19,374,713,104.20</b>	<b>14,557,491,064.99</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Liabilities to credit institutions	2,692,990,421.06	1,033,350,139.54
Liabilities to the public and public sector entities	980,243,932.62	838,910,546.43
Debt securities issued	14,127,655,881.73	11,345,526,182.36
Derivative contracts	961,407,399.07	750,276,986.49
Other liabilities	1,159,101.96	976,737.77
Accrued expenses and deferred income	348,826,435.44	350,074,640.59
Subordinated liabilities	89,833,419.33	88,576,876.32
Deferred tax liabilities	25,695,157.20	17,786,600.00
<b>TOTAL LIABILITIES</b>	<b>19,227,811,748.41</b>	<b>14,425,478,709.50</b>
<b>EQUITY</b>		
Share capital	42,583,195.49	42,583,195.49
Reserve fund	276,711.01	276,711.01
Fair value reserve	-10,530,727.18	-12,697,980.60
Reserve for invested non-restricted equity	40,366,099.60	40,366,099.60
Retained earnings	74,082,558.25	61,305,710.65
<b>Total equity attributable to equity holders</b>	<b>146,777,837.17</b>	<b>131,833,736.15</b>
<b>Minority interest</b>	<b>123,518.62</b>	<b>178,619.34</b>
<b>TOTAL EQUITY</b>	<b>146,901,355.79</b>	<b>132,012,355.49</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,374,713,104.20</b>	<b>14,557,491,064.99</b>

## Municipality Finance Group

## CONSOLIDATED INCOME STATEMENT

	1 Jan - 30 Jun, 2010	1 Jan - 30 Jun, 2009
Interest income	90,460,190.91	182,945,673.88
Interest expense	-52,352,726.28	-157,327,052.83
<b>NET INTEREST INCOME</b>	<b>38,107,464.63</b>	<b>25,618,621.05</b>
Commission income	875,447.81	707,969.90
Commission expense	-1,115,877.82	-1,124,157.13
Net income from securities and foreign exchange transactions	-2,116,968.45	103,795.79
Net income from available-for-sale financial assets	308,785.46	-2,065,444.18
Net income from hedge accounting	2,645,541.98	-5,914,273.01
Other operating income	28,471.50	54,850.52
Administrative expenses	-5,022,177.35	-3,992,810.66
Depreciation and impairment on tangible and intangible assets	-267,053.91	-205,540.71
Other operating expenses	-2,155,586.01	-1,779,163.20
Impairment losses on other financial assets	-800,000.00	0.00
<b>NET OPERATING PROFIT</b>	<b>30,488,047.84</b>	<b>11,403,848.37</b>
Income taxes	-7,943,751.46	-2,881,261.65
<b>PROFIT FOR THE FINANCIAL PERIOD</b>	<b>22,544,296.38</b>	<b>8,522,586.72</b>
Profit attributable to:		
Equity holders of the parent company	22,542,797.10	8,491,029.81
Minority interest	1,499.28	31,556.91

## COMPREHENSIVE INCOME STATEMENT

	1 Jan - 30 Jun, 2010	1 Jan - 30 Jun, 2009
Profit for the financial period	22,544,296.38	8,522,586.72
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	2,857,195.36	886,962.00
Net amount transferred to p/l	-366,018.94	66,610.00
IAS39 Reclassification	437,544.00	463,452.00
Income tax relating to components of comprehensive income	-761,467.31	-368,426.00
<b>Total comprehensive income for the period</b>	<b>24,711,549.49</b>	<b>9,571,184.72</b>
Total comprehensive income attributable to:		
Equity holders of the parent company	24,710,050.21	9,539,627.81
Minority interest	1,499.28	31,556.91

## Municipality Finance Group

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	1 Jan - 30 Jun 2010	1 Jan - 30 Jun 2009
<b>Cash flow from operating activities</b>	<b>-122,769,472.39</b>	<b>-104,816,939.25</b>
Change in long term funding acquisition	1,354,759,124.42	2,241,441,880.10
Change in short term funding acquisition	1,207,278,665.06	-281,680,774.85
Change in loans and advances	-1,008,718,157.03	-1,060,276,576.29
Change in short term funding	-172,486,110.81	-44,120,715.89
Change in investments	-1,484,311 689.61	-1,117,733,413.02
Interest paid	-54,990,972.18	-211,457,484.34
Interest received	93,608,045.20	230,979,921.43
Payments of operating expenses	-4,960,511.66	-5,011,779.80
Change in accrued interest	3,894,723.20	31,954,174.56
Taxes paid	-2,578,877.05	-575,557.18
Changes in exchange rates and valuations	-49,391,159.79	125,016,684.27
Adjustments	-4,872,552.14	-13,353,298.24
<b>Cash flow from investing activities</b>	<b>-1,329,939.80</b>	<b>-200,172.28</b>
Acquisition of tangible items	-475,000.85	-78,107.05
Acquisition of intangible items	-854,938.95	-122,065.23
<b>Cash flow from financing activities</b>	<b>-9,822,549.50</b>	<b>33,475,308.80</b>
Dividends paid	-9,822,549.50	0.00
Change in invested unrestricted equity	0.00	33,475,308.80
<b>Change in working capital</b>	<b>-122,769,472.39</b>	<b>-71,341,630.45</b>
<b>Cash funds at 1 January</b>	<b>1,322,885,948.86</b>	<b>803,477,460.89</b>
<b>Cash funds at 30 June</b>	<b>1,200,116,476.47</b>	<b>732,135,830.44</b>

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

Adjustments include depreciation, changes in accrued items and commission income from subsidiary.

**CASH FUNDS**

	30 Jun, 2010	30 Jun, 2009
Liquid assets	34,643,329.82	37,596,690.54
Loans and advances to credit institutions	290,969,691.61	72,286,823.24
Debt securities maturing within three months	874,503,455.04	622,252,316.66
	<b>1,200,116,476.47</b>	<b>732,135,830.44</b>

Municipality Finance Group

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000								
	Attributable to equity holders of the parent company						Minority share	Total equity
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
<b>Equity at 31 December 2008</b>	<b>42,583</b>	<b>277</b>	<b>-32,884</b>	<b>0</b>	<b>36,552</b>	<b>46,528</b>	<b>122</b>	<b>46,650</b>
Share issue				40,366		40,366	25	<b>40,391</b>
Dividends paid for 2008							-93	<b>-93</b>
Total comprehensive income for the year			20,186		24,754	44,940	124	<b>45,064</b>
<b>Equity at 31 December 2009</b>	<b>42,583</b>	<b>277</b>	<b>-12,698</b>	<b>40,366</b>	<b>61,306</b>	<b>131,834</b>	<b>178</b>	<b>132,012</b>
Dividends paid for 2009					-9,766	-9,766	-57	<b>-9,823</b>
Total comprehensive income for the year			2,167		22,543	24,710	2	<b>24,712</b>
<b>Equity at 30 June 2010</b>	<b>42,583</b>	<b>277</b>	<b>-10,531</b>	<b>40,366</b>	<b>74,083</b>	<b>146,778</b>	<b>123</b>	<b>146,901</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 Principles for preparing the financial accounts

The interim report has been prepared in accordance with the same International Financial Reporting Standards (IFRS) as the annual report of 31 December 2009. The accounting principles are described in the notes to the financial statements in the annual report of 31 December 2009.

This interim report observes the EU-approved IAS 34 Standard on Interim Financial Reporting.

The Cash flow statement has been changed from indirect to direct. Comparison figures have been prepared according to the same principles.

The figures in the notes to the financial statements are presented in thousands of euros.

This interim report has not been audited.

### NOTE 2 Derivative contracts (made for hedging purposes)

30.6.2010	Nominal value of underlying instrument	Positive	Fair value Negative
<b>Contracts not included in fair value hedge accounting (IFRS-classification)</b>			
Interest rate derivatives			
Interest rate swaps	2,730,862	14,404	20,399
Currency derivatives			
Interest rate and currency swaps	123,102	575	685
Equity derivatives	1,039,482	152,031	152,031
Other derivatives	294,172	43,478	42,544
<b>Total</b>	<b>4,187,618</b>	<b>210,488</b>	<b>215,659</b>
<b>Contracts included in fair value hedge accounting (IFRS-classification)</b>			
Interest rate derivatives			
Interest rate swaps	16,317,092	156,649	223,600
Currency derivatives			
Interest rate and currency swaps	12,960,261	2,438,401	522,148
<b>Total</b>	<b>29,277,353</b>	<b>2,595,050</b>	<b>745,748</b>
<b>All total</b>	<b>33,464,971</b>	<b>2,805,538</b>	<b>961,407</b>

31.12.2009	Nominal value of underlying instrument	Positive	Fair value Negative
<b>Contracts not included in fair value hedge accounting (IFRS-classification)</b>			
Interest rate derivatives			
Interest rate swaps	1,232,691	6,166	8,771
Currency derivatives			
Interest rate and currency swaps	91,469	378	416
Equity derivatives	1,194,448	148,052	148,052
Other derivatives	291,895	14,399	13,374
<b>Total</b>	<b>2,810,503</b>	<b>168,995</b>	<b>170,613</b>
<b>Contracts included in fair value hedge accounting (IFRS-classification)</b>			
Interest rate derivatives			
Interest rate swaps	10,809,616	72,300	166,102
Currency derivatives			
Interest rate and currency swaps	9,293,253	489,032	413,562
<b>Total</b>	<b>20,102,869</b>	<b>561,332</b>	<b>579,664</b>
<b>All total</b>	<b>22,913,372</b>	<b>730,327</b>	<b>750,277</b>

**NOTE 3 Contingent liabilities**

	Jun 30, 2010	Dec 31, 2009
<b>LIABILITIES AND COLLATERAL</b>		
Bonds pledged to the Municipal Guarantee Board	10,599,989	9,591,205
Debt securities pledged to the Municipal Guarantee Board	4,580,064	3,299,986
Total	15,180,053	12,891,191
<b>BINDING CREDIT COMMITMENTS</b>	<b>1,858,701</b>	<b>1,562,074</b>

**NOTE 4 Related parties**

Business transactions with related parties are done based on the same normal business principals as in use for all business transactions of Municipality Finance. During the first half of the year 2010 the company had no material changes in related parties.



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