HALF YEAR REPORT
1 JANUARY–30 JUNE 2016

Building tomorrow.

MuniFin
MUNICIPALITY FINANCE

CEO's review

During the first half of 2016, the operating environment of Municipality Finance (MuniFin) was characterised by constant change. The haziness concerning the final content, implementation method and impact of the Health, social services and regional government reform cannot but be reflected in the municipal sector as a whole. At the European level, the UK's decision to leave the European Union considerably weakens the entire continent's economic outlook and increases financial instability.

The uncertainty of the customers' operating environments had a surprisingly marginal impact on MuniFin's operations; in fact, January–June 2016 exceeded expectations. Large and medium-size cities in particular have kept making essential investments regardless of the general uncertainty.

In the first half of 2016, we have strengthened our position among our customers compared to the previous year. This is partly due to our improved competitiveness which has resulted in customers being provided with long-term financing on more favourable terms than before. Regardless, the company's result has remained strong.

The net operating profit of MuniFin at the end of June was EUR 68.8 million. Continuing to rise, the company's balance sheet total was EUR 35.9 billion, strengthening our position as the third largest financial institution in Finland.

A strong performance and financial position benefits our customers and shareholders in particular. They allow us to fulfil the duties set for us by the owners: to secure the continuity of financing to our customers under all market conditions. They also make it easier for us to operate under strict banking regulations and help keeping our investor demand strong in a world that is becoming more and more insecure.

Our significant role in society comes with great responsibility. We seek through every means possible to secure our ability to provide financing to social and health service projects of the new Finnish regions emerging through the restructuring of local government and to safeguard the strong financial standing and investment capability of municipalities in their new roles.

Maintaining the Finnish welfare society's service network and ability to function is the key premise of our company's operations. This spring, we bolstered our responsible role through the market introduction of green financing. Keeping the costs of lending and leasing intended for financing environmental projects low compared to other forms of financing is our way of encouraging the emergence of green investments.

Since 1 January 2016, the company has been under the supervision of the European Central Bank (ECB). Many additional requirements have thus been imposed on our company's operations in the past year, ranging from increased reporting to stricter standardisation of processes. The amount of our Group's employees grew to over a hundred this spring but still our staff has been pushed to the limits in meeting these demands. However, developing the processes in order to ensure compliance with the ECB's requirements also brings benefits to the company's own operations and risk management systems.

My warmest thanks to our staff and customers for staying positive and getting things done under such uncertain and changing conditions.

Helsinki, 10 August 2016

Pekka Averio
President and CEO

Half year report
1 January–30 June 2016 [1)]

The first half of 2016 in brief

- The Group's net interest income grew by 16.0% compared to the previous year, reaching EUR 97.5 million (1 January–30 June 2015: EUR 84.1 million).
- The Group's net operating profit amounted to EUR 68.8 million (1 January–30 June 2015: EUR 78.3 million). This represents a 12.1% decrease from the previous year. The change was effected especially by the supervisory and stability fees paid to banking authorities, the growth of operating costs resulting from the changes in the operating environment and unrealised negative changes in the fair value of financial items.
- The balance sheet total was EUR 35,850 million (31 December 2015: EUR 33,889 million). The growth compared to the end of 2015 was 5.8%.
- The Group's capital adequacy remained strong, with the ratio of own funds to risk-weighted assets being 66.99% at the end of June (31 December 2015: 64.61%) and the ratio of Tier 1 capital to risk-weighted assets being 45.33% (31 December 2015: 41.49%).
- At the end of June, the Group's leverage ratio amounted to 3.19% (31 December 2015: 3.15%).
- New loans withdrawn in January–June amounted to EUR 1,495 million (1 January–30 June 2015: EUR 1,173 million). The lending portfolio increased to EUR 20,513 million (31 December 2015: EUR 20,088 million). The increase in the total lending portfolio was 2.1% since the end of 2015.
- Total funding acquisition from January–June amounted to EUR 4,249 million (1 January–30 June 2015: EUR 4,518 million). The funding portfolio increased to EUR 30,255 million (31 December 2015: EUR 28,419 million). The increase in the total funding portfolio was 6.5% since the end of 2015.
- The total amount of liquid assets at the end of June was EUR 8,737 million (31 December 2015: EUR 7,732 million).
- The turnover of MuniFin's subsidiary Inspira was EUR 1.1 million (1 January–30 June 2015: EUR 1.3 million). Net operating profit at the end of June was EUR 0.1 million (1 January–30 June 2015: EUR 0.2 million).

Key Figures (Consolidated)

	30 Jun 2016	31 Dec 2015	30 Jun 2015
Net interest income (EUR million)	97.5	172.2	84.1
Net operating profit (EUR million)	68.8	151.8	78.3
New loans issued (EUR million)	1,495	2,687	1,173
New long-term funding (EUR million)	4,249	7,297	4,518
Balance sheet total (EUR million)	35,850	33,889	33,693
CET1 capital (EUR million)	727.1	686.3	647.5
Tier 1 capital (EUR million)	1,074.5	1,033.8	647.5
Total own funds (EUR million)	1,074.5	1,068.8	682.5
Ratio of CET1 capital to risk-weighted assets, %	45.33	41.49	30.12
Ratio of Tier 1 capital to risk-weighted assets, %	66.99	62.49	30.12
Ratio of total own funds to risk-weighted assets, %	66.99	64.61	31.75
Leverage ratio, %	3.19	3.15	1.9
Return on equity (ROE), %	10.31	14.84	20.06
Cost-to-income ratio	0.22	0.16	0.15
Personnel	107	95	94

The calculation formulas for the key figures are given on page 14. Except where otherwise noted, the figures given in this Half year report are consolidated figures.

[1)] This Half year report is a translation of the original report, "Puolivuosikatsaus 1.1.–30.6.2016", written in Finnish. In case of conflict between the two versions, the Finnish version shall take precedence.

The first half of 2016 in brief

Economic growth remained slow in Finland during the first half of 2016. Many of the practical measures of the Health, social services and regional government reform remained unimplemented, and delays in the negotiations for the government's competitiveness pact continued to feed the uncertainty. However, general uncertainty has not significantly affected the customers' investment activities, and the competitiveness pact concluded in June gives hope that the economic growth will return to an upward trajectory.

In the euro area, market rates fell to record-low levels, reaching negative rates. Instead of an accelerating effect on economic growth, the ECB's sizable purchase programmes have increased the liquidity in the marketplace and even distorted the financial markets. At the end of the period under review, Europe's economic and political structures were shaken by the UK's decision to leave the European Union. The Brexit decision will materially weaken the entire continent's economic outlook and increase financial instability.

At the beginning of June, the credit rating agency Moody's reduced the credit rating of the Government of Finland from the highest possible Aaa to Aa1, based on slow economic growth and increased indebtedness. As a direct result of this, Moody's also reduced the long-term funding credit rating of MuniFin to Aa1. The ratings' outlooks are stable.

As of 1 January 2016, MuniFin was transferred under the direct supervision of the ECB, which led to the introduction of new requirements for the company's risk management, reporting and standardisation of processes.

The company also invests in the automation of its internal processes. Several extensive information system projects are underway in order to make the organisation's own operations and reporting more effective. During the first half of 2016, MuniFin has also modified its organisation structure and management system in order to improve the effectiveness of its operations and to better meet the requirements of regulation and the authorities.

Income Statement and Statement of Financial Position

The Group's business operations remained strong during the first half of 2016. Net operating profit for the period totalled EUR 68.8 million (1 January–30 June 2015: EUR 78.3 million). The profit includes EUR –8.5 million of unrealised negative changes in the fair value of financial items (1 January–30 June 2015: EUR 2.1 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 –4.5 million of the total value changes (1 January–30 June 2015: EUR 0.4 million). Despite the zero-risk status of municipalities, in CVA calculations, capital reserves need to established for derivative contracts concluded with municipalities, whereas this is not needed in financing granted to municipalities. Operating profit excluding the aforementioned valuation items remains strong.

The net interest income continued to develop positively. At the end of June, net interest income stood at EUR 97.5 million (1 January–30 June 2015: EUR 84.1 million). The improvement is a result of the growth in operating volume and successful funding acquisition. Net interest income includes EUR 0.8 million in commissions from the repurchase of own bonds (1 January–30 June 2015: EUR 1.3 million).

The Group's commission expenses totalled EUR 1.8 million at the end of June 2016 (1 January–30 June 2015: EUR 1.8 million). Operating expenses for the period increased by 45% compared to the previous year, amounting to EUR 17.1 million (1 January–30 June 2015: EUR 11.8 million). This was mainly due to financial supervision costs paid to the ECB and to the Financial Supervisory Authority, contributions paid to EU-level and national crisis resolution funds and the ongoing information system projects. The contributions paid to crisis resolution funds for 2016 have been recorded in their entirety as expenses during the period.

Administrative expenses totalled EUR 9.3 million (1 January–30 June 2015: EUR 8.2 million), of which personnel expenses accounted for EUR 5.8 million (1 January–30 June 2015: EUR 5.4 million). Depreciation of tangible and intangible assets amounted to EUR 0.9 million (1 January–30 June 2015: EUR 0.7 million). Other operating expenses were EUR 6.8 million (1 January–30 June 2015: EUR 2.8 million).

The net operating profit of MuniFin's subsidiary Inspira was EUR 0.1 million in 1 January–30 June 2016 (1 January–30 June 2015: EUR 0.2 million).

The consolidated balance sheet total amounted to EUR 35,850 million at the end of June 2016 (31 December 2015: EUR 33,889 million).

Financing and other services for customers

MuniFin's customers consist of municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA). The company offers its customer base diverse financial services and is by far the biggest single provider of financing in its customer segment.

Similar to previous years, in January–June 2016, the customers' operating environment was characterised by caution prompted by slow economic growth and uncertainty arising from not knowing the effects of the Health, social services and regional government reform.

This uncertainty has not had any major impact on the operations of MuniFin. In the first half of 2016, MuniFin's lending portfolio grew, while its position as the largest provider of financing among its customers is now stronger than in the previous year. This is partly due to increasingly competitive pricing. Thanks to the successful funding acquisition, the company has been able to provide its customers with financing on more favourable terms.

The total volume of loan quotation requests received by MuniFin in the period from January to June was EUR 2,179 million (1 January–30 June 2015: EUR 2,833 million). New loans taken in the first six months of 2016 totalled EUR 1,495 million (1 January–30 June 2015: EUR 1,173 million). At the end of June, MuniFin's long-term loan portfolio stood at EUR 20,513 million (31 December 2015: EUR 20,088 million).

MuniFin has actively invested in developing its overall customer service proposition in cooperation between the parent company and its subsidiary, Financial Advisory Services Inspira Ltd. The cooperation enables the Group to provide its customers with more customised services and a wider range of service products.

In addition to lending, MuniFin's financial leasing is also becoming more popular among sizable investment targets such as real estate. The pricing of real estate leasing is very close to the price level of lending, enabling the company to provide its customers with an alternative financing instrument. At the end of June, MuniFin's leasing portfolio stood at EUR 226 million (31 December 2015: EUR 187 million).

January–June 2016 was a quiet period in the market for interest rate hedging. The customers' loss of interest in interest rate hedging was mainly caused by exceptionally low interest rates. MuniFin only offers derivatives for hedging purposes.

MuniFin has also introduced new services and financial products into the market. The versatile and flexible Apollo service, intended for use in financial portfolio management, has been taken into use by the first customers, and its functionalities were developed in close cooperation in early 2016 on the basis of the customers' feedback and improvement suggestions. The service is continually expanded to cover an increasingly large number of customers.

MuniFin's green financing, launched in April 2016, is in many respects a trailblazer in the Finnish financial market. It is believed to increase the municipal sector's environmental investments as the customer costs of green lending and green leasing are lower than the costs of other financial instruments. Whether or not a project fits the green financing framework is evaluated by an evaluation team comprising external experts.

The funding of green projects is carried out by using bonds earmarked for green projects, i.e. green bonds, of which the first is planned to be issued during 2016. At the end of June, the total amount of green financing granted by MuniFin was EUR 325 million.

Demand for Inspira's services exceeded that of previous periods. One major assignment allocated to Inspira this year has been the provision of advice to Finnish applicants of the European Fund for Strategic Investments (EFSI). Such advisory services have been commissioned from Inspira by the Ministry of Employment and the Economy.

Inspira's turnover in January–June was EUR 1.1 million (1 January–30 June 2015: EUR 1.3 million) and its net operating profit was EUR 0.1 million (1 January–30 June 2015: EUR 0.2 million).

Operations in international capital markets

In January–June 2016, EUR 4,249 million was acquired in long-term funding (1 January–30 June 2015: EUR 4,518 million). A total of EUR 4,431 million was issued in short-term debt instruments under the Euro Commercial Paper programme (1 January–30 June 2015: 2,050), the portfolio standing at EUR 2,136 million in the end of June (31 December 2015: EUR 1,230 million).

Overall, the company issued bonds denominated in 13 different currencies in the first half of 2016 (1 January–30 June 2015: 11). Total funding at the end of June 2016 amounted to EUR 30,255 million (31 December 2015: EUR 28,419 million).

MuniFin currently obtains all of its funding in the international capital markets, where the Group is a well-known and active operator. A total of 124 funding transactions were carried out in the period (1 January–30 June 2015: 157).

In March 2016, MuniFin issued its first euro-denominated benchmark bond in thirteen years, worth one billion euros. This euro benchmark bond was part of the diversification strategy of MuniFin, covering a wide range of markets, currencies, maturities and investor groups.

In June 2016, the ECB added MuniFin to the Eurosystem public sector purchase programme (PSPP) list.

MuniFin received several international awards during the first half of 2016. In May, MuniFin won the award for the Most Impressive Sovereign, Supranational or Agency (SSA) Borrower in MTNs at the annual Bond Awards of the Global Capital news service. In February, the British market data provider mtn-i recognised MuniFin as the Issuer of the Year 2015 in the Sovereign, Supranational and Agency category. In the same news service's Asia Pacific category, MuniFin was recognised for its large Uridashi issues on the Japanese market in 2015. Capital Market Daily (CMD) named MuniFin as the Best Issuer in the categories of structured loans and Uridashi loans targeted at private investors on Japanese markets.

Besides diversification, MuniFin's funding strategy is based on reliability, speed and flexibility. The majority of funding is carried out as standardised issues under debt programmes.

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

MuniFin has the following debt programmes:

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.

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 green financing framework of MuniFin was evaluated by CICERO, the Center for International Climate and Environmental Research, Norway.

Between January and June, MuniFin's liquidity remained excellent. 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.

At the end of June 2016, the company's liquid funds amounted to EUR 8,737 million (31 December 2015: EUR 7,732 million). The liquidity portfolio stood at EUR 6,458 million at the end of June (31 December 2015: EUR 5,897 million.) The average credit rating of the liquidity portfolio was AA (31 December 2015: AA), with an average maturity of 2.1 years (31 December 2015: 2.3 years). In addition to this, the company had EUR 2,279 million in other investments (31 December 2015: EUR 1,834 million), of which EUR 2,270 was in central bank deposits (31 December 2015: EUR 1,814 million) and EUR 10 million in money market deposits (31 December 2015: EUR 20 million).

As of 2015, MuniFin has also monitored the ESG performance (Environmental, Social and Corporate Governance) of its investments. At the end of June 2016, MuniFin's liquidity investments had an ESG average of 65.0 on a scale of 1–100 (31 December 2015: 65.0). The benchmark index is 63.8.

Capital adequacy

The Group's capital adequacy has remained strong and it surpasses all regulatory and supervisory minimum capital requirements by a wide margin.

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 countercyclical buffer) additional capital requirement, which was 2.5% of the total risk, in accordance with the Act on Credit Institutions.

In July 2015, the Financial Supervisory Authority designated MuniFin as one of Finland's systemically important credit institutions (OSII) 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)	30 Jun 2016	31 Dec 2015
Common Equity Tier (CET1) capital ratio	4.5%	4.5%
Tier 1 Capital (Tier 1) capital ratio	6.0%	6.0%
Total Capital ratio	8.0%	8.0%

Capital buffers

(% of total risk exposure)	30 Jun 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 EU Capital Adequacy Regulation (575/2013) and Directive (2013/36/EU). Valid from 1 January 2015.

[2)] Act on Credit Institutions (610/2014), Chapter 10, sections 4–5, and EU Capital Adequacy Regulation (575/2013) and Directive (2013/36/EU). On 14 June 2016, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement.

[3)] Act on Credit Institutions (610/2014), Chapter 10, section 8, and EU Capital Adequacy Regulation (575/2013) and Directive (2013/36/EU). The additional capital requirement (OSII) imposed on Municipality Finance is 0.5%. Decision of the FIN-FSA made on 6 July 2015, valid from 7 January 2016.

Capital adequacy indicators

Municipality Finance Group's own funds totalled EUR 1,075 million at the end of June 2016 (31 December 2015: EUR 1,069 million). Common Equity Tier 1 capital (CET1) amounted to EUR 727 million (31 December 2015: EUR 686 million). Tier 1 capital amounted to EUR 1,075 million (31 December 2015: EUR 1,034 million). The unrealised profits from assets measured at fair value (fair value reserve) have been included in CET1 capital (the transitional provision is applicable for the period 1 January 2015–31 December 2017). Common Equity Tier 1 capital includes the net profit for the period of 1 January–30 June 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.

At the end of 2015, Tier 2 capital included an EUR 35 million debenture loan, for the repayment of which MuniFin applied for permission from the ECB. The ECB granted the permission on 18 July 2016. Therefore, the debenture loan was no longer included in the company's own funds at the end of June. The debenture loan was repaid in connection with the next interest payment on 9 August 2016.

At the end of June, 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.

Consolidated own funds

(EUR 1,000)	30 Jun 2016	31 Dec 2015
Common Equity Tier 1 before adjustments	740,982	692,573
Adjustments to Common Equity Tier 1	−13,923	−6,244
COMMON EQUITY TIER 1 (CET1)	**727,058**	**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)	**1,074,512**	**1,033,782**
Tier 2 capital before adjustments	–	35,000
Adjustments to Tier 2 capital	–	–
TIER 2 CAPITAL (T2)	**–**	**35,000**
TOTAL OWN FUNDS	**1,074 512**	**1,068 782**

Own funds, parent company

(EUR 1,000)	30 Jun 2016	31 Dec 2015
Common Equity Tier 1 before adjustments	740,650	692,341
Adjustments to Common Equity Tier 1	−13,962	−6,397
COMMON EQUITY TIER 1 (CET1)	**726,688**	**685,945**
Additional Tier 1 capital before adjustments	347,179	346,935
Adjustments to Additional Tier 1 capital	–	–
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,179**	**346,935**
TIER 1 CAPITAL (T1)	**1,073,867**	**1,032,879**
Tier 2 capital before adjustments	–	35,000
Adjustments to Tier 2 capital	–	–
TIER 2 CAPITAL (T2)	**–**	**35,000**
TOTAL OWN FUNDS	**1,073,867**	**1,067,879**

Consolidated key figures for capital adequacy

	30 Jun 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	45.33	41.49
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	66.99	62.49
Ratio of total own funds to risk-weighted assets, %	66.99	64.61

Key figures for capital adequacy, parent company

	30 Jun 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	45.49	41.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	67.22	62.58
Ratio of total own funds to risk-weighted assets, %	67.22	64.70

At the end of June, the parent company's own funds stood at EUR 1,074 million (31 December 2015: EUR 1,068 million). Common Equity Tier 1 capital (CET1) amounted to EUR 727 million (31 December 2015: EUR 686 million) and Tier 1 capital (T1) to EUR 1,074 million (31 December 2015: EUR 1,033 million).

The Group's ratio of total own funds to risk-weighted assets was 66.99% (31 December 2015: 64.61%). At the end of June, CET1 capital adequacy was 45.33% (31 December 2015: 41.49%). The parent company's capital adequacy was 67.22% (31 December 2015: 64.70%) and CET1 capital adequacy 45.49% (31 December 2015: 41.56%).

For further information on capital adequacy, see Note 10. Descriptions of the capital adequacy management principles are included in the Financial Statements for 2015, and they correspond with the company's currently valid principles.

Leverage ratio and liquidity coverage ratio

The final level and content of the leverage ratio requirement is likely to be decided in 2017. The leverage ratio of MuniFin at the end of June 2016 was 3.19% (31 December 2015: 3.15%), calculated using currently valid calculation principles.

At the end of June, the liquidity coverage ratio (LCR) was 717% (30 June 2015: 1,790%). This clearly exceeds the present regulatory requirement of 70%. The requirement will gradually increase in such a manner that, as of 1 January 2018, the LCR complying with the new capital adequacy regulations must be 100% or higher.

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. Pursuant to Chapter 7, section 7 of the Finnish Securities Market Act, MuniFin has published a Corporate Governance Statement on its website separate from its 2015 Report of the Board of Directors. The Corporate Governance Statement includes the description of the main features of the internal control and risk management systems pertaining to the company's 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. Given MuniFin is only an issuer of listed bonds, and given its shares are not subject to public trading, it is not necessary 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.

The Annual General Meeting

The Annual General Meeting of Municipality Finance 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 to the 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 2016 AGM to the end of the 2017 AGM), and appointed 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 also acted as the principal auditor in the previous financial year.

Board of Directors

At the Annual General Meeting of 22 March 2016, the Shareholders' Nomination Committee made a proposal to the meeting regarding the election of Board members for the term beginning at the end of the 2016 AGM and concluding at the end of the following AGM. The AGM elected the following members to the Board of Directors:

Helena Walldén, Chair of the Board, member of the Board since 2016

- Education: MSc (Tech.)
- Year of birth: 1953
- Primary occupation: —
- Independence: Independent of the company and its significant shareholders

Tapani Hellstén, Vice Chair, member of the Board since 2014

- Education: MSc (Admin.)
- Year of birth: 1957
- Primary occupation: Executive Vice President, Keva
- Independence: Independent of the company, employed by a significant shareholder

Fredrik Forssell, member of the Board since 2011

- Education: MSc (Econ.)
- Year of birth: 1968
- Primary occupation: CIO, Internal equity & FI, Keva
- Independence: Independent of the company, employed by a significant shareholder

Teppo Koivisto, member of the Board since 2011

- Education: MSc (Soc.)
- Year of birth: 1966
- Primary occupation, Head of Division, State Treasury
- Independence: Independent of the company, employed by a significant shareholder

Sirpa Louhevirta, member of the Board since 2011

- Education: MSc (Econ.)
- Year of birth: 1964
- Primary occupation: Sanoma Corporation, Senior Vice President, Group Treasury and Real Estate
- Independence: Independent of the company and its significant shareholders

Vivi Marttila, member of the Board since 2016

- Education: MSc (Econ.)
- Year of birth: 1966
- Primary occupation: Municipal Manager, Municipality of Simo
- Independence: Independent of the company and its significant shareholders

Tuula Saxholm, member of the Board since 2013

- Education: MSc (Econ.)
- Year of birth: 1961
- Primary occupation: Head of Executive Office (temp.), CFO, City of Helsinki
- Independence: Independent of the company, employed by a significant shareholder and customer

Juha Yli-Rajala, member of the Board since 2011

- Education: MSc (Admin.)
- Year of birth: 1964
- Primary occupation: Director, City of Tampere
- Independence: Independent of the company and its significant shareholders, employed by a significant customer

In order to organise its work as efficiently as possible, the Board of MuniFin has established Audit, Risk and Remuneration Committees for the assistance and preparation of matters.

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

The Board members for the term beginning at the end of the 2015 AGM and concluding at the end of the 2016 AGM were Eva Liljeblom (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Tuula Saxholm, Asta Tolonen and Juha Yli-Rajala.

The operations of the Board of Directors and its committees are described in more detail on the company's website.

Personnel

At the end of June 2016, Municipality Finance Group had 107 employees (31 December 2015: 95), of whom 92 were staff of the parent company (31 December 2015: 83). During the first half of 2016, MuniFin hired new employees for almost all of its functions, including customer service, business development, administrative services, IT, accounting and risk management.

The President and CEO of MuniFin is Pekka Averio. Executive Vice President Esa Kallio acts as deputy to the CEO. In addition, the Executive Management Team of MuniFin includes Executive Vice President Toni Heikkilä, Executive Vice President Jukka Helminen, Executive Vice President Marjo Tomminen and Executive Vice President Mari Tyster.

Kimmo Lehto is the CEO of MuniFin's subsidiary Inspira.

Internal audit

Internal auditing has been outsourced to Deloitte & Touche Ltd. The company's Legal and compliance department is responsible for the co-ordination of the outsourced audit. Internal auditing tasks include monitoring the reliability and accuracy of MuniFin's financial and other management information. Additionally, they involve making sure that the company has appropriate and properly organised manual and IT systems for its operations, and that the risks associated with the operations are adequately managed. The results of the internal audit are reported to the Board of Directors and its Audit Committee.

Risk management principles and the Group's risk position

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

MuniFin's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. It is the task of the Risk Committee to assist the Board in matters related to the company's risk strategy and risk taking, and to monitor the compliance of management with the risk strategy set by the Board. The purpose of risk management is to ensure that the risks associated with lending, funding acquisition, investment and other business operations are in line with MuniFin's low risk profile. The effectiveness of risk management and capital adequacy management is evaluated in an annually updated ICAAP report.

The company's risk position is regularly reported on to the Board of Directors as a part of monthly reporting, and the director for risk management regularly provides the Board with a broader overall review of the company's risk position in relation to various risk areas. There were no material changes in the company's risk position in January–June 2016. Risks remained within the set limits and, according to the company's assessment, risk management was performed according to requirements.

More detailed information on risk management is provided in the 2015 financial statements, and no material changes have been made to the risk management practices and principles published in the said documents.

Strategic risks

Strategic risk refers to the company choosing the wrong strategy in pursuit of financially profitable operations, or to the inability of the company to adapt the chosen strategy to changes in the operating environment.

The Group's management of strategic risks is based on continuous monitoring and analyses of customer needs, market trend forecasts, and changes in the competition and operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2020, and it is updated at least annually.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its commitments to the company.

MuniFin may grant loans and leasing financing without separate securities only directly to municipalities or joint municipal authorities. Other loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or joint municipal authority, or with 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. The use of these guarantees to reduce credit risk enables the classification of all granted loans as zero-risk when calculating capital adequacy.

The company does not bear the residual value risk for the objects of its leasing services.

In its history, MuniFin has never incurred credit losses from financing its customers.

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

With major derivative counterparties, MuniFin limits the credit risk of derivative contracts with ISDA Credit Support Annexes. The company has 46 Credit Support Annexes in force. The company also has guarantees issued by the Municipal Guarantee Board that it uses to reduce the counterparty risk related to the derivative transactions of certain key counterparties.

Credit Valuation Adjustments (CVA) that take credit risk into account and MuniFin's own Debt Valuation Adjustment (DVA) are applied to the counterparties of derivatives. CVA is calculated for each derivative counterparty by simulating MuniFin's expected positive exposures throughout the maturity of the portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. Similarly, DVA is determined on the basis of MuniFin's expected negative exposures, taking into account the probability of MuniFin's default and loss in the case of 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. MuniFin has two clearing broker partners.

Market risk

Market risk refers to 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, exchange rate, share price, and other price risks.

MuniFin manages the interest rate risk arising from business operations by means of derivatives. The company hedges against exchange rate risks by using derivative contracts to swap all funding denominated in foreign currencies into euros. Derivatives are also used to hedge against other market risks. Derivative contracts may only be concluded for hedging purposes.

The company has specified limits for the following market risks:

- Currency position risk
- Interest rate risk
  - Duration
  - Value-at-Risk
  - Economic Value
- Income risk
- Price risk of pre-funding investments.

Liquidity risk

Liquidity risk refers to the risk of the company not being able to perform payment obligations arising from the implementation of financing agreements or other financing activities on their due date.

MuniFin manages liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a minimum level for available liquidity which should be sufficient for the liquidity needs for a minimum of six months.

The Board of Directors of MuniFin has set the following limits on liquidity risks:

- Refinancing gap
- Sufficiency of liquid assets measured as a minimum time period.

Market liquidity risk

Market liquidity risk refers to the company failing to realise or cover its position at market price due to the market lacking depth or not functioning due to disruption.

MuniFin continuously monitors the liquidity of markets and products. In addition, derivative contracts are concluded in accordance with established market standards. Nearly all market values of debt securities valued at fair value are calculated on the basis of quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

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.

Operational risks

Operational risk refers to the risk of loss due to insufficient or failed processes, deficient or erroneous procedures, systems, or external factors. Operational risks also include risks arising from failure to comply with internal and external regulations (compliance risk), legal risks, and reputational risk. Operational risks may result in expenses, compensation payable, loss of reputation, false information on position, risk, and results, or the interruption of operations.

All operational risks have been identified as part of the company's functions and processes through an annual operational risk assessment project carried out at all company levels. Each division and department is responsible for the management of its own operational risks. However, the company's departments responsible for risk control have company-wide responsibility for the coordination of operational risk management and support each division and department in the management of their operational risks.

MuniFin uses various methods for managing operational risks. The company has internal operational guidelines in place. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis and compliance with these is supervised. The tasks of trading, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The professional competence of personnel is maintained and developed through regular development discussions and training plans. MuniFin has taken out the insurance policies required by 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 the continued functioning of the company and the limitation of losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process support the company's continuity planning.

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 responded to appropriately. The legislation and regulations concerning the operations of credit institutions have undergone significant changes during the past few years and will continue to be amended in the future, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this through active contact with the authorities and interest groups as well as reorganisation of the company's internal compliance functions (including reporting and the evaluation of effects).

The company has significant ongoing information system projects aimed at improving the efficiency of operations. The extent of these projects causes operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (including regular reporting).

The realisation of operational risks is monitored through systematic operational risk reporting, on the basis of which operating principles are changed or other measures implemented 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 January–June 2016.

Events after the review period

No relevant events after the review period.

Outlook for the second half of 2016

During the second half of 2016, the UK's Brexit decision casts a shadow over the economic outlook of Europe, threatening to weaken economic growth throughout the continent, including Finland.

Despite the weak economic growth prospects, MuniFin does not expect substantial changes to take place in its operating environment, or that of its customers during the remainder of 2016.

An exceptionally high number of uncertainty factors are currently related to the operating environment of the company's customers. The Finnish government is planning to implement a substantial reform related to the Finnish social and healthcare system and regional government. The reform includes among other things plans to transfer tasks related to social and healthcare services from municipalities to new autonomous regions. The reform is not expected to affect the company's operation in 2016.

MuniFin is a financing partner for its customer-owners, and a key part of the basic economic structure of Finland. The company will continue to develop its operations and its service model, as required by the changing needs of its customers. The company has invested strongly in the development of its services, with the intention of continuing to pre-empt the changes among its customers and in the market, so as to provide appropriate solutions in the future.

The profitability of MuniFin is expected to remain at a strong level also in 2016.

Helsinki, 10 August 2016
Municipality Finance Plc
Board of Directors

Further information:
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The Group's development

	30 Jun 2016	31 Dec 2015	30 Jun 2015
Turnover (EUR million)	82.8	166.7	92.0
Net interest income (EUR million)	97.5	172.2	84.1
% of turnover	117.7	103.3	91.37
Net operating profit (EUR million)	68.8	151.8	78.3
% of turnover	83.0	91.1	85.05
Cost-to-income ratio	0.22	0.16	0.15
Loan portfolio (EUR million)	20,513	20,088	19,378
Total funding acquired (EUR million)	30,255	28,419	28,817
Balance sheet total (EUR million)	35,850	33,889	33,693
Return on equity (ROE), %	10.31	14.84	20.06
Return on assets (ROA), %	0.32	0.38	0.39
Equity ratio, %	3.05	3.08	1.94
CET1 capital (EUR million)	727.1	686.3	647.5
Tier 1 capital (EUR million)	1,074.5	1,033.8	647.5
Total own funds (EUR million)	1,074.5	1,068.8	682.5
Ratio of CET1 capital to risk-weighted assets, %	45.33	41.49	30.12
Ratio of Tier 1 capital to risk-weighted assets, %	66.99	62.49	30.12
Ratio of total own funds to risk-weighted assets, %	66.99	64.61	31.75
Leverage ratio, %	3.19	3.15	1.9
Personnel	107	95	94

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), %

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

Return on assets (ROA), %

$$\frac{\text{Net operating profit – taxes}}{\text{Average balance sheet total (average of the reporting period beginning and end)}} \times 100$$

Equity ratio, %

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

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

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

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, %

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

Consolidated statement of financial position

(EUR 1,000)	30 Jun 2016	31 Dec 2015
ASSETS		
Cash and balances with central banks	2,269,773	1,813,813
Loans and advances to credit institutions	536,168	614,294
Loans and advances to the public and public sector entities	20,738,985	20,275,561
Debt securities	7,603,192	7,003,318
Shares and participations	9,894	9,620
Derivative contracts	4,445,770	3,925,025
Intangible assets	6,403	5,812
Tangible assets	2,420	2,298
Other assets	19,986	6,277
Accrued income and prepayments	217,827	232,792
TOTAL ASSETS	**35,850,418**	**33,888,811**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	5,464,083	4,893,270
Liabilities to the public and public sector entities	923,334	954,026
Debt securities issued	25,903,929	24,804,490
Derivative contracts	2,108,760	1,799,692
Other liabilities	3,532	2,131
Accrued expenses and deferred income	170,783	217,768
Subordinated liabilities	35,000	35,542
Deferred tax liabilities	149,324	138,576
TOTAL LIABILITIES	**34,758,744**	**32,845,497**
EQUITY AND NON-CONTROLLING INTEREST		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	11,119	11,354
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	649,743	601,065
Total equity attributable to parent company equity holders	**744,089**	**695,645**
Non-controlling interest	**132**	**216**
Other equity instruments issued	**347,454**	**347,454**
TOTAL EQUITY AND NON-CONTROLLING INTEREST	**1,091,674**	**1,043,314**
TOTAL LIABILITIES AND EQUITY	**35,850,418**	**33,888,811**

Consolidated income statement

(EUR 1,000)	1 Jan–30 Jun 2016	1 Jan–30 Jun 2015
Interest income	92,702	84,308
Interest expense	4,836	−208
NET INTEREST INCOME	**97,538**	**84,100**
Commission income	1,303	2,670
Commission expense	−1,836	−1,767
Net income from securities and foreign exchange transactions	−9,333	1,086
Net income from available-for-sale financial assets	−569	2,312
Net income from hedge accounting	−1,305	1,660
Other operating income	45	7
Administrative expenses	−9,336	−8,210
Depreciation and impairment on tangible and intangible assets	−900	−748
Other operating expenses	−6,822	−2,828
NET OPERATING PROFIT	**68,785**	**78,283**
Income tax expense	−13,776	−15,691
PROFIT FOR THE PERIOD	**55,009**	**62,591**
Profit attributable to:		
Equity holders of the parent company	54,978	62,480
Non-controlling interest	30	111

Statement of comprehensive income

(EUR 1,000)	1 Jan–30 Jun 2016	1 Jan–30 Jun 2015
Profit for the period	55,009	62,591
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	−277	−1,777
Net amount transferred to profit or loss	−35	−1,642
IAS 39 reclassification adjustment	19	46
Taxes related to components of other comprehensive income	59	675
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**54,774**	**59,893**
Total comprehensive income attributable to:		
Equity holders of the parent company	54,744	59,782
Non-controlling interest	30	111

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–30 Jun 2016	1 Jan–30 Jun 2015
CASH FLOW FROM OPERATING ACTIVITIES	**339,029**	**–1,600,296**
Net change in long-term funding	533,501	849,601
Net change in short-term funding	888,747	309,352
Net change in long-term loans	–351,987	–276,265
Net change in short-term loans	–40,014	–337,061
Net change in investments	–497,990	–3,375,146
Net change in collaterals	–271,533	1,155,960
Interest paid	–3,470	–5,443
Interest received	89,568	84,350
Other income	13,090	17,974
Payments of operating expenses	–19,483	–20,872
Taxes paid	–1,401	–2,747
CASH FLOW FROM INVESTING ACTIVITIES	**–1,588**	**–1,489**
Acquisition of tangible assets	–478	–334
Acquisition of intangible assets	–1,110	–1,155
CASH FLOW FROM FINANCING ACTIVITIES	**–7,989**	**–1,187**
Change in subordinated liabilities	–	–1009
Change in shares and participations	–	19
Dividends paid	–7,989	–197
CHANGE IN CASH AND CASH EQUIVALENTS	**329,452**	**–1,602,972**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,945,709**	**3,181,659**
CASH AND CASH EQUIVALENTS AT 30 JUNE	**2,275,160**	**1,578,687**

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)	30 Jun 2016	30 Jun 2015
Cash and balances with central banks	2,269,773	1,438,127
Loans and advances to credit institutions	5,387	484,951
Debt securities maturing within three months	–	1,888,888
Impact of amending the definition of cash and cash equivalents	–	–2,233,279
TOTAL CASH AND CASH EQUIVALENTS	**2,275,160**	**1,578,687**

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders						Non-controlling interest	Other equity instruments issued	Total equity
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total			
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**
Share issue	–	–	–	–	–	**–**	–	–	**–**
Issuance of Additional Tier 1 capital loan	–	–	–	–	–	**–**	–	–	**–**
Interest paid on Additional Tier 1 capital loan	–	–	–	–	−6,300	**−6,300**	–	–	**−6,300**
Dividends paid for 2015	–	–	–	–	–	**–**	−114	–	**−114**
Profit for the period	–	–	–	–	54,978	**54,978**	30	–	**55,009**
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	–	–	−277	–	–	**−277**	–	–	**−277**
Net amount transferred to profit or loss	–	–	−35	–	–	**−35**	–	–	**−35**
IAS 39 reclassification adjustment	–	–	19	–	–	**19**	–	–	**19**
Taxes related to components of other comprehensive income	–	–	59	–	–	**59**	–	–	**59**
EQUITY AT 30 JUNE 2016	**42,583**	**277**	**11,119**	**40,366**	**649,743**	**744,089**	**132**	**347,454**	**1,091,674**

Notes to interim report

1. Basis of preparation of the interim report

The interim report has been prepared in accordance with International Financial Reporting Standards (IFRS). This interim report complies with the standard IAS 34 Interim Financial Reporting and the accounting principles presented in the 2015 consolidated financial statements.

The figures in the notes to the interim report are presented in thousand euro. This interim report has been subject to a review by the auditors.

Application of new and amended standards and interpretations

Following amendments published by the IASB were implemented 1 January 2016:

- Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative: The amended standard has not had any significant impact on Municipality Finance's consolidated financial statements.
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception: The amended standards have not had an impact on Municipality Finance's consolidated financial statements.
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations: The amended standard has not had an impact on Municipality Finance's consolidated financial statements.
- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements: The amended standard has not had an impact on Municipality Finance's consolidated financial statements.
- Annual improvements to IFRSs (2012–2014 cycle): The amended standards have not had any significant impact on Municipality Finance's consolidated financial statements.

New and amended standards and interpretations not yet adopted

- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2017): This is a new standard on revenue recognition that will replace IAS 11 Construction Contracts, IAS 18 Revenue and their interpretations. Revenue is recognised at the time when the customer acquires control over goods or services. The customer acquires control when they are able to direct the use of goods or services and obtain the benefits related to it. The core principle of IFRS 15 is that an entity will recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are not expected to have a significant impact on the company's consolidated financial statements.
- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 will replace most of the guidelines in IAS 39. Three main measurement categories have been defined for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is based on the entity's business models and the contractual cash flow characteristics of a financial asset. The IAS 39 model based on realised impairment losses will be replaced with a new model that is based on expected losses. The requirements related to the effectiveness of hedging will become less strict as the requirement to carry out precise effectiveness testing will be eliminated. The new standard will have a material impact on the company's consolidated financial statements and the assessment of the scope of the impact is on-going.

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. Derivative contracts

30 Jun 2016 (EUR 1,000)	Nominal value of underlying instrument	Fair value	
		Positive	Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	33,014,733	912,235	−523,610
Interest rate options	9,575	–	−34
Currency derivatives			
Cross currency interest rate swaps	19,600,260	2,636,941	−719,819
Total	**52,624,568**	**3,549,176**	**−1,243,463**
Contracts held-for-trading			
Interest rate derivatives			
Interest rate swaps	6,115,253	267,895	−277,693
Interest rate options	42,280	519	−528
Currency derivatives			
Cross currency interest rate swaps	13,162	932	−932
Forward exchange contracts	2,139,254	41,104	–
Equity derivatives	3,087,032	580,180	−580,180
Other derivatives	55,500	5,964	−5,964
Total	**11,452,481**	**896,594**	**−865,297**
Grand total	**64,077,049**	**4,445,770**	**−2,108,760**

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.

31 Dec 2015 (EUR 1,000)	Nominal value of underlying instrument	Fair value	
		Positive	Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	33,436,498	553,489	−402,602
Interest rate options	10,588	–	−99
Currency derivatives			
Cross currency interest rate swaps	20,350,511	2,983,050	−1,029,808
Total	**53,797,597**	**3,536,539**	**−1,432,509**
Contracts held-for-trading			
Interest rate derivatives			
Interest rate swaps	6,155,860	149,993	−153,949
Interest rate options	52,386	512	−518
Currency derivatives			
Cross currency interest rate swaps	15,746	1,241	−1,240
Forward exchange contracts	975,475	25,263	–
Equity derivatives	2,497,686	202,551	−202,551
Other derivatives	69,058	8,925	−8,925
Total	**9,766,211**	**388,485**	**−367,183**
Grand total	**63,563,808**	**3,925,025**	**−1,799,692**

Note 3. Pledged assets

Liabilities and collateral (EUR 1,000)	30 Jun 2016	31 Dec 2015
Loans pledged to the central bank	2,422,233	2,456,918
Loans pledged to the Municipal Guarantee Board	17,728,175	17,385,787
Debt securities pledged to the Municipal Guarantee Board	–	5,455,469
Total	**20,150,408**	**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 the 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 the 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)	30 Jun 2016	31 Dec 2015
Binding loan commitments	1,565,052	1,336,880
Total	**1,565,052**	**1,336,880**

Note 4. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totaling 3.1 million as per 30th June 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 on 30th June 2016 or in the comparative period 2015.

Note 5. 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, other 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 fees related to administrative services.

Transactions with, receivables from and liabilities to the subsidiary

Transactions with the subsidiary (EUR 1,000)	1 Jan–30 Jun 2016	1 Jan–30 Jun 2015
Sales	21	20
Purchases	40	–

Intercompany receivables and liabilities (EUR 1,000)	30 Jun 2016	31 Dec 2015
Receivables	–	–
Liabilities	4	–

Note 6. Financial assets and liabilities

Financial assets

30 Jun 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	2,269,773	–	–	–	–	–	2,269,773	2,269,773
Loans and advances to credit institutions	536,168	–	–	–	–	–	536,168	536,168
Loans and advances to the public and public sector entities	20,541,842	–	–	197,143	–	–	20,738,985	22,553,811
Debt securities	–	5,946,707	1,187,883	468,602	–	–	7,603,192	7,602,913
Shares and participations	–	9,894	–	–	–	–	9,894	9,894
Derivative contracts	–	–	–	–	896,594	3,549,176	4,445,770	4,445,770
Total	**23,347,783**	**5,956,601**	**1,187,883**	**665,745**	**896,594**	**3,549,176**	**35,603,782**	**37,418,329**

Loans and advances to the public and public sector entities includes EUR 225,989 thousand receivables based on leasing agreements.

Fair value hedge accounting is applied to EUR 3,879,717 thousand of debt securities available-for-sale in 2016.

Loans and advances to the public and public sector entities includes EUR 6,714,740 thousand in loans and receivables included in fair value hedge accounting for interest rate risk.

Financial liabilities

30 Jun 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	5,464,083	–	–	–	5,464,083	5,604,863
Liabilities to the public and public sector entities	923,334	–	–	–	923,334	936,008
Debt securities issued	23,767,800	2,136,129	–	–	25,903,929	25,931,406
Derivative contracts	–	–	865,297	1,243,463	2,108,760	2,108,760
Subordinated liabilities	35,000	–	–	–	35,000	35,434
Total	**30,190,217**	**2,136,129**	**865,297**	**1,243,463**	**34,435,105**	**34,616,471**

Fair value hedge accounting for interest rate risk is applied to EUR 24,645,724 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 and 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 7. Fair values of financial assets and liabilities

30 Jun 2016 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	2,066,990	2,066,990	–	–	2,066,990
Shares in investment funds	9,894	9,894	–	–	9,894
Fair value option					
Debt securities	468,602	25,855	442,747	–	468,602
Loans and advances to the public and public sector entities	197,143	–	197,143	–	197,143
Held-for-trading					
Derivative assets	896,594	–	764,546	132,048	896,594
Derivatives in hedge accounting	3,549,176	–	3,549,176	–	3,549,176
Total financial assets at fair value	**7,188,399**	**2,102,740**	**4,953,611**	**132,048**	**7,188,399**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,714,740	–	7,142,357	–	7,142,357
Available-for-sale financial assets					
Debt securities	3,879,717	3,879,717	–	–	3,879,717
Total in fair value hedge accounting	**10,594,457**	**3,879,717**	**7,142,357**	–	**11,022,074**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	2,269,773	–	2,269,773	–	2,269,773
Loans and advances to credit institutions	536,168	–	536,168	–	536,168
Loans and advances to the public and public sector entities	13,827,102	–	15,214,311	–	15,214,311
Held-to-maturity					
Debt securities	1,187,883	31,510	1,156,094	–	1,187,603
Total financial assets at amortised cost	**17,820,926**	**31,510**	**19,176,346**	–	**19,207,855**
Total financial assets	**35,603,782**	**6,013,966**	**31,272,315**	**132,048**	**37,418,329**

30 Jun 2016 (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	2,136,129	–	2,136,129	–	2,136,129
Held-for-trading					
Derivative liabilities	865,297	–	733,249	132,048	865,297
Derivatives in hedge accounting	1,243,463	–	1,243,463	–	1,243,463
Total financial liabilities at fair value	**4,244,889**	–	**4,112,840**	**132,048**	**4,244,889**
In fair value hedge accounting					
Liabilities to credit institutions	3,381,841	–	3,522,587	–	3,522,587
Liabilities to the public and public sector entities	731,448	–	745,858	–	745,858
Debt securities issued	20,532,435	–	20,554,384	–	20,554,384
Total in fair value hedge accounting	**24,645,724**	–	**24,822,829**	–	**24,822,829**
Financial liabilities at amortised cost					
Liabilities to credit institutions	2,082,241	–	2,082,276	–	2,082,276
Liabilities to the public and public sector entities	191,886	–	190,150	–	190,150
Debt securities issued	3,235,365	–	3,240,893	–	3,240,893
Subordinated liabilities	35,000	–	35,434	–	35,434
Total financial liabilities at amortised cost	**5,544,492**	–	**5,548,754**	–	**5,548,754**
Total financial liabilities	**34,435,105**	–	**34,484,423**	**132,048**	**34,616,471**

31 Dec 2015 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	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**	–	**18,249,194**	–	**18,249,194**
Total financial assets	**33,641,630**	**5,406,364**	**29,486,276**	**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. Valuation is based on methods in which contractual cash flows are modeled 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 used in 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.

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 modeled 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 used in the financial markets. These valuation methods may utilise input data, which is not directly observable from the market. Level 3 financial instruments primarily comprise OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities.

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. During the financial year 2015 in total 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.

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	26,186	−26,186	0
Purchases	34,427	−34,427	0
Sales	−22,763	22,763	0
Transfers into level 3	–	–	–
Transfers out of level 3	−27,521	27,521	0
30 Jun 2016	**132,048**	**−132,048**	**0**

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**

Note 8. Capital instruments

30 Jun 2016 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	35,000	Euribor 3 Mths	9th May 2016
2) AT1 capital loan	EUR	350,000	347,454	Fixed	1st April 2022
Total		**385,000**	**382,454**		

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
2) AT1 capital loan	EUR	350,000	347,454	Fixed	1st April 2022
Total		**385,000**	**382,996**		

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 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. On 18 July 2016 the ECB granted the company permission to repay the debenture loan 1/06 on the next interest payment date 9 August 2016. The debenture loan is recognised in the balance sheet item Subordinated liabilities.

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 company's financial statements AT1 capital loan is recognised in balance sheet item Subordinated liabilities.

Note 9. Interest income and expense

1 Jan–30 Jun 2016 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	11	−5,082	−5,070
Loans and advances to the public and public sector entities	108,053	–	108,053
Debt securities	−7,660	−482	−8,142
Derivatives in hedge accounting	−35,225	–	−35,225
Derivatives held-for-trading	24,270	−14,238	10,032
Other interest income	527	–	527
Interest on assets	**89,977**	**−19,802**	**70,175**
Liabilities			
Liabilities to credit institutions	2,692	−27,891	−25,199
Liabilities to the public and public sector entities	–	−9,831	−9,831
Debt securities issued	33	−228,831	−228,798
Derivatives in hedge accounting	–	291,818	291,818
Subordinated liabilities	–	−559	−559
Other interest expense	–	−67	−67
Interest on liabilities	**2,725**	**24,638**	**27,363**
Grand Total	**92,702**	**4,836**	**97,538**

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. Interest income on debt securities is also a negative item due to premiums and discounts on debt securities. 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.

Note 10. Capital adequacy

Own funds

Consolidated own funds (EUR 1,000)	30 Jun 2016	31 Dec 2015
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	649,743	601,065
Fair value reserve, transitional provision as of 1 Jan 2015	11,119	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	−3,107	−3,133
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**740,982**	**692,573**
Intangible assets	−6,403	−5,812
Deductions due to prudential filters on Common Equity Tier 1	−7,521	−432
Common Equity Tier 1 (CET1) capital	**727,059**	**686,329**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,074,512**	**1,033,782**
Debenture loans	–	35,000
Tier 2 (T2) capital	**–**	**35,000**
Total own funds	**1,074,512**	**1,068,782**

Own funds, parent company (EUR 1,000)	30 Jun 2016	31 Dec 2015
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	103,231	54,688
Fair value reserve, transitional provision as of 1 Jan 2015	11,119	11,354
Other reserves	542,548	542,548
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**740,650**	**692,341**
Intangible assets	−6,441	−5,965
Deductions due to prudential filters on Common Equity Tier 1	−7,521	−432
Common Equity Tier 1 (CET1) capital	**726,688**	**685,945**
Instruments included in Additional Tier 1 capital	347,179	346,935
Additional Tier 1 (AT1) capital	**347,179**	**346,935**
Tier 1 (T1) capital	**1,073,867**	**1,032,879**
Debenture loans	–	35,000
Tier 2 (T2) capital	**–**	**35,000**
Total own funds	**1,073,867**	**1,067,879**

Based on the EU Capital Requirements Regulation and Regulations and guidelines 25/2013 of Financial Supervisory Authority the unrealised profits from assets measured at fair value (fair value reserve) have been included in CET1 capital (for the period 1 January 2015–31 December 2017). Common Equity Tier 1 capital includes the net profit for the period of 1 January–30 June 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.

At the end of 2015, Tier 2 capital included an EUR 35 million debenture loan, for the repayment of which MuniFin applied for permission from the ECB. The ECB granted the permission on 18 July 2016. Therefore, the debenture loan was no longer included in the company's own funds at the end of June. The debenture loan was repaid in connection with the next interest payment on 9 August 2016.

At the end of June, 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.

Key figures for capital adequacy

Consolidated key figures for capital adequacy	30 Jun 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	45.33	41.49
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	66.99	62.49
Ratio of total own funds to risk-weighted assets, %	66.99	64.61

Key figures for capital adequacy, parent company	30 Jun 2016	31 Dec 2015
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	45.49	41.56
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	67.22	62.58
Ratio of total own funds to risk-weighted assets, %	67.22	64.70

Minimum requirement for own funds

Consolidated minimum requirement for own funds (EUR 1,000)	30 Jun 2016		31 Dec 2015	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**102,212**	**1,277,645**	**107,434**	**1,342,928**
Exposures to regional governments or local authorities	367	4,585	368	4,598
Exposures to multilateral development banks	960	12,000	1,367	17,089
Exposures to institutions	77,336	966,701	69,645	870,561
Exposures to public sector entities	4,290	53,628	3,320	41,501
Exposures in the form of covered bonds	18,140	226,755	16,283	203,542
Items representing securitisation positions	577	7,213	15,743	196,792
Exposures in the form of shares in CIUs	107	1,334	108	1,354
Other items	434	5,429	599	7,490
Market risk	**19**	**240**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,493**	**18,658**	**1,009**	**12,613**
Operational risk, basic method	**24,589**	**307,364**	**23,851**	**298,143**
Total	**128,313**	**1,603,907**	**132,342**	**1,654,278**

Minimum requirement for own funds, parent company (EUR 1,000)	30 Jun 2016		31 Dec 2015	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standard method	**102,208**	**1,277,603**	**107,416**	**1,342,696**
Exposures to regional governments or local authorities	367	4,585	368	4,598
Exposures to multilateral development banks	960	12,000	1,367	17,089
Exposures to institutions	77,331	966,636	69,637	870,462
Exposures to public sector entities	4,290	53,628	3,320	41,501
Exposures in the form of covered bonds	18,140	226,755	16,283	203,542
Items representing securitisation positions	577	7,213	15,743	196,792
Exposures in the form of shares in CIUs	107	1,334	108	1,354
Other items	436	5,452	589	7,356
Market risk	**19**	**240**	**47**	**594**
Credit valuation adjustment risk (CVA VaR), standard method	**1,493**	**18,658**	**1,009**	**12,613**
Operational risk, basic method	**24,083**	**301,035**	**23,569**	**294,618**
Total	**127,803**	**1,597,535**	**132,042**	**1,650,520**

Exposure by class

Consolidated exposure by class 30 Jun 2016 (EUR 1,000) Exposure class	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	2,803,679	–	–	2,803,679	–
Exposures to regional governments or local authorities	10,251,640	336,388	317,679	10,905,706	4,585
Exposures to international organisations	145,237	–	–	145,237	–
Exposures to multilateral development banks	287,290	–	–	287,290	12,000
Exposures to institutions	3,776,688	–	886,141	4,662,829	966,701
Exposures to public sector entities	268,142	–	–	268,142	53,628
Exposures to corporates	4,707,319	401,495	–	5,108,813	–
Exposures secured by mortgages on immovable property	6,935,436	827,169	–	7,762,605	–
Exposures in the form of covered bonds	1,953,380	–	–	1,953,380	226,755
Items representing securitisation positions	36,065	–	–	36,065	7,213
Exposures in the form of shares in CIUs	9,867	–	–	9,867	1,334
Other items	84,831	–	–	84,831	5,429
Total	**31,259,573**	**1,565,052**	**1,203,820**	**34,028,444**	**1,277,645**

Consolidated exposure by class 31 Dec 2015 (EUR 1,000) Exposure class	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	3,466,241	–	937,401	4,403,642	870,561
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	98,785	–	–	98,785	7,490
Total	**29,815,359**	**1,336,880**	**1,078,843**	**32,231,081**	**1,342,928**

Exposure by class, parent company 30 Jun 2016 (EUR 1,000) Exposure class	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	2,803,679	–	–	2,803,679	–
Exposures to regional governments or local authorities	10,251,640	336,388	317,679	10,905,706	4,585
Exposures to international organisations	145,237	–	–	145,237	–
Exposures to multilateral development banks	287,290	–	–	287,290	12,000
Exposures to institutions	3,776,360	–	886,141	4,662,502	966,636
Exposures to public sector entities	268,142	–	–	268,142	53,628
Exposures to corporates	4,707,319	401,495	–	5,108,813	–
Exposures secured by mortgages on immovable property	6,935,436	827,169	–	7,762,605	–
Exposures in the form of covered bonds	1,953,380	–	–	1,953,380	226,755
Items representing securitisation positions	36,065	–	–	36,065	7,213
Exposures in the form of shares in CIUs	9,867	–	–	9,867	1,334
Other items	84,533	–	–	84,533	5,452
Total	**31,258,947**	**1,565,052**	**1,203,820**	**34,027,819**	**1,277,603**

Exposure by class, parent company 31 Dec 2015 (EUR 1,000) Exposure class	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**

Leverage ratio

Consolidated leverage ratio (EUR 1,000)	30 Jun 2016	31 Dec 2015
Tier 1 capital (T1)	1,074,512	1,033,782
Total exposure	33,665,607	32,770,698
Leverage ratio, %	3.19	3.15

Consolidated exposures (EUR 1,000)	30 Jun 2016	31 Dec 2015
On-balance sheet exposures (excl. derivatives and intangible assets)	31,259,573	29,815,359
Derivatives exposure	1,382,528	1,239,463
Off-balance sheet exposure	1,023,507	1,715,877
Total	**33,665,607**	**32,770,698**

Breakdown of consolidated on-balance sheet exposure (EUR 1,000)	30 Jun 2016 Leverage ratio exposure value	31 Dec 2015 Leverage ratio exposure value
Covered bonds	1,953,380	1,806,712
Exposures treated as sovereigns	10,248,291	9,482,614
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	15,943,837	15,722,982
Institutions	2,993,169	2,642,807
Other exposures	120,896	160,244
Total	**31,259,573**	**29,815,359**

TRANSLATION

Report on review of the interim report of Municipality Finance Plc as of and for the six-month period ending June 30, 2016

To the Board of Directors of Municipality Finance Plc

Introduction
We have reviewed the consolidated balance sheet as of 30 June 2016, the consolidated income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement of Municipality Finance Plc for the six-month period then ended, as well as a summary of significant accounting policies and other explanatory notes to the financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim report based on our review.

Scope of review
We conducted our review in accordance with the Standard on Review Engagements ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and other generally accepted auditing practices and consequently does not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view of the consolidated financial position as at 30 June 2016 and the consolidated result of its operations and cash flows for the six-month period then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki 10 August 2016

KPMG OY AB

Marcus Tötterman
Authorised Public Accountant, KHT

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