IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), PROVIDED BY RULE 144A THAT ARE ALSO QUALIFIED PURCHASERS ("**QPs**") AS DEFINED IN SECTION 2(A)(51)(A) OF UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED OR (2) OUTSIDE OF THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

IMPORTANT: You must read the following before continuing. The following applies to the attached document (the "**document**") and you are, therefore, advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the document or make an investment decision with respect to the securities, investors must be either (1) a QIB (within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")) that is also a QP or (2) located outside the United States. The document is being sent at your request and by accepting the e-mail and accessing the document, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs that is also a QP or (b) outside of the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such document by electronic transmission.

You are reminded that the document has been delivered to you on the basis that you are a person into whose possession the document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the document to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and Barclays Bank PLC, Citigroup Global Markets Inc., Deutsche Bank AG, London Branch or Nordea Bank Danmark A/S (together, the "**Joint Lead Managers**" and together with the Co-Managers, the "**Managers**") or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of Municipality Finance Plc in such jurisdiction. As Nordea Bank Danmark A/S is not registered with the SEC as a U.S.-registered broker-dealer, it will effect offers and sales of the Notes solely outside the United States pursuant to Regulation S.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the FSMA does not apply.

The document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

OFFERING CIRCULAR

MUNICIPALITY FINANCE PLC

(Kuntarahoitus Oyj)

(Public limited liability company incorporated in the Republic of Finland)

U.S.$1,000,000,000
1.250 per cent. Guaranteed Notes Due 12 September 2016

Guaranteed by

THE MUNICIPAL GUARANTEE BOARD

(Kuntien takauskeskus)

(Established as a public law institution under the laws of the Republic of Finland)

The issue price of the U.S.$1,000,000,000 1.250 per cent. Guaranteed Notes due 12 September 2016 (the "**Notes**") of Municipality Finance Plc (the "**Issuer**") is 99.988 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 12 September 2016. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Finland. See "*Terms and Conditions of the Notes — Redemption and Purchase*".

The Notes will bear interest from and including 12 September 2013 (the "**Issue Date**") at the rate of 1.250 per cent. per annum payable semi-annually in arrear on 12 March and 12 September in each year, commencing on 12 March 2014. Payments on the Notes will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by the Republic of Finland. The Municipal Guarantee Board (Kuntien takauskeskus) (the "**Guarantor**") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

Application will be made to The United Kingdom Financial Conduct Authority (the "**FCA**") for Notes to be admitted to a listing on the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. The Notes are not subject to the prospectus requirements of the Prospectus Directive as a result of the exemption provided by Article 1.2(d) of the Prospectus Directive for securities unconditionally and irrevocably guaranteed by a local authority of an EEA member state, but will be issued in compliance with applicable Listing Rules of the FCA.

The Notes are expected to be rated "Aaa" by Moody's Investors Service, Inc. ("**Moody's**") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As at the date of this Offering Circular, each of Moody's and S&P is established in the European Union and is registered under Regulation (EU) No. 1060/2009 on credit rating agencies (the "**CRA Regulations**").

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the Securities Act) that are also qualified purchasers ("QPs") as defined in Section 2(a)(51)(A) of United States Investment Company Act of 1940, as amended ("Investment Company Act"), in each case acting for their own account of one or more QIBs that are also QPs in reliance on, and in compliance with, Rule 144A ("Rule 144A Notes"); and (b) in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act ("Regulation S Notes"). Each purchaser and prospective purchasers of the Notes will be deemed to have made the representations described in "*Subscription and Sale*" and is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. For a description of this and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Offering Memorandum; see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes will initially be represented by two or more global certificates in registered form (the "**Global Certificates**"), one or more of which will be issued in respect of the Notes offered and sold in reliance on Rule 144A (the "**Restricted Global Certificate**") and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), and one of which will be issued in respect of the Notes offered and sold in reliance on Regulation S (the "**Unrestricted Global Certificate**") and will be registered in the name of a common safe keeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and/or any other relevant clearing system. It is expected that delivery of the Global Certificates will be made on 12 September 2013 or such later date as may be agreed (the "**Closing Date**") by the Issuer and the Joint Lead Managers (as defined under "*Subscription and Sale*").

Joint Lead Managers

Barclays **Citigroup** **Deutsche Bank** **Nordea**

Co-Managers

Daiwa Capital Markets Europe **Mitsubishi UFJ Securities** **Nomura** **RBC Capital Markets**

5 September 2013

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

This Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"), a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**"), nor listing particulars given in compliance with the listing rules ("**Listing Rules**") made under Part VI of the FSMA by the FCA in its capacity as competent authority under the FSMA.

Each of the Issuer and the Guarantor has confirmed to the joint lead managers (the "**Joint Lead Managers**") named under "*Subscription and Sale*" below that this Offering Circular (the "**Offering Circular**") contains all information which is (in the context of the issue, offering and sale of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the issue, offering and sale of the Notes) not misleading in any material respect; all reasonable enquiries have been made to ascertain and to verify the foregoing and this Offering Circular does not contain any untrue statement of a material fact nor does it omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer, the Guarantor or the Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or any agency thereof or the Managers (as defined in "*Subscription and Sale*"). Effective from the date of commencement of discussions concerning the Issuer, the Guarantor or the sale of Notes, prospective purchasers of Notes and each of their employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind, including opinions or other tax analyses that the Issuer or Guarantor has provided to such prospective purchasers relating to such U.S. federal income tax treatment and tax structure. Neither the delivery of this Offering Circular nor any sales made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof.

To the fullest extent permitted by law, the Managers do not accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Managers in connection with the Issuer, the Guarantor or the issue and offering of the Notes. The Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Offering Circular or any such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on any Manager or any person affiliated with any Manager in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantor and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A and the admission of the Notes for listing on the London Stock Exchange. The Issuer, the Guarantor and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States other than any QIB that is also a QP to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular to any person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such QIB that is also a QP with respect there to, is unauthorised and any disclosure without the prior written consent of the Issuer and the Guarantor of any of its contents to any such person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such QIB that is also a QP, is prohibited.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Guarantor or any agency thereof or any Manager to subscribe or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "*Subscription and Sale*" and "*Transfer Restrictions*".

In this Offering Circular, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**Euro**", "**EUR**", "**Euro**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "**£**", "**Pounds Sterling**" and "**British Pounds Sterling**" are to the currency of the United Kingdom, references to "**U.S.$**" and "**United States Dollars**" are to the currency of the United States of America. All references to "**Government**" are to the government of the Republic of Finland.

STABILISATION

In connection with the issue of the Notes, the Managers or any person acting on their behalf may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Managers (or any persons acting on their behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation or over-allotment must be conducted by the Managers (or persons acting on their behalf) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Each of the Issuer and the Guarantor is duly incorporated under the laws of the Republic of Finland. All of the directors and officers of the Issuer and the Guarantor reside in the Republic of Finland and most of the assets of the Issuer and the Guarantor and of such directors and officers are located in the Republic of Finland. None of the Issuer, the Guarantor nor any of their respective directors or officers has consented to the jurisdiction of the courts of the United States or any state thereof in connection with any suit brought by an investor in the Notes or named an agent for service of process within the United States upon the Issuer, the Guarantor or such persons or to enforce, in United States courts, judgments against the Issuer, the Guarantor or such persons or judgments obtained in such courts predicated upon the civil liability provisions of the federal securities laws of the United States. In addition, under the Notes, each of the Issuer and the Guarantor will consent to the jurisdiction of the courts of England and will appoint an agent for service of process in England.

The Issuer has been advised by Peltonen LMR Attorneys Ltd., their counsel, that there is no convention or treaty concerning the enforcement of judgments between the Republic of Finland and the United States of America. Therefore the judgments of United States courts of civil liabilities are not enforceable in the Republic of Finland. Enforcement of such judgment in Finland may require a new legal action, suit or proceeding in, and judgment by, a Finnish court. In such event, the judgment would constitute circumstantial evidence of the questions of fact in the case concerned and evidence of the governing law as applied to the matter in dispute, **provided that** such court had jurisdiction over the subject matter and the parties involved and such judgment was final and was not and is not contrary to the laws or the public policy of Finland.

AVAILABLE INFORMATION

Each of the Issuer and the Guarantor has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to and in compliance with sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any QIB that is also a QP who holds such restricted securities and any prospective purchaser of such restricted securities who is a QIB that is also a QP designated by such holder of such restricted securities, upon the request of such holder or prospective purchaser, the information concerning it required to be provided to such holder or prospective purchaser by Rule 144A(d)(4) under the Securities Act.

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FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Group regarding such items. These statements include matters that are not historical fact and generally, but not always, may be identified by the use of words such as "believes", "expects", "are expected to", "anticipates", "intends", "estimates", "should", "will", "will continue", "may", "is likely to", "plans" or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and the development of the industry in which it operates may differ significantly from those predicted or suggested by the forward-looking statements contained in this Offering Circular. In addition, even if the Group's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods.

PRESENTATION OF FINANCIAL AND OTHER DATA

In this Offering Circular, references to "**€**" and "**Euro**" are to euro, the currency of the countries participating in the third stage of the European Economic and Monetary Union and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, and references to "**$**" or "**U.S.$**" are to U.S. dollars, the currency of the United States of America. The Group publishes its audited consolidated financial statements in euro. See "*Exchange Rates*".

In this Offering Circular, various figures and percentages have been rounded and, accordingly, may not total.

Pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002 and related regulations, effective 1 January 2005, the Issuer adopted International Financial Reporting Standards, as they have been endorsed by the European Commission ("**EU IFRS**"). Accordingly, the Group Consolidated Financial Statements (as defined below) have been prepared in accordance with EU IFRS.

EU IFRS differs in certain significant respects from generally accepted accounting principles in the United States ("**U.S. GAAP**"). No financial statements or financial information included herein have been prepared or presented in accordance with U.S. GAAP or the accounting rules and regulations adopted by the SEC ("**SEC Rules and Regulations**"). As a result, the financial information included herein may differ substantially from financial information prepared in accordance with U.S. GAAP and those rules and regulations. It is not practicable for the Issuer to prepare its financial statements in accordance with U.S. GAAP and the SEC Rules and Regulations or to prepare any reconciliation of its consolidated financial statements and related footnotes. In making an investment decision, investors must rely upon their own examination of the business, financial condition, results of operations and cash flows of the Group, the terms of the offering and the financial information presented herein. Potential investors are urged to consult their own professional advisors for an understanding of the differences between EU IFRS and U.S. GAAP, and of how those differences might affect the financial information presented herein.

The financial information contained in this Offering Circular includes:

(i) the unaudited interim consolidated financial statements of the Issuer and its consolidated subsidiary (the "**Group**") as of and for the six months ended 30 June 2013 (the "**Interim Group Financial Statements**"), which includes the unaudited consolidated financial information of the Group as of and for the six months ended 30 June 2012;

(ii) the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 December 2012 (the "**2012 Group Financial Statements**");

(iii) the audited consolidated financial statements of the Group as of and for the fiscal year ended 31 December 2011 (the "**2011 Group Financial Statements**" and together with the 2012 Group Financial Statements and the Interim Group Financial Statements, the "**Group Consolidated Financial Statements**"), which includes the audited consolidated financial information of the Group as of and for the fiscal year ended 31 December 2010;

(iv) the audited consolidated financial statements of the Guarantor as of and for the fiscal year ended 31 December 2012 (the "**2012 Financial Statements**"); and

(v) the audited consolidated financial statements of the Guarantor as of and for the fiscal year ended 31 December 2011 (the "**2011 Financial Statements**" and together with the 2012 Financial Statements, the "**Audited MGB Financial Statements**"), which includes the audited consolidated financial information of the Guarantor as of and for the fiscal year ended 31 December 2010.

The 2012 Group Financial Statements, the 2011 Group Financial Statements and the Audited MGB Financial Statements have been audited by KPMG Oy Ab. The Issuer and the Guarantor have elected KPMG Oy Ab as their independent auditors also for the year 2013.

Market Data

Certain macroeconomic and statistical data included in this Offering Circular has been derived from publicly available sources, the reliability of which may vary. Macroeconomic and statistical data concerning Finland is mostly based on information published by the Finnish Ministry of Finance (the "**Ministry of Finance**"). In any case, macroeconomic and statistical data, as well as the source data on which it is based, may not have been extracted or derived from a source in a manner analogous to that used in other countries. There is no guarantee that a third party using different methods of gathering, analyzing and processing information would obtain the same results.

Market data and certain industry data and forecasts used, as well as statements made herein regarding the Group's and the Guarantor's position in the industry, were estimated or derived based upon assumptions the Group deems reasonable. The source of any external information is provided each time such information is used in this Offering Circular. When searching for, processing and preparing macroeconomic, market, industry and other data from sources other than the Group, such as governmental publications, third party publications, industry publications and general interest publications, the Group has not verified such data. The Group has accurately extracted information from this third-party data from published sources and, as far as the Group is aware and to the extent the Group can ascertain from the information published by these sources, there are no omissions that would render such information in this Offering Circular materially misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed.

However, in the preparation of this Offering Circular, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology or the basis used by the third parties in producing such data or making estimates and forecasts. The Group can give no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

The Group does not intend, nor is it obligated, to update the data presented herein, save for obligations arising under provisions of law.

EXCHANGE RATES

The tables below set forth the euro versus the U.S. dollar exchange rates as certified by the European Central Bank. The Group does not represent that the U.S. dollar amounts referred to below could have been or could be converted into euro at any particular rate indicated or at any other rate. The rates below may differ from the rates used in the Group Consolidated Financial Statements, Audited MGB Financial Statements and other financial information appearing in this Offering Circular.

The table below shows the high and low European Central Bank rates for euro versus the U.S. dollar for each respective year and the rate at the end of the year. The average amounts set forth below under "Average" are calculated as the average of the European Central Bank rates for euro versus the U.S. dollar on the last business day of each month for each respective year.

	Low	**High**	**Average**	**End of Year**
	(U.S. dollars per euro)			
2008	1.2460	1.5990	1.3797	1.4721
2009	1.2555	1.5120	1.3963	1.4406
2010	1.1959	1.4563	1.3257	1.3262
2011	1.2889	1.4882	1.4000	1.2939
2012	1.2089	1.3454	1.2932	1.3194

The table below shows the high and low European Central Bank rates for euro versus the U.S. dollar for each month during the six full months prior to the date of this Offering Circular.

	Low	**High**
	(U.S. dollars per euro)	
March 2013	1.2768	1.3090
April 2013	1.2818	1.3086
May 2013	1.2853	1.3191
June 2013	1.3008	1.3374
July 2013	1.2813	1.3284
August 2013	1.3203	1.3392
September 2013 (through 4 September 2013)	1.3171	1.3207

The euro versus the U.S. dollar European Central Bank exchange rate on 4 September 2013 was U.S.$1.3171 per Euro 1.00.

Non GAAP Measures of financial Performance

Certain data and ratios presented in this Offering Circular, such as certain key indicators set out in "*Selected Financial Information Relating to the Group*", are supplemental measures of the Group's performance and liquidity that are not required by, or presented in accordance with EU IFRS, and for which there are no generally accepted accounting principles governing the definition or calculation of these terms and the criteria upon which they are based can vary from company to company.

These measures, by themselves, do not provide a sufficient basis to compare the Group's performance and financial position with those of other companies and should not be considered in isolation or as a substitute for any performance measure derived in accordance with EU IFRS. These measures have been presented in this document because they are used by the Group in managing the Group's business and to enable a more complete analysis of the Group's operating performance and financial position.

OVERVIEW OF THE OFFERING

Issuer:	Municipality Finance Plc (Kuntarahoitus Oyj) was established on 1 May 2001, when the old Municipality Finance Plc (established in 1989) and Municipal Housing Finance Plc (established in 1993) were merged to form a new company, Municipality Finance Plc, a credit institution referred to in the (Finnish) Credit Institutions Act. On 26 April 2001, the Issuer was granted a credit institution licence by the Ministry of Finance. The Issuer serves the Finnish municipal sector which consists of municipalities, municipal federations and a range of organisations owned or controlled by municipalities. The Issuer's mission is to be, as a financial institution owned by the municipal sector, the most sought-after and active partner in municipal-sector financial services in Finland. The Issuer's aim is to ensure cost-effective financial services for Finnish municipalities, to operate efficiently and grow profitably, and to improve its self-sufficiency and increase its own funds primarily through funds from its operations in compliance with the Municipal Guarantee Board Act (the "**MGB Act**") and all other relevant and applicable rules and legislation. The Issuer focuses actively on customer relations and creates solutions and services for its customers. The Issuer's fully paid up capital was approximately Euro 43.0 million and its primary and secondary funds amounted to approximately Euro 450.8 million at 30 June 2013. The Issuer's total assets on 30 June 2013 were approximately Euro 25.5 billion, of which the loan portfolio represented approximately Euro 16.8 billion. The Issuer's five largest shareholders at 30 June 2013 were Keva (formerly named "The Local Government Pensions Institution") (30.66 per cent.), the Republic of Finland (16.00 per cent.), City of Helsinki (10.41 per cent.), City of Espoo (3.96 per cent.) and VAV Asunnot Oy (City of Vantaa) (2.47 per cent.).
Guarantor:	The Municipal Guarantee Board (Kuntien takauskeskus) is a public law body established by the MGB Act, and together with the Issuer, are the main participants in the joint funding system of the municipal sector in Finland. Its main purpose is to safeguard and develop the joint funding of the Finnish municipal sector and secure that such funding is raised at preferential terms, based on the joint creditworthiness of the entire municipal sector. The MGB Act provides that MGB can grant guarantees to support the raising of such funds by the Issuer to be used for lending to the Finnish municipal sector or to Government designated non-profit organisations that engage in the construction, renting, management or maintenance of social housing in Finland.

	The membership of MGB consists of all 304 Finnish municipalities, representing 100 per cent. of the population of Finland (excluding the Åland islands) as at 15 August 2013.
Joint Lead Managers:	Barclays Bank PLC, Citigroup Global Markets Inc., Deutsche Bank AG, London Branch and Nordea Bank Danmark A/S.
Fiscal Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Description of Notes:	U.S.$1,000,000,000 1.250 per cent. Guaranteed Notes due 12 September 2016, to be issued by the Issuer on the Issue Date and guaranteed by the Guarantor.
Issue Price:	99.988 per cent. of the principal amount of the Notes.
Issue Date:	12 September 2013.
Maturity Date:	12 September 2016.
Use of Proceeds	The proceeds of the issue will be used by the Issuer for lending to customers and general corporate purposes, but only in accordance with the Municipal Guarantee Board Act, as amended. See "*Use of Proceeds*".
Interest:	The Notes will bear interest from 12 September 2013 at a rate of 1.250 per cent. per annum payable semi-annually in arrear on 12 March and 12 September in each year commencing 12 March 2014.
Status of the Notes:	The Notes constitute unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, but (in the event of insolvency) only to the extent permitted by Finnish law relating to creditors' rights.
Status of the Guarantee:	The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor and rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, but (in the event of insolvency) only to the extent permitted by Finnish law relating to creditors' rights.
Form and Denomination:	The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof. The Unrestricted Global Certificate is to be held under the New Safekeeping Structure.
Redemption:	The Issuer will redeem the Notes at their respective principal amounts on the Maturity Date.
Tax Redemption:	Early redemption will be permitted for taxation reasons as mentioned in "*Terms and Conditions of the Notes – Redemption or Substitution for Tax Reasons*".

Events of Default:	If any Event of Default shall occur, any Holder of a Note may by written notice to the Issuer declare such Note and all interest then accrued on such Note to be forthwith due and payable, whereupon the same shall become immediately due and payable at its principal amount.
Negative Pledge:	The Notes contain a negative pledge.
Modification:	The Conditions of the Notes contain a provision permitting the Notes and the Conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error.
Taxation:	All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for or on account of any Finnish taxes, subject to certain limited exceptions as provided in Condition 7 (*Taxation*).
Listing and admission to trading:	Application has been made to list the Notes on the official list of the FCA and to admit the Notes to trading on the London Stock Exchange's Regulated Market.
Governing Law:	The Notes, the Guarantee and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
Credit Ratings:	The Notes are expected to be assigned on issue a rating of "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Transfer Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs that are also QPs in connection with resales by the Joint Lead Joint Lead Managers, in reliance on, and in compliance with, Rule 144A.
Risk factors:	Investing in Notes involves risks. See "*Risk Factors*".
Listing and Trading:	Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange.
ISINs:	XS0970863386 and US62628PAB22 for the Unrestricted Global Note and Restricted Global Note, respectively.
Common Code:	097086338 for the Unrestricted Global Note.
CUSIP Number:	62628PAB2 for the Restricted Global Note.

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the Guarantor and the industry in which each of them operates together with all other information contained in this Offering Circular, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer and the Guarantor that are not currently known to the Issuer and the Guarantor, or that either currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and the Guarantor and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Offering Circular and their personal circumstances.

Risks related to the Issuer

The Group is exposed to the economic conditions in Finland

The Group conducts its operations almost exclusively in Finland and its lending growth is reliant on the prospects of Finnish municipalities and municipal federations, Finnish municipality-controlled entities and non-profit housing corporations in Finland. Therefore, the macroeconomic factors relating to Finland, and more specifically its municipalities, such as GDP, the inflation rate, interest rates, currency exchange rates and tax rates as well as unemployment, personal income and the financial situation of companies, together with various other factors, have a material impact on customer demand and margins for Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Should Finland's GDP slow or decline or Finnish municipalities' relative indebtedness increase, the Group may be exposed to instability in the prospects of both its customers and its ultimate guarantors. Additionally, should any of these factors result in Finland have its credit rating downgraded, it may cause an increase in the cost of the Group's future funding arrangements and thereby put further pressure on any lending required by the municipalities. As a result any of these factors relating to Finland or its municipalities may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to credit risk from its counterparties on financial instruments

The Group manages its interest rate risk, its currency risk and its balance sheet as a whole by entering into derivative transactions with financial institutions and through short-term placements of cash and current account balances with financial institutions. The Group's lending is denominated in euros, although in 2012 the Group issued bonds denominated in 16 different currencies. However, the Group hedges against exchange rate risks by using derivative contracts to translate foreign currency denominated funding into euros. Also, while the Group's lending and funding bears both floating and fixed interest rates, the Group hedges its fixed interest rate exposure to floating rate. Derivative contracts are also used to hedge against other price risks. As a result of these activities, the Group had derivative contracts with a nominal value of Euro 50,166.4 million as at 30 June 2013.

The Group's ability to engage in derivatives transactions could be adversely affected by the actions and commercial soundness of financial institutions who are its hedge counterparties. Derivative contracts and deposit arrangements expose the Group to credit risk in the event of a default by its counterparty. Defaults or non-performance by counterparties or deterioration in the credit standing of its contractual counterparties may have a material adverse effect on the Issuer's financial condition and results of operations.

The Group may lose market share to competitors

As a result of the global credit crisis, many of the Group's competitors over the last several years have not been able to lend at the rates, volumes and maturities that they had prior to the global credit crisis. However, during this time the Group has been able to increase its market share in its lending segments, as well as increase its prices. The total value of loan tender requests received by the Group in the six months ended 30 June 2013 increased 26 per cent. compared with the six months ended 30 June 2012. The total value of loan tender requests received by the Group in 2012 increased by 13 per cent. compared with 2011. The total value of loan tender requests received by the Group in 2011 increased by 7 per cent. compared with 2010. The Group believes its market share was 80 per cent. and 77 per cent. of all competitive bidding for financing among the Group's customer base in 2012 and 2011, respectively. However, should the Group's competitors be able to begin to match or beat the Group's pricing, such as a result of a loosening of global credit markets, the Group may suffer a decline in both the volume of loans it makes and its margins, which may have a material adverse effect on its business, financial condition and results of operations.

The proposed leverage ratio requirement under the current Basel III proposals may have an adverse effect on the Group

The Group is required by regulators in Finland to maintain adequate capital resources. EC Directive 2000/12 and EEC Directive 1993/6 have been recast by EC Directives 2006/48 and 2006/49 (the "**Capital Requirements Directive**"), respectively, to introduce the capital requirements framework agreed by the Basel Committee under Basel II. The Capital Requirements Directive was introduced as a supervisory framework in the European Union and reflects the Basel II rules on capital measurement and capital standards.

In December 2010, the Basel Committee on Banking Supervision published its final standards on the revised capital adequacy and liquidity framework, known as Basel III, with a revised version published in June 2011 (the "**Basel III Standards**"), which are significantly more stringent than the existing requirements under Basel II. Basel III is intended to increase the quality and quantity of capital, to increase capital required to be held against risk weighted assets and to introduce a new liquidity framework (incorporating a liquidity coverage ratio and a net stable funding ratio). While the Basel III Standards themselves are not legally binding in any jurisdiction, new rules in the form of a new directive and regulation of the European Commission have entered into force in order to implement the Basel III Standards. The new European Commission rules consist of a new Capital Requirements Regulation which entered into force on 28 June 2013 and a Fourth Capital Requirements Directive which entered into force on 17 July 2013. The rules will become effective on 1 January 2014, although certain requirements will be phased in over the coming years.

As at 30 June 2013, the Group's leverage ratio calculated under the current Basel III Standards would be below the current prescribed minimum threshold of 3 per cent. set under Basel III. As a result, compliance with the leverage ratio requirement may require the Issuer to raise additional Tier 1 capital, although compliance with the leverage ratio is not required until 2018. Further, definitive thresholds are yet to be determined and may be adjusted based on different entities risk profiles prior to implementation. In order to increase the Issuer's Tier 1 capital, the Issuer has decided to increase its profitability from 2011 and the Issuer's shareholders have agreed to reduce dividends for the Issuer in order to allow profits to be transferred to retained earnings (thereby improving Tier 1 capital). Although the Group believes that these measures will be sufficient to improve its Tier 1 capital sufficiently to meet the leverage ratio requirement by 2018, there can be no assurance that this will occur. If the Group is unable to increase its Tier 1 capital to the required levels, it may be required to reduce the amount of its risk-weighted assets and engage in the disposition of businesses or assets, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group. Any change that limits the Group's ability to manage effectively its balance sheet and capital resources going forward or to access funding sources, may have a material adverse effect on the Group's business, financial condition, regulatory capital position and liquidity.

The Group may be adversely affected by resulting changes in regulation

The Group is subject to various regulations which are in various stages of being passed and implemented at an EU level as well as at a Finnish level. On 14 February 2013, the European Commission published its detailed proposal for an EU Financial Transaction Tax ("**FTT**") to be implemented across certain EU Member States. If adopted, most equity, debt and derivative transactions in these jurisdictions would be subject to the tax – from as early as 2014. Should the FTT come into force under its current proposal it could increase the Group's cost of funding, its cost of obtaining derivatives to adequately hedge its interest rate and currency rate risks, and its cost of lending, amongst other things and, as a result, could have a material adverse effect on the Group's business, financial condition and results of operations.

The European Markets Infrastructure Regulation ("**EMIR**") is at the end of a lengthy negotiation process and will significantly alter the structure of European OTC markets. Firms will need to clear all OTC derivative transactions, including in relation to interest rate and foreign exchange derivatives. The scope of the clearing obligation will apply to all financial counterparties transacting in OTC derivatives. In order to address concerns that regulators do not have a full picture of the exposures of the firms they regulate and the possible systemic implications these may pose, a number of trade repositories are being established where information on positions will be collected. EMIR will require all derivative transactions (OTC and exchange traded) entered into by European Union counterparties to be reported within one day of the execution of the contract. Both counterparties to the transaction will need to report, although firms will be able to do so on behalf of their clients. The final implementation of these requirements may increase the costs of engaging in certain types of hedging and may have a material adverse effect on the cost and availability of certain derivative transactions the Group typically enters into. As a result, implementation of EMIR could have a material adverse effect on the Group's business, financial condition and results of operations.

These and other future regulatory changes could have a material adverse effect on the Group's business, financial condition and results of operations.

The value of the Group's investment portfolio may decline

The Group front-loads its funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. Because the Group front-loads much of its funding needs, the Group has significant assets for investment. The security of the investment and the stability of its valuation are two of the most important criterion for investments of the Group's funds. The Group's investment operations objective is to manage the investment assets by investing them profitably and as securely as possible to ensure that the Group's liquidity enables it to continue flexible lending operations under all market conditions. As a result, the Group maintains a high proportion of liquid funds. In response to market uncertainty regarding the eurozone in 2011 and 2012, the Group shifted the focus of its investment portfolio further towards investments that were considered more secure, primarily covered bonds and debt securities issued by EU states and other public sector entities in the economically strongest countries. As at 30 June 2013, the Group had Euro 5,740 million of debt securities in its investment portfolio. The Group monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are made. The market values of almost all debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information. However, should there be a decline in the market value of the debt security due to a material adverse event on the issuer, or in the market of the issuer, for which such securities are held, the Group may be unable to recover its original investment in such security. This could lead to losses which could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to the Guarantor

The Guarantor may not be able to fund its guarantee on a timely basis

The expenses of the Municipal Guarantee Board are mostly covered by income from guarantee commissions. As at 31 December 2012, MGB had Euro 14.4 million in total assets. In addition at the date of this Offering Circular, the Municipal Guarantee Board has liquidity back-up facilities from independent third parties of an amount equal to Euro 150 million to secure its liquidity. As a result, the total amount of Notes, together with other indebtedness guaranteed by MGB, is greater than the assets and back-up facilities of the Guarantor. However, any expenses or obligations that cannot be otherwise covered are the responsibility of member municipalities in Finland in proportion to their population at the preceding year-end, as specified in the (Finnish) Population Data Act. In addition, the Guarantor has the ability to seek funding in excess of the proportional requirement from the municipalities on a short term basis. The Guarantor can collect guarantee premiums on the guarantees granted by the Guarantor and the required contributions of member municipalities without a court decision using an execution decree in the form required in the Act on the Collection of Taxes and Charges through Execution. However, no assurance can be made that the Guarantor would be able to receive any necessary additional funds from the participating municipalities in a timely manner, or prior to a default.

Risk relating to the Notes

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of the Notes including Holders of the Notes who did not attend and vote at the relevant meeting and Holders of the Notes who voted in a manner contrary to the majority. The Issuer may also agree, without the prior consent of any of the Holders of the Notes, to modify any of the Notes, the Conditions or the Agency Agreement (subject to certain exceptions), which in the opinion of the Issuer for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision or is not materially prejudicial to the Holders of the Notes.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described.

Payments on the Notes may be subject to U.S. withholding under FATCA

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**"), the Issuer and financial institutions through which payments on the Notes are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the Notes made after 31 December 2016. This withholding should not apply to payments on Notes that are issued prior to 1 July 2014 (or, if later, the date that is six months after the date on which the final regulations that define "foreign passthru payments" are published) unless the Notes are materially modified after that date or are characterized as equity for U.S. federal income tax purposes.

The Issuer may enter into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information about investors. Under such an agreement, withholding may be triggered if: (a) an investor does not provide information sufficient for the relevant party to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any investor or person through which payment on the Notes is made is not able to receive payments free of withholding under FATCA.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, any of its agents or any other party as a result of the deduction or withholding of such amount. As a result, if FATCA withholding is imposed on these payments, investors may receive less interest or principal than expected.

An investor that is a "foreign financial institution" (as defined under the FATCA rules) that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

The United States is in the process of negotiating intergovernmental agreements to implement FATCA ("**IGAs**") with a number of jurisdictions. Different rules than those described above may apply if the Issuer or an investor is resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA. Finland is reported to be in the process of finalizing negotiations regarding an IGA with the United States; however, the contents of the IGA have not yet been made public.

Investors should consult their own advisers about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

Minimum denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of U.S.$200,000 (or its equivalent) that are not integral multiples of U.S.$200,000 (or its equivalent). In such case a Holder of Notes who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Notes to be admitted to listing on the Official List of the Financial Services Authority and to trading on the Regulated Market of the

London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Finland or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, and/or DTC, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor

The Notes will be represented by the Global Certificates except in certain limited circumstances described in the Global Certificates. Such Global Certificates will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg or with or on behalf of DTC. Except in the circumstances described in the Global Certificates, investors will not be entitled to receive definitive Notes. Euroclear, Clearstream, Luxembourg and/or DTC will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by one or more Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and/or Clearstream, Luxembourg and/or DTC.

While the Notes are represented by one or more Global Certificates the Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg or to DTC or a nominee thereof (as applicable) for distribution to their accountholders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear, Clearstream, Luxembourg and/or DTC (as applicable) to receive payments under the Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg and/or DTC to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificates will not have a direct right under the Global Certificates to take enforcement action against the Issuer or the Guarantor in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

U.S. civil judgments may not be enforceable

Each of the Issuer and the Guarantor is duly incorporated under the laws of the Republic of Finland. All of the directors and officers of the Issuer and the Guarantor reside in the Republic of Finland and almost all of the assets of the Issuer and the Guarantor and of such directors and officers are located in the Republic of Finland. None of the Issuer, the Guarantor nor any of their respective directors or officers has consented to the jurisdiction of the courts of the United States or any state thereof in connection with any suit brought by an investor in the Notes or named an agent for service of process within the United States upon the Issuer, the Guarantor or such persons or to enforce, in United States courts, judgments against the Issuer, the Guarantor or such persons or judgments obtained in such courts predicated upon the civil liability provisions of the federal securities laws of the United States. As a result, it may not be possible to effect service of process within the United States upon the Issuer, the Guarantor or such persons or to enforce against any of them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

The United States and the Republic of Finland do not currently have a convention or treaty providing for reciprocal recognition and enforcement of judgments rendered in connection with civil and commercial disputes. As a result, a final judgment for the payment of damages based on civil liability rendered by a U.S. court, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in the Republic of Finland. If the party in whose favor the final judgment is rendered brings a new suit in a competent Finnish court, the party may submit to the Finnish court the final judgment that has been rendered by the U.S. court. Such judgment will only be regarded by a Finnish court as evidence of the outcome of the dispute to which the judgment relates, and a Finnish court may choose to rehear the dispute *ab initio*.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value. Consequently, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies are expected to assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Issuer or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of the Republic of Finland as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's results of operations or financial condition.

United States securities laws may restrict the transfer of Notes

The Issuer is offering the Notes in reliance upon exemptions from registration under the U.S. Securities Act and applicable state securities laws. Therefore, the Notes may be transferred or resold only in transactions registered under, exempt from or not subject to the registration requirements of the U.S. Securities Act and all applicable state securities laws. See "*Subscription and Sale*" and "*Transfer Restrictions*" for further information.

USE OF PROCEEDS

The proceeds of the issue of the Notes will be used by the Issuer for lending to customers and general corporate purposes, but only in accordance with the Municipal Guarantee Board Act, as amended. The net proceeds of the issue of the Notes after deduction of commissions but before deduction of expenses relating to the offering of the Notes are expected to be U.S.$998,880,000.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment, will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note:

The U.S.$1,000,000,000 1.250 per cent. Guaranteed Notes due 12 September 2016 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Municipality Finance Plc (Kuntarahoitus Oyj) (the "**Issuer**") are constituted by a deed of covenant dated 12 September 2013 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of (a) a deed of guarantee dated 12 September 2013 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by The Municipal Guarantee Board (Kuntien takauskeskus) (the "**Guarantor**") and (b) a fiscal agency agreement dated 12 September 2013 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, Citigroup Global Markets Deutschland AG, as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrars, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Noteholders (as defined below) are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Status

(a) ***Form and denomination***: The Notes are in registered form, without interest coupons. The Notes (i) sold in offshore transactions in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will be issued in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof and (ii) sold in reliance on Rule 144A under the Securities Act ("**Rule 144A**") will be issued in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof (each denomination of Notes referred to in (i) and (ii), an "**Authorised Denomination**").

(b) ***Status of the Notes***: The Notes constitute unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, but (in the event of insolvency) only to the extent permitted by Finnish law relating to creditors' rights.

(c) ***Guarantee of the Notes***: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes (the "**Guarantee**"). The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor and rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, but (in the event of insolvency) only to the extent permitted by Finnish law relating to creditors' rights.

2. Register, Title and Transfers

(a) ***Register***: Each Registrar will maintain a register (each, a "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the relevant Register.

(b) ***Title***: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) ***Transfers***: Title to the Notes shall pass by registration in the relevant Register. Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as the relevant Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note Certificate representing the enlarged holding will only be issued against surrender of the Note Certificate representing the existing holding.

(d) ***Registration and delivery of Note Certificates***: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the relevant Registrar will register the transfer in question and deliver each new Note Certificate to be issued pursuant to Condition 2(c) each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder unless such relevant Holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) ***No charge***: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the relevant Registrar or any Transfer Agent but upon payment of, or against such indemnity as the relevant Registrar or (as the case may be) such Transfer Agent may require in respect of, any tax, governmental charge or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods***: Noteholders may not require transfers to be registered during the period of (i) 15 days ending on the due date for any payment of principal or interest in respect of the Notes and (ii) seven days ending on (and including) any Record Date.

(g) ***Regulations concerning transfers and registration***: All transfers of Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Negative Pledge

As long as any of the Notes remains outstanding (as defined in the Agency Agreement) the Issuer will procure that no Indebtedness (as defined below) of the Issuer and no guarantee by it of any Indebtedness of any third party will be secured by any Charge (as defined below) upon any of its present or future property, assets or revenues unless the Issuer shall simultaneously with, or prior to, the creation of such Charge take any and all action necessary to procure that all amounts payable by it under the Notes are secured equally and rateably by such Charge, **provided, however, that** any security provided by the Issuer to the Guarantor as collateral for the amounts payable by the Issuer to the Guarantor in respect of guarantees issued by the Guarantor on behalf of the Issuer shall not be regarded as a Charge securing Indebtedness for the purposes of this Condition.

For the purposes of this Condition 4:

"**Charge**" means any mortgage, charge, lien (other than any lien arising by operation of law), pledge or other security interest; and

"**Indebtedness**" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures or other like notes (whether or not initially distributed by means of a private placing) which is, or is intended to be, or is capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other established securities market (for which purpose any such indebtedness shall be deemed not to be capable of being quoted, listed or ordinarily dealt in as aforesaid if the terms of its issue expressly so provide).

4. Interest

The Notes bear interest from 12 September 2013 (the "**Issue Date**") at the rate of 1.250 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 12 March and 12 September in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is five business days (as defined in Condition 6(d) (*Payments on business days*)) after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth business day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$1,250 in respect of each Note of U.S.$200,000 denomination and U.S.$6.25 in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 12 September 2016, subject as provided in Condition 6 (*Payments*).

(b) ***Redemption or substitution for tax reasons***: If, (i) as a result of any change in the laws of the Republic of Finland or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issue of the Notes on the occasion of the next payment due in respect of the Notes the Issuer would be required to pay additional amounts as provided in Condition 7 (*Taxation*) and (ii) such circumstances are evidenced by the delivery by the Issuer to the Agent of a certificate duly signed by an authorised signatory of the Issuer stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option, having given no less than thirty nor more than sixty days' notice to the Holders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable):

(A) redeem all (but not some only) of the Notes comprising at their principal amount, together with accrued interest (if any) thereon **provided, however, that** no such notice of redemption may be given earlier than ninety days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due; or

(B) substitute, without the consent of any Holders of the Notes **provided that** no payment in respect of the Notes is overdue, an Affiliate to assume liability for the due and punctual payment of all payments on all Notes then outstanding and the performance of all the Issuer's other obligations under all the Notes then outstanding and the Agency Agreement and the Deed of Covenant.

Upon any such assumption, the assuming company shall succeed to the rights and obligations of the Issuer (or any previous assuming company) under the Notes, the Agency Agreement and the Deed of Covenant and the Issuer or any previous assuming company shall be released from its liability on the Notes, the Agency Agreement and the Deed of Covenant. Such assumptions shall be permitted only if the assuming company, the Issuer and the Guarantor enter into a deed poll (the "**Deed Poll**") whereby (i) the assuming company assumes the obligations of the Issuer under the Notes, the Agency Agreement and the Deed of Covenant, (ii) the assuming company and the Guarantor agree to indemnify each Holder against (a) any tax, duty, fee or governmental charge which is imposed on such Holder with respect to such Note or Deed of Covenant, as the case may be, and which would not have been so imposed had such assumption not been made, (b) any tax, duty, fee or governmental charge imposed on or relating to the act of assumption and (c) any costs or expenses of the act of assumption, (iii) the Guarantor unconditionally guarantees (irrespective of the validity, regularity or enforceability against the assuming company of any Note, the Deed of Covenant, the Agency Agreement or the Deed Poll or of any action to enforce the same and substantially to the effect scheduled to the Agency Agreement) all payments in respect of the Notes, the Agency Agreement, the Deed of Covenant and the Deed Poll and (iv) the assuming company and the Guarantor warrant that all necessary governmental approvals and consents for the assumption by the assuming company of its obligations and the giving and implementation of the Guarantor's guarantee have been obtained and are in full force and the obligations of the assuming company under the Notes, the Deed of Covenant, the Agency Agreement and the Deed Poll and of the Guarantor under its guarantee to guarantee payments in respect of the Notes, the Deed of Covenant, the Agency Agreement and the Deed Poll are legal, valid, binding and enforceable in accordance with their terms **provided that** no substitution shall take place pursuant to Condition 5(a)(B) unless the assuming company and the Guarantor have obtained legal opinions containing no material qualifications from independent legal advisers of recognised standing in the country of incorporation of the assuming company, Finland and in England that the obligations of the assuming company and of the Guarantor are legal, valid and binding and that all consents and approvals as aforesaid have been obtained.

As used in this Condition, "**Affiliate**" means any entity controlled, directly or indirectly, by the Guarantor, any entity that controls the Issuer, directly or indirectly, or any entity under common control with the Issuer. For this purpose, "**control**" of the Issuer or any entity means ownership of a majority of the voting power of the Issuer or such entity.

Not less than thirty nor more than ninety days prior to the effective date of the assumption by the assuming company, the Issuer shall procure the notification to the Holders, in accordance with Condition 14 (*Notices*), of the assumption and stating that copies, or pending execution thereof final drafts, of the Deed Poll and other relevant documents and of the legal opinions are available for inspection by Holders at the specified offices of the Fiscal Agent and the Registrars. The originals of the Deed Poll and other documents will be delivered to the Fiscal Agent to hold until there are no claims outstanding in respect of the Notes, the Deed of Covenant, the Agency Agreement or the Deed Poll. The assuming company, the Issuer and the Guarantor shall in the Deed Poll acknowledge the right of every Holder of any Note to the production of such documents.

Upon the assumption becoming effective, references in these Conditions to the "**Republic of Finland**", shall be deemed to be replaced by references to the country of incorporation and, if different, the country of tax residence of the assuming company.

(c) ***No other redemption***: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) (*Scheduled redemption*) and (b) (*Redemption or substitution for tax reasons*) above.

(d) ***Purchase and Cancellation***: The Issuer may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold (**provided that**, for so long as any of the Notes are "**restricted securities**" as defined in Rule 144A under the Securities Act, such resale is outside the United States, as defined in Regulation S). Any Notes so purchased, while held by or on behalf of the Issuer shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so cancelled will not be reissued.

6. Payments

(a) ***Principal***: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) ***Interest***: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) ***Payments subject to fiscal laws***: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the relevant Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) ***Record date***: Each payment in respect of a Note will be made to the person shown as the Holder in the relevant Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the relevant Register at the opening of business on the relevant Record Date.

7. Taxation

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Republic of Finland or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes or duties is required by law. In that event, the Issuer or (as the case may be) the Guarantor will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holders after such withholding or deduction shall equal the respective amounts which would have been receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable in respect of payment on any Note:

(i) presented for payment by or on behalf of a Holder who is liable to such taxes or duties in respect of such Note by reason of his having some connection with the Republic of Finland other than the mere holding of such Note; or

(ii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the EU.

The Issuer or (as the case may be) the Guarantor is permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**") as a result of a Holder, beneficial owner or an intermediary that is not an agent of the Issuer or (as the case may be) the Guarantor not being entitled to receive payments free of FATCA withholding. The Issuer or (as the case may be) the Guarantor will have no obligation to pay additional amounts or otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Issuer or the Guarantor, or either of their agents or any other party.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the payment in question is improperly withheld or refused, the day on which the Fiscal Agent has notified the Noteholders that the full amount in question has been paid in accordance with Condition 6 (*Payments*) (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the Notes shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition thereto or in substitution therefor.

8. Events of Default

The following events or circumstances (each, an "**Event of Default**") shall be events of default in relation to the Notes, namely:

(i) the Issuer fails to pay any amount payable in respect of any Note for a period of more than ten days from the due date to make payment thereof; or

(ii) default is made by the Issuer or the Guarantor in the performance or observance of any other obligation, condition or provision binding on it under or in respect of any of such Notes and such default continues for ninety days after written notice of such failure, requiring the Issuer or, as the case may be, the Guarantor to remedy the same, shall first have been given to the Fiscal Agent by the Holder of any such Note at the time outstanding; or

(iii) any indebtedness for or in respect of borrowed money of the Issuer or the Guarantor becomes due and repayable prematurely by reason of an event of default (howsoever called) or the Issuer or the Guarantor fails to make any payment in respect of any indebtedness for or in respect of borrowed money on the due date for payment as extended by any applicable grace period or any security given by the Issuer or the Guarantor for any indebtedness for borrowed money becomes enforceable or if default is made by the Issuer or the Guarantor in making any payment due under any guarantee and/or indemnity given by it in relation to any indebtedness for borrowed money of any other person in an aggregate amount of at least €50,000,000 (or its equivalent in any other currency or currencies); or

(iv) the Issuer or the Guarantor is adjudicated or found bankrupt or insolvent, or suspends payments, any order or action is made or taken by any competent court or administrative agency, or any resolution is passed by the Issuer or the Guarantor, to apply for judicial composition proceedings with its creditors or for the appointment of a receiver or trustee or other similar official in insolvency proceedings in relation to the Issuer or the Guarantor or a substantial part of their assets, or the Issuer or the Guarantor is wound up or dissolved; or

(v) the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

If any Event of Default shall occur, any Holder of a Note may by written notice to the Issuer declare such Note and all interest then accrued on such Note to be forthwith due and payable, whereupon the same shall become immediately due and payable at its principal amount without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, unless prior to the time when the Issuer receives such notice all Events of Default in respect of all the Notes shall have been cured.

9. Prescription

Claims for payment in respect of the Notes shall be prescribed and become void unless made within five years, in the case of interest, or ten years, in the case of principal, from the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the relevant Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, fiscal agent and additional or successor paying agents and transfer agents; **provided, however, that** the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent, a registrar and a transfer agent and (b) a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

12. Meetings of Noteholders; Modification

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than one-half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders, whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes on redemption or the maturity or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, a clear majority of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***: The Notes, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13. Further Issues

The Issuer may from time to time without the consent of the Holders of any Notes but with the consent of the Guarantor create and issue further Notes having terms and conditions the same as the Notes or the same except for the amount of the first payment of interest (if any) and having the benefit of the Guarantee, which may be consolidated and form a single series with the outstanding Notes, **provided that** such further Notes are fungible with the outstanding Notes for U.S. federal income tax purposes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the relevant Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, if at any time by reason of the suspension or curtailment of postal services within the United Kingdom or elsewhere the Issuer is unable to effectively to give notice to Noteholders through the post, notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication, or, if published more than once, on the first date on which publication is made.

15. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. Governing Law and Jurisdiction

(a) ***Governing law***: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) ***English courts***: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) ***Appropriate forum***: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) ***Rights of the Noteholders to take proceedings outside England***: Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing Law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Process agent***: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Jordans International Limited at 20 – 22 Bedford Row, London WC1R 4JS or at any other address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) ***Consent to enforcement, etc.***: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) ***Waiver of immunity***: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

17. Third Party Rights

No person shall have any right to enforce any of these Conditions under the Contracts (Rights of Third Parties) Act 1999.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. Form of the Notes

The Notes sold in reliance on Regulation S under the Securities Act will be represented on issue by the Unrestricted Global Certificate, which will be registered in the name of the Common Safekeeper (or its nominee) and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the Common Safekeeper. Depositing the Unrestricted Global Note Certificate with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in the Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A will be represented on issue by the Restricted Global Certificate, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs that are also QPs, holding their interests for their own account or for the account of one or more QIBs that are also QPs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Certificate. See "*Subscription and Sale*" and "*Transfer Restrictions*".

Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Subscription and Sale*". On or prior to the 40th day after the later of the commencement of the offering and the Issue Date, ownership of interests in an Unrestricted Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to persons inside the United States shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless: (i) the transfer is to a person that is a QIB that is also a QP, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is to a person outside the United States in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is outside the United States in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such Unrestricted Global Certificate and become an interest in the Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2. Accountholders

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each, an "**Accountholder**") (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the name of the relevant Common Safekeeper or the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

3. Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be affected by reduction in the aggregate principal amount of the Notes in the Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

4. Payments

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment fails to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Restricted Notes holding through DTC will receive, to the extent received by the Fiscal Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

In the case of all payments in respect of the Global Certificates, "**business day**" shall mean any day on which dealings in foreign currencies may be carried on in New York City and London.

5. Notices

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 14 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or DTC (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and/or DTC and otherwise in such manner as the Fiscal Agent and/or Euroclear and Clearstream, Luxembourg and/or DTC may approve for this purpose.

6. Registration of Title

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee after close of business on the Clearing System Business Day preceding the due date for any payment of principal, or interest in respect of the Notes, where "**Clearing System Business Day**" means a day on which each clearing system for which a Global Certificate is being held is open for business.

7. Exchange for Certificates

(a) ***Exchange***

Each Restricted Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Restricted Individual Note Certificates and each Unrestricted Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Unrestricted Individual Note Certificates upon the occurrence of an Exchange Event.

For these purposes, an "**Exchange Event**" means that:

(i) any of the circumstances described in Condition 8 (*Events of Default*) have occurred;

(ii) in the case of an Unrestricted Global Note Certificate only, Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business; or

(iii) in the case of a Restricted Global Note Certificate only, DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the relevant Restricted Global Note Certificate or DTC ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC.

In exchange for the relevant Global Note Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Individual Note Certificates in or substantially in the form set out in the Agency Agreement.

(b) ***Delivery***

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is also a QP. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Subscription and Sale*".

(c) ***Direct Rights***

If:

(a) Individual Note Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes evidenced by the Global Note Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or DTC as being entitled to interests in the Notes will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the registered Holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or DTC (as the case may be).

(d) ***Legends and transfers***

The holder of a Certificate may transfer the Notes represented thereby, in whole or in part, in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Subscription and Sale*", or upon specific request for removal of the legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Certificates will bear the same legend as the legend for the Restricted Global Certificates set out under "*Subscription and Sale*". The Restricted Certificates may not, at any time, be held by or on behalf of U.S. persons that are not QIBs that are also QPs. Before any Unrestricted Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB that is a QP and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Certificates will bear the same legend as the legend for the Unrestricted Global Certificates set out under "*Subscription and Sale*". Before any Restricted Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the relevant Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person outside the United States in accordance with Regulation S.

8. Payment Record Date

Each payment to be made in respect of a Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which each clearing system is open for business.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth consolidated cash and cash equivalents and capitalization (including short term debt, long-term debt and shareholders' equity) of the Issuer as at 30 June 2013.

The information in this table should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Group*" and the Group Consolidated Financial Statements and the notes to those statements included elsewhere in this Offering Circular.

	As at 30 June 2013
	(Euro '000)
Cash and cash equivalents	**142,246.0**
Indebtedness:	
Liabilities to credit institutions	2,927,042.5
Liabilities to the public and public sector entities	960,372.7
Debt securities issued	19,848,028.0
Total Indebtedness	**23,735,443.2**
Shareholders' equity:	
Share capital	42,583.2
Reserve fund	276.7
Fair value reserve	23,474.8
Reserve for invested non-restricted equity	40,366.1
Retained earnings	300,830.4
Total equity attributable to parent company equity holders	**407,531.2**
Total capitalization[(1)]	**24,142,974.4**

(1) Total capitalization is the sum of total indebtedness and total equity.

SELECTED FINANCIAL INFORMATION RELATING TO THE GROUP

The following tables set out, in summary form, selected consolidated financial information for the Group as at and for the six months ended 30 June 2013 and 30 June 2012 and as at and for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, as derived from the Group Consolidated Financial Statements which are prepared in accordance with EU IFRS. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Group Consolidated Financial Statements and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Group*" appearing elsewhere in this Offering Circular.

INCOME STATEMENT DATA

Consolidated Income Statement

	For the six months ended 30 June		For the year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
			(Euro '000)		
Interest income	85,225.1	165,932.6	275,660.5	328,300.0	201,187.4
Interest expense	(6,604.2)	(98,081.0)	(133,258.9)	(234,051.4)	(122,472.8)
NET INTEREST INCOME	**78,620.8**	**67,851.6**	**142,401.6**	**94,248.6**	**78,714.6**
Commission income	1,036.4	926.7	1,729.8	2,184.7	2,248.8
Commission expense	(2,103.6)	(1,582.9)	(3,225.0)	(2,864.8)	(2,315.4)
Net income from securities and foreign exchange transactions	7,568.4	3,229.5	14,340.4	(7,982.9)	(8,062.5)
Net income from available-for-sale financial assets	(905.1)	(529.1)	404.9	(216.2)	(141.5)
Net income from hedge accounting	6,793.1	3,242.7	339.6	(3,348.6)	3,586.5
Other operating income	2.2	(20.5)	25.6	103.7	62.2
Administrative expenses	(7,214.1)	(6,506.0)	(13,494.7)	(12,123.4)	(10,225.1)
Depreciation and impairment on tangible and intangible assets	(567.0)	(525.8)	(1,066.9)	(765.2)	(574.3)
Other operating expenses	(2,627.7)	(2,418.9)	(4,874.2)	(3,983.4)	(4,091.1)
Impairment losses on other financial assets	54.5	0.00	2,020.0	0.00	(900.0)
OPERATING PROFIT	**80,657,8**	**63,667.0**	**138,601.1**	**65,252.5**	**58,302.3**
Income taxes	(19,788.7)	(15,616.2)	(33,990.6)	(14,343.7)	(15,192.6)
PROFIT FOR THE FINANCIAL PERIOD	**60,869.1**	**48,050.8**	**104,610.5**	**50,908.8**	**43,109.7**
Profit attributable to:					
Equity holders of the parent company	60,886,4	48,007.3	104,510.4	50,730.9	42,928.8
Non-controlling interest	(17.3)	43.6	100.2	177.9	180.9

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
			(Euro '000)		
Profit for the financial period	60,869.1	48,050.8	104,610.6	50,908.8	43,109.7
Available-for-sale financial assets (fair value reserve):					
Net change in fair value	3,198.7	22,807.7	47,307.5	(10,554.1)	7,497.0
Net amount transferred to profit or loss	(1,243.4)	710.4	283.1	71.9	(93.3)
IAS39 Reclassification adjustment	95.3	148.2	272.3	651.7	765.1
Taxes relating to components of other comprehensive income	(502.4)	(5,798.2)	(11,726.4)	2,273.6	(2,123.9)
TOTAL COMPREHENSIVE INCOME	**62,417.4**	**65,918.9**	**140,747.1**	**43,351.9**	**49,154.7**
Total comprehensive income attributable to:					
Equity holders of the parent company	62,434.6	65,875.3	140,646.9	43,174.0	48,973.8
Non-controlling interest	(17.3)	43.6	100.2	177.9	180.9

BALANCE SHEET DATA

	As at 30 June	As at 31 December		
	2013	**2012**	**2011**	**2010**
		(Euro '000)		
ASSETS				
Cash and cash equivalents	142,246.0	228,187.6	26,507.3	35,502.8
Loans and advances to credit institutions	345,019.3	106,828.0	562,006.8	36,053.2
Loans and advances to the public and public sector entities	16,907,399.2	15,764,231.6	13,654,934.4	11,706,412.9
Debt securities	6,506,965.8	6,637,830.8	5,588,958.7	5,420,237.8
Shares and participations	10,022.8	10,035.1	27.2	27.2
Derivative contracts	1,395,833.6	2,551,682.7	3,750,333.8	2,634,015.0
Intangible assets	2,842.7	2,399.0	2,273.1	1,464.1
Tangible assets	2,348.2	2,341.5	2,460.1	1,485.5
Other assets	2,405.1	2,410.1	1,742.7	1,984.8
Accrued income and prepayments	218,051.1	254,213.7	247,761.4	207,555.6
Deferred tax assets	30.6	0.00	4,611.2	2,337.6
TOTAL ASSETS	**25,533,164.5**	**25,560,160.0**	**23,841,616.7**	**20,047,076.3**
LIABILITIES AND EQUITY				
LIABILITIES				
Liabilities to credit institutions	2,927,042.5	3,961,730.2	3,533,230.1	2,613,259.0
Liabilities to the public and public sector entities	960,372.7	1,049,476.6	1,176,752.4	984,601.2
Debt securities issued	19,848,028.0	18,798,374.7	17,187,942.3	14,879,260.8
Derivative contracts	997,001.0	937,983.3	1,253,255.7	916,708.9
Other liabilities	1,041.0	1,306.3	2,529.6	1,223.1
Accrued expenses and deferred income	244,682.6	297,999.2	349,695.1	362,293.4
Subordinated liabilities	49,466.9	90,354.7	89,915.9	88,971.8
Deferred tax liabilities	97,936.9	77,670.4	43,605.1	29,413.8
TOTAL LIABILITIES	**25,125,580.6**	**25,214,895.4**	**23,636,926.3**	**19,875,731.9**
EQUITY AND NON-CONTROLLING INTEREST				
Share capital	42,583.2	42,583.2	42,583.2	42,583.2
Reserve fund	276.7	276.7	276.7	276.7
Fair value reserve	23,474.8	21,926.6	(14,209.9)	(6,653.0)
Reserve for invested non-restricted equity	40,366.1	40,366.1	40,366.1	40,366.1
Retained earnings	300,830.4	239,944.0	135,433.6	94,468.6
Total equity attributable to parent company equity holders	**407,531.2**	**345,096.6**	**204,449.7**	**171,041.6**
Non-controlling interest	**52.7**	**168.0**	**240.8**	**302.9**
TOTAL EQUITY AND NON-CONTROLLING INTEREST	**407,583.9**	**345,264.5**	**204,690.4**	**171,344.5**
TOTAL LIABILITIES AND EQUITY	**25,533,164.5**	**25,560,160.0**	**23,841,616.7**	**20,047,076.4**

CASH FLOW DATA

	As at 30 June		As at 31 December		
	2013	2012	2012	2011	2010
			(Euro '000)		
Cash flow from operating activities	(717,598.8)	771,095.4	(482,694.8)	273,711.5	902,839.2
Cash flow from investing activities	(1,005.8)	(634.2)	(1,128.3)	(2,498.7)	(1,497.1)
Cash flow from financing activities	(40,098.0)	(173.0)	(173.0)	(10,005.9)	(9,990.7)
Change in cash funds	(758,702.6)	770,288.2	(483,996.1)	261,206.8	891,351.4
Cash funds at 1 January	1,991,448.0	2,475,444.2	2,475,444.2	2,214,237.3	1,322,885.9
Cash funds at period end	1,232,745.5	3,245,732.3	1,991,448.0	2,475,444.2	2,214,237.3

KEY PERFORMANCE INDICATORS

The following table sets out some of the key indicators of the results and performance of the Group and the Issuer used by management. Finanssivalvonta (or the Financial Supervisory Authority) ("**FIN-FSA**"), which is the authority for supervision of Finland's financial and insurance sectors, defines what key indicators need to be presented as part of the "*Report of the Board of Directors*". The Report of the Board of Directors, which includes some of the key indicators below, is not governed by EU IFRS, however all of the key indicators below are calculated based on our consolidated financial information which is presented in accordance with EU IFRS. These key indicators are not directly comparable with those related to other credit institutions.

Certain key indicators do not have official definitions from EU IFRS or FIN-FSA and are presented to clarify certain indicators used by management, such as our funding portfolio or lending portfolio. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Group Consolidated Financial Statements and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Group*" appearing elsewhere in this Offering Circular.

	As at and for the six months ended 30 June		As at and for the year ended 31 December		
	2013	2012	2012	2011	2010
Turnover[(1)] (mEUR)	99.7	172.8	292.5	319.0	198.9
Net interest income (mEUR)	78.6	67.9	142.4	94.2	78.7
% of turnover	78.84%	39.27%	48.7%	29.5%	39.6%
Operating profit (mEUR)	80.7	63.7	138.6	65.3	58.3
% of turnover	80.88%	36.85%	47.38%	20.45%	29.32%
Cost-to-income ratio[(2)]	0.13x	0.15x	0.14x	0.23x	0.23x
Loan portfolio[(3)] (mEUR)	16,839	14,680	15,700	13,625	11,698
Funding portfolio[(4)] (mEUR)	22,885	22,820	22,036	20,092	17,162
Total assets (mEUR)	25,533	27,141	25,560	23,842	20,047
Return on equity (%) (ROE)[(5)]	32.34%	40.45%	38.04%	27.08%	28.42%
Return on assets (%) (ROA)[(6)]	0.48%	0.38%	0.42%	0.23%	0.42%
Equity ratio (%)[(7)]	1.60%	1.00%	1.35%	0.86%	0.85%
Own funds (mEUR)	450.8	354.0	428.9	288.4	245.9
Capital adequacy ratio, Tier 1 capital, (%)[(8)]	31.09%	21.66%	26.22%	19.04%	13.92%
Capital adequacy ratio (%)[(9)]	35.73%	27.85%	33.87%	24.13%	19.28%

(1) Turnover is calculated as the sum of interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income.

(2) Cost-to-income ratio is calculated as the sum of commission expenses, administrative expenses, depreciations and other operating expenses divided by the sum of 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 and other operating income.

(3) Loan portfolio is calculated as loans and advances to the public and public sector entities less leasing liabilities.

(4) Funding portfolio is calculated as the sum of liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued less collateral received.

(5) Return on equity (per cent.) (ROE) is calculated as operating profit less income taxes divided by total equity and non-controlling interest (average of the beginning of the year and the end of the year).

(6) Return on assets (per cent.) (ROA) is calculated as operating profit less income taxes divided by total assets (average of the beginning of the year and the end of the year).

(7) Equity ratio (per cent.) is calculated as the sum of total equity and non-controlling interest and appropriations less deferred tax liabilities divided by total assets.

(8) Capital adequacy ratio, Tier 1 capital (per cent.) equals total Tier 1 capital divided by total minimum requirement of own funds multiplied by eight.

(9) Capital adequacy ratio (per cent.) equals total own funds divided by total minimum requirement of own funds multiplied by eight.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS OF THE GROUP

The discussion below was based on the Group Consolidated Financial Statements.

The following discussion of the Group's results of operations, financial condition and cash flows should be read and interpreted in conjunction with the Group Consolidated Financial Statements and other financial information included in other sections of this Offering Circular, specifically jointly with the data presented in "Selected Financial Information Relating to the Group". This section includes forward-looking statements that reflect the current views of the Board of Directors and due to their nature involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of the factors discussed below and in other sections of this Offering Circular, particularly in "Risk Factors" (see also "Forward-Looking Statements"). Investors should read the whole of this Offering Circular and not base their decisions or opinions solely upon the information contained in this section.

The summary of critical accounting policies and estimates according to which the Group Consolidated Financial Statements were prepared is provided in this section. See "—Critical accounting policies".

Overview

Municipality Finance Plc (Kuntarahoitus Oyj) (the "**Issuer**") was established on 1 May 2001, when the old Municipality Finance Plc (established in 1989) and Municipal Housing Finance Plc (established in 1993) were merged to form a new company, Municipality Finance Plc, a credit institution referred to in the (Finnish) Credit Institutions Act. On 26 April 2001, the Issuer was granted a credit institution licence by the Ministry of Finance.

The Issuer serves the Finnish municipal sector which consists of municipalities, municipal federations and a range of organisations owned or controlled by municipalities. The Issuer's mission is to be, as a financial institution owned by the municipal sector, the most sought-after and active partner in municipal-sector financial services in Finland. The Issuer's aim is to ensure cost-effective financial services for Finnish municipalities, to operate efficiently and grow profitably, and to improve its self-sufficiency and increase its own funds primarily through funds from its operations in compliance with the Municipal Guarantee Board Act and all relevant and applicable rules and legislation. The Issuer focuses actively on customer relations and creates solutions and services for its customers.

The Issuer's fully paid-up capital was approximately Euro 42.6 million and its primary and secondary funds amounted to approximately Euro 450.8 million at 30 June 2013. The Issuer's total assets on 30 June 2013 were approximately Euro 25.5 billion, of which the loan portfolio represented approximately Euro 16.8 billion.

The Issuer's five largest shareholders at 30 June 2013 were Keva (formerly named "The Local Government Pensions Institution") (30.66 per cent.), the Republic of Finland (16.00 per cent.), City of Helsinki (10.41 per cent.), City of Espoo (3.96 per cent.) and VAV Asunnot Oy (City of Vantaa) (2.47 per cent.).

Significant Factors Affecting Operating and Financial Results

Pricing, cost of funding and liquidity

The availability and the cost of funding has a material impact on the net interest income of the Group, impacting the Group's competition situation, and thus potentially the growth of its lending portfolio and the levels of its net interest margins. One of the most significant factors affecting the cost and availability of the Group's funding has been and is related to the general development of the European economy. While the international position of Finland is favourable in terms of access to funding, should the European financial crisis deepen materially, the cost of acquiring funding might rise.

Despite the global economic downturn, Finland was one of the only countries in the EU not to lose its AAA rating and it was still rated AAA by both Moody's and S&P as at 3 September 2013. The Finnish economy recovered from the recent recession well, and according to the Ministry of Finance real GDP growth in 2011 was 2.7 per cent., although it slowed to a decline of 0.2 per cent. for 2012. According to the Ministry of Finance, real GDP for 2013 is forecast to decline by 0.4 per cent., although it is forecast to grow by 1.2 per cent. in 2014.

The Group requires ongoing access to funding in order to originate new lending contracts. The Group front-loads its funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. As a result, as at 30 June 2013, the Group's liquidity buffer was approximately 11 months. The main sources of funding used by the Group for lending activities are its EUR 22 billion Programme for the Issuance of Debt Instruments ("**EMTN Programme**"), its domestic debt programme, its Treasury Bill programme and its Australian dollar 2 billion Medium Term Note Programme. Since 2010, Municipality Finance Plc has held the status of central bank counterparty, and together with its securities portfolio, the Group's entire municipal loan book can be used as eligible collateral for borrowings from the Finnish central bank, which acts as a substantial liquidity buffer.

As a result of the significant volume of funding the Group requires, the Group realizes significant expenses in acquiring its funding. Since most of these expenses relate to the interest expense of such funding, which is hedged to floating rate euro, the Group focuses on achieving lending prices which offer a target margin over its cost of funding. As a result, if the Group's cost of funding were to increase, it may be forced to increase its pricing to its customers which may reduce its market share.

Additionally, because the Group front-loads much of its funding needs, the Group has significant assets for investment. Therefore, the Group must manage the cost of securing the funding against any returns on holding the funds to meet the Group's liquidity requirements prior to such funds being used for lending purposes. The security of the investment and the stability of its valuation are two of the most important criterion for investment of the Group's funds. The objective of the Group's investment operations is to manage the investment assets by investing them profitably and as securely as possible to ensure that the Group's liquidity enables it to continue flexible lending operations under all market conditions. As a result, the Group maintains a high proportion of liquid funds. Investment assets comprise the Group's own funds and acquired funding. In response to market uncertainty regarding the eurozone in 2011 and 2012, the Group shifted the focus of its investment portfolio further towards investments that were considered more secure, primarily covered bonds and debt securities issued by EU states and other public sector entities in the economically strongest countries. Investments were primarily made in core countries in the eurozone, including the Nordic countries. In investments with a maturity of over one year, the focus was on AAA-rated covered bonds and on transactions issued by highly rated supranational, sovereign and agency-issuers. The focus of short-term investments was on Nordic banks and Finnish central bank deposits. One indication of this shift in investments during 2012 was that the Group was able to retain the average credit rating of its own liquidity investment portfolio unchanged compared with the end of 2011 despite the overall downward trend in the credit ratings of investments. However, higher rated assets often have lower interest rates than less highly rated assets. As a result, the more conservative the Group's investments are the more likely interest income from investment activity will decrease. The Group experienced this effect in 2012 as average interest rates on its investment securities decreased as a result of the more conservative positioning of the investment portfolio.

The volume of the Group's lending and its market share

The Issuer is a credit institution owned by Finnish municipalities, Keva (the pension fund for Finnish municipalities) and the Republic of Finland and focuses solely on offering market-based financing to municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations. The Issuer specialises in long-term loan arrangements that are used in particular for infrastructure investments and the construction, renting, management or maintenance of social housing in Finland. As such, the Issuer conducts its lending operations exclusively in Finland and its lending growth is reliant on the prospects of municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations in Finland. Therefore the macroeconomic factors relating to Finland, and more specifically its municipalities, such as GDP, the inflation rate, interest rates, currency exchange rates and tax rates, together with various other factors, have a material impact on customer demand and margins for Group's products and services.

Municipalities' investment needs grew in the 2000s. According to a report by the Ministry of Finance, Finnish municipalities have more than 500 mandatory functions, whose main focus is on health care, social services and education. In addition to this, municipalities bear a significant responsibility for developing and maintaining society's other infrastructure, such as energy and water supply, amongst other areas. Despite the growth of debt in absolute terms, municipalities' relative indebtedness has not increased since 2009, as the income available to them has also grown correspondingly. However, debt may become a problem for the municipalities in the future if the amount of debt is allowed to increase at the current pace. From 2009 to 2012 municipalities received a temporarily elevated share of corporate taxes from the state. The Ministry of Finance decided also on a temporary increase for 2013. In 2012, the share for municipalities of corporate taxes was 28.34 per cent. Municipalities will receive a 29.49 per cent. share of corporation tax for 2013. The municipalities' share of corporate taxes for 2014 will be decided by the Ministry of Finance before the 2013 year-end.

In 2012, the total demand for loans was higher than in 2011. The growth was the highest in the loan demand by municipalities and municipal federations and in housing loans. In housing loans, demand was increased by the conversion of state-subsidised loans to financial institution loans. In state-subsidised production of new housing, loan demand declined slightly. During the year, construction of both rental housing and housing for special groups was started on the basis of interest subsidy decisions made in the previous year. In 2012, customers applied for interest subsidy decisions concerning only a few rental building projects. If this situation continues unchanged, there may be a shortage of reasonably priced rental housing, particularly in the Helsinki metropolitan area and other growth centres. Loan demand by municipality-owned entities in 2012 was at the level of the previous year. Infrastructure projects such as the construction of roads were emphasised in loan demand. Energy sector financing focused on energy-efficient projects utilising domestic fuel. These trends generally continued in the first six months of 2013.

Concurrently, with the increase in demand for loans described above, many of the Group's competitors have been restricted in their ability to lend due to higher funding costs and reduced access to capital as a result of the global credit crisis. Further, those that were able to lend often had to raise their prices from their pre-crisis levels. As a result, the Group has gained market share in many of its lending markets over the last several years, even while it has increased its prices. Any improvement in the global credit markets may result in increased competition which may lead to increased pricing pressure or a decline in market share in the future.

The total number of loan tender requests received by the Group in 2012 increased by 13 per cent. compared with 2011. The total number of loan tender requests received by the Issuer in 2011 increased by 7 per cent. compared with 2010.

The total value of loan tender requests received by the Group in the six months ended 30 June 2013 was Euro 2,868 million compared with Euro 2,274 million for the six months ended 30 June 2012. The total value of loan tender requests received in 2012 was Euro 4,515 million, of which it won Euro 3,284 million compared with total value of loan tender requests received in 2011 of Euro 3,988 million (2010: Euro 3,735 million), of which the Group won Euro 2,729 million (2010: Euro 2,675 million). Based on internal calculations of the tender requests the Group receives, the Group believes its market share was 80 per cent. and 77 per cent., respectively, of all competitive bidding for financing among the Issuer's customer base in 2012 and 2011, respectively.

Fluctuations in interest rates, currency exchange rates and the valuation of derivatives

The Group's lending is denominated in euros, although the Group has issued bonds denominated in 16 different currencies since 2011. The Group's funding portfolio as at 30 June 2013 was Euro 22,885 million compared with Euro 22,036 million and Euro 20,092 million as at 31 December

2012 and 2011, respectively. Of this total amount as at 30 June 2013 and 31 December 2012 and 2011, 16 per cent. was denominated in euros and 84 per cent. in foreign currencies. However, the Group hedges against all currency risks by using derivative contracts to translate foreign currency denominated funding into euros.

Also, while the Group's lending and funding is in both floating and fixed interest rates, the Group also hedges all of its fixed rate interest exposure to floating rate.

In addition to loans, the Group offers municipalities, municipal federations and municipal enterprises customised derivative agreements for the management of their interest risks. The Group arranges back-to-back derivative agreements with other financial institutions for any derivative agreements it offers to municipalities, municipal federations and municipal enterprises.

As a result of these activities, the Group had derivative contracts with a nominal value of Euro 50,166.4 million as at 30 June 2013 compared with Euro 44,000 million and Euro 39,906.7 million as at 31 December 2012 and 2011, respectively.

The following table sets forth, as of the dates indicated, information on the derivative contracts of the Group:

	As at 30 June 2013		
	Nominal value	**Fair Value**	
	Total	**Positive**	**Negative**
		(Euro '000)	
Contracts not included in hedge accounting			
Interest rate derivatives			
Interest rate swaps	6,423,162	45,625	(65,206)
Currency derivatives			
Cross currency interest rate swaps	48,447	218	(216)
Forward exchange contracts	2,036,850	1,755	0
Equity derivatives	2,639,691	162,530	(162,530)
Other derivatives	224,976	36,319	(35,959)
Total	**11,373,126**	**246,447**	**(263,911)**
Contracts under hedge accounting			
Interest rate derivatives			
Interest rate swaps	23,063,949	312,332	(277,308)
Currency derivatives			
Cross currency interest rate swaps	15,729,312	837,055	(455,791)
Total	**38,793,261**	**1,149,387**	**(733,099)**
All total	**50,166,387**	**1,395,834**	**(997,010)**

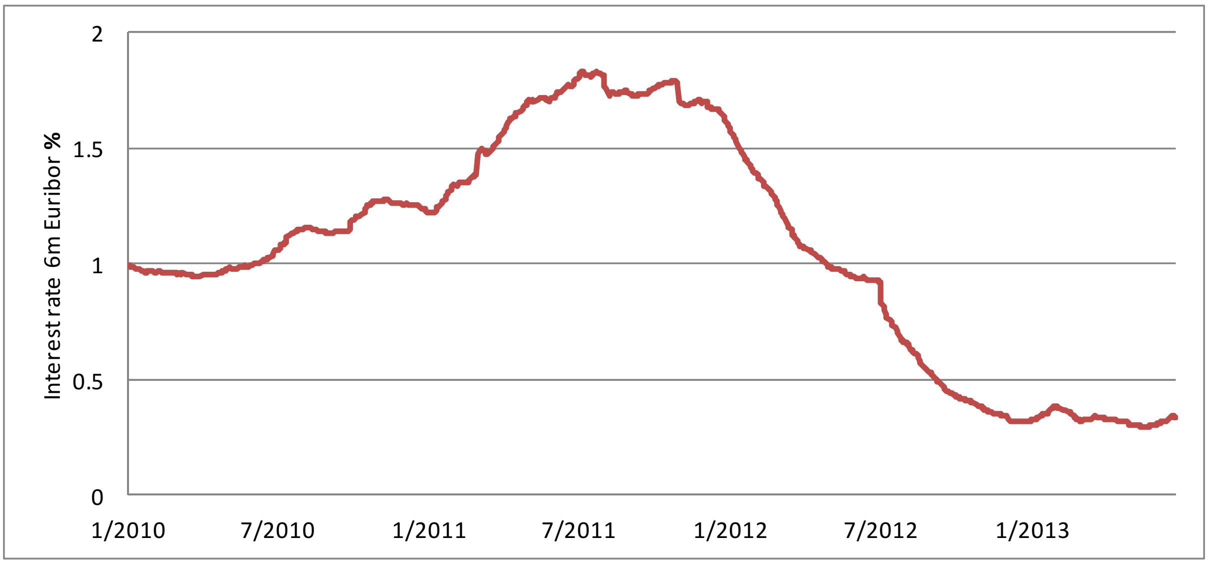
	As at 31 December								
	2012			2011			2010		
	Nominal value	Fair Value		Nominal value	Fair Value		Nominal value	Fair Value	
	Total	Positive	Negative	Total	Positive	Negative	Total	Positive	Negative
	(Euro '000)								
Contracts not included in hedge accounting									
Interest rate derivatives									
Interest rate swaps..	6,196,383	56,035	(91,858)	5,462,807	27,513	(55,088)	3,576,740	16,931	(21,551)
Currency derivatives									
Cross currency interest rate swaps..	53,858	329	(323)	78,342	466	(456)	81,054	419	(403)
Forward exchange contracts..................	927,088	592	(13,249)	—	—	—	—	—	—
Equity derivatives	3,790,493	172,391	(172,391)	3,113,313	375,534	(375,534)	2,076,108	158,179	(158,179)
Other derivatives	365,562	44,093	(43,733)	306,721	46,952	(46,229)	328,945	44,983	(44,159)
Total	**11,333,384**	**273,441**	**(321,554)**	**8,961,183**	**450,465**	**(477,307)**	**6,062,847**	**220,512**	**(224,293)**
Contracts under hedge accounting									
Interest rate derivatives									
Interest rate swaps..	18,625,030	516,296	(378,058)	16,309,222	308,436	(221,969)	15,670,461	121,267	(164,934)
Currency derivatives									
Cross currency interest rate swaps..	14,041,357	1,761,946	(238,371)	14,636,337	2,991,433	(553,979)	13,042,902	2,292,236	(527,482)
Total	**32,666,387**	**2,278,242**	**(616,429)**	**30,945,559**	**3,299,869**	**(775,949)**	**28,713,363**	**2,413,503**	**(692,416)**
All total	**43,999,772**	**2,551,683**	**(937,983)**	**39,906,742**	**3,750,334**	**(1,253,256)**	**34,776,210**	**2,634,015**	**(916,709)**

While the Group uses derivatives only for hedging purposes, certain derivatives entered into by the Group do not qualify for hedge accounting and create volatility in the Group's income statement. This volatility is a function of the volatility of market interest rates and currency exchange rates and the related fair value changes of those derivatives which the Group must recognize on its income statement. The total nominal value of derivative contracts not included in hedge accounting under EU IFRS was Euro 11,373.1 million as at 30 June 2013. Changes in the fair value of such derivatives are recognized on the income statement during the period in which they occur as one component of the net result for the line item "*Net income from securities and foreign exchange transactions*". The Group recognized changes in fair value of derivative contracts of negative Euro 7.4 million, negative Euro 23.1 million and negative Euro 2.2 million the years ended 31 December 2012, 2011 and 2010, respectively.

Interest rate movements

The Group hedges its lending portfolio and funding into floating rate euros. As a result, the Group's interest income and interest expense are sensitive to interest rate movements. As interest rates decrease the Group's interest earned on its existing lending portfolio will decrease and the interest paid under its existing funding will decrease. The Group's profitability is based on its ability to manage the margin between the interest income and the interest expense. Interest rates began to decline in late 2011 and have continued to fall through 2012, while remaining broadly stable for the first six months of 2013.

The table below shows the Euribor 6-month interest rate for 2010, 2011 and 2012.



Source: Bank of Finland.

As a result, the Group's interest income declined from 2011 to 2012 even though the volume of the Group's lending increased as well as the margin it sets on such lending. Also, the Group's interest expense declined from 2011 to 2012 even as the Group had more outstanding debt securities in 2012 than in 2011. However, during this period, the Group's net interest income increased steadily given the increase in loan volume and interest rate margin and its successful funding operations. While rates have not continued to fall in 2013, they remain lower than they were in first six months of 2012 as they had continued to fall in the second half of 2012. As a result, the Group's interest income and interest expense for the first six months of 2013 are significantly lower than compared with the first six months of 2012. However the Group's net interest income has increased for the same reasons highlighted above. Should interest rates fall further, the Group may experience further declines in its interest income and interest expense. Conversely, should interest rates rise the Group's interest income and interest expense may rise even if there is a reduction in the volume of the lending or funding.

In light of the proposed implementation of Basel III in Finland in coming years, the Group decided to increase its profitability, which included an increase in the margins charged on its loans which began gradually in mid-2011. At the same time, the Issuer's shareholders have elected to reduce dividends for the Issuer to allow the transfer of profits to retained earnings, thereby increasing the Issuer's Tier 1 capital and improving the Group's leverage ratio. See "*Risk Factors – The proposed leverage ratio requirement under the current Basel III proposals may have an adverse effect on the Group*".

Summary of Key Consolidated Statement Income Items

Interest Income

The interest income of the Group depends primarily on the level of its interest earning assets, as well as the average rate earned on its interest earning assets. Interest income consists of loans and advances to credit institutions and central banks, loans and advances to the public and public sector entities, debt securities, derivative contracts, leasing operations and other interest income. The largest component of interest income of the Group is income from loans and advances to the public and public sector entities. The volume development for loans and advances to the public and public sector entities is closely linked to the economic situation and interest rate levels (driven both by market rates and competition in the banking sector).

The effective interest method is applied to interest income. Commissions and fees received and paid, transaction expenses as well as any premiums and discounts are taken into account when the effective interest rate is calculated. The effective interest rate calculation is a method of calculating the amortized cost of financial assets or liabilities and allocating interest income to a given period.

The effective interest rate is the percentage rate at which estimated future cash payments or receipts are discounted over the period to the expiry of the financial instrument to the net balance sheet value of the asset or liability. When calculating the effective interest rate, the Group estimates cash flows taking into account all the contractual terms and conditions of a given financial instrument, excluding potential future loan losses.

Interest income in respect of derivative financial instruments relating to the Group's loans and investments are recognized as offsetting items in interest income.

Interest Expense

The interest expense of the Group depends primarily on the level of its interest-bearing liabilities, as well as the average rate paid on its interest-bearing liabilities. Interest expense consists of liabilities to the public, liabilities to credit institutions and central banks, debt securities issued, derivative contracts, subordinated liabilities and other interest expense. The largest component of interest expense of the Group is expense from debt securities issued.

The effective interest method is applied to interest expense. See "—*Interest Income*".

Interest expense in respect of derivative financial instruments relating to the Group's liabilities and debt securities issued are recognized as offsetting items in interest expense.

Commission Income

Commission income includes commission and fees received for financial advisory services, primarily conducted by Inspira, the Issuer's subsidiary.

Commission Expense

Commission expenses include the guarantee fee paid to MGB, custody fees and debt programme fees and costs.

Net Income from Securities and Foreign Exchange Transactions

Net income from securities and foreign exchange transactions consists of gains and losses resulting from foreign exchange measurements and changes in the fair value of the Group's investment portfolio. This also includes fair value changes of derivatives which are not included in fair value hedge accounting. Monetary receivables and liabilities denominated in a foreign currency have been converted into euros using the European Central Bank's average exchange rate on the balance sheet date.

Net Income from Available-for-Sale Financial Assets

Net income from available-for-sale financial assets consists primarily of the realised capital gains and losses as well as impairment recognised through profit or loss of changes in the fair value (after taking tax effects into account) of the Group's investment portfolio.

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

Net Income from Hedge Accounting

Net income from hedge accounting includes the net income from the measurement at fair value of the Group's lending and funding portfolio and the derivatives hedging them.

Administrative Expenses

Administrative expenses of the Group are primarily generated by personnel expenses. Staff costs are driven by the overall number of the Group's full-time equivalent employees, as well as the level of wages and salaries and pension costs. The main components of the Group's other administrative expenses are IT, maintenance of fixed assets and rents, as well as promotion and advertising activities.

Other Operating Expenses

Other operating expenses consists of rental expenses and other expenses from actual credit institution operations.

Impairment Losses on other Financial Assets

Impairment losses on other financial assets consists of the impairment loss on any debt securities held to maturity. The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

Income Taxes

Income tax expense is mainly determined by the statutory tax rates applicable in Finland and generally comprise accrual-based taxes that are determined based on the profits generated by the Group, and changes in deferred taxes. Taxes have been adjusted by taxes related to previous years. The corporate income tax rate for the Group's operations in Finland was 24.5 per cent. for the six months ended 30 June 2013. The corporate income tax rate for the Group's operations in Finland was at 24.5 per cent., 26.0 per cent. and 26.0 per cent. for the years ended 31 December 2012, 2011 and 2010, respectively.

Results of Operations

The Six Months Ended 30 June 2013 Compared to the Six Months Ended 30 June 2012 and the Year Ended 31 December 2012 Compared to the Year Ended 31 December 2011 and the Year Ended 31 December 2011 Compared to the Year Ended 31 December 2010

The following tables set forth, as of the dates indicated, certain summary financial information about the results of the Group's operations:

	For six months ended 30 June		
	2013	**2012**	**Change 2012 to 2013**
	(Euro '000)		*(%)*
Interest income	85,225.1	165,932.6	(48.6)
Interest expense	(6,604.2)	(98,081.06)	(93.3)
NET INTEREST INCOME	**78,620.8**	**67,851.6**	**15.9**
Commission income	1,036.4	926.7	11.8
Commission expense	(2,103.6)	(1,582.9)	(32.9)
Net income from securities and foreign exchange transactions	7,568.4	3,229.5	134.4
Net income from available-for-sale financial assets	(905.1)	(529.1)	(71.1)
Net income from hedge accounting	6,793.1	3,242.7	109.5
Other operating income	2.2	(20.5)	—
Administrative expenses	(7,214.1)	(6,506.0)	10.9
Depreciation and impairment on tangible and intangible assets	(567.0)	(525.8)	7.8
Other operating expenses	(2,627.7)	(2,418.8)	8.6
Impairment losses on other financial assets	54.5	0.00	—
OPERATING PROFIT	**80,657.8**	**63,667.0**	**26.7**
Income taxes	(19,788.7)	(15,616.2)	26.7
PROFIT FOR THE FINANCIAL PERIOD	**60,869.1**	**48,050.8**	**26.7**
Profit attributable to: Equity holders of the parent company	60,886.4	48,007.3	
Non-controlling interest	(17.3)	43.6	

	For the year ended 31 December			Change 2011 to 2012	Change 2010 to 2011
	2012	2011	2010		
		(Euro '000)		*(%)*	
Interest income	275,660.5	328,300.0	201,187.4	(16.0)	63.2
Interest expense	(133,258.9)	(234,051.4)	(122,472.8)	(43.1)	91.1
NET INTEREST INCOME	**142,401.6**	**94,248.6**	**78,714.6**	**51.1**	**19.7**
Commission income	1,729.8	2,184.7	2,248.8	(20.8)	(2.9)
Commission expense	(3,225.0)	(2,864.8)	(2,315.4)	12.6	23.7
Net income from securities and foreign exchange transactions	14,340.4	(7,982.9)	(8,062.5)	—	(1.0)
Net income from available-for-sale financial assets	404.9	(216.2)	(141.5)	—	52.8
Net income from hedge accounting	339.6	(3,348.6)	3,586.5	—	—
Other operating income	25.6	103.7	62.2	(75.3)	66.6
Administrative expenses	(13,494.7)	(12,123.4)	(10,225.1)	11.3	18.6
Depreciation and impairment on tangible and intangible assets	(1,066.9)	(765.2)	(574.3)	39.4	33.2
Other operating expenses	(4,874.2)	(3,983.4)	(4,091.1)	22.4	2.6
Impairment losses on other financial assets	2,020.0	0.00	(900.0)	—	—
OPERATING PROFIT	**138,601.1**	**65,252.5**	**58,302.3**	**112.4**	**11.9**
Income taxes	(33,990.6)	(14,343.7)	(15,192.6)	137.0	(5.6)
PROFIT FOR THE FINANCIAL PERIOD	**104,610.5**	**50,908.8**	**43,109.7**	**105.5**	**18.1**
Profit attributable to: Equity holders of the parent company	104,510.4	50,730.9	42,928.8		
Non-controlling interest	100.2	177.9	180.9		

Net Interest Income

The table below sets forth, for the periods indicated, the principal components of the Group's net interest income.

	For the year ended 31 December				
	2012	**2011**	**2010**	**Change 2011 to 2012**	**Change 2010 to 2011**
		(Euro '000)		*(%)*	
Interest income					
Loans and advances to credit institutions and central banks	1,422	1,907	926	(25.4)	105.9
Loans and advances to the public and public sector entities	313,775	313,435	249,142	0.0	25.8
Debt securities	91,935	100,425	63,660	(8.5)	57.8
Derivative contracts	(134,503)	(90,165)	(114,753)	49.2	(21.4)
Leasing operations	1,080	346	11	212.1	3,045.5
Other interest income	1,952	2,352	2,200	(17.0)	6.9
Total	**275,660**	**328,300**	**201,187**	**(16.0)**	**63.2**
Interest expense					
Liabilities to the public and public sector entities	28,691	30,677	28,631	(6.5)	7.1
Liabilities to credit institutions and central banks	45,450	44,778	36,350	1.5	23.2
Debt securities issued	519,486	413,821	563,532	25.5	(26.6)
Derivative contracts	(463,471)	(258,396)	(509,319)	79.4	(49.3)
Subordinated liabilities	2,563	2,746	2,504	(6.7)	9.7
Other interest expense	540	425	776	27.1	(45.2)
Total	**133,259**	**234,051**	**122,473**	**(43.1)**	**91.1**
Net interest income	**142,401**	**94,249**	**78,714**	**51.1**	**19.7**

Six months ended 30 June 2013 versus six months ended 30 June 2012

Net interest income increased by Euro 10.7 million, or 15.8 per cent., to Euro 78.6 million for the six months ended 30 June 2013, compared to Euro 67.9 million for the six months ended 30 June 2012 primarily due to an increase in its interest rate margin and the volume of lending. As discussed previously, the Issuer decided to increase its lending margin in 2011 as part of its strategy to improve its leverage ratio to meet the current proposed Basel III requirement, which it has continued.

Interest income

Interest income decreased by Euro 80.7 million, or 48.6 per cent., to Euro 85.2 million for the six months ended 30 June 2013, compared to Euro 165.9 million for the six months ended 30 June 2012 primarily due to a decline in interest rates, partially offset by increases in pricing margin on new lending and the volume of lending.

Interest expense

Interest expense decreased by Euro 91.5 million, or 93.3 per cent., to Euro 6.6 million for the six months ended 30 June 2013, compared to Euro 98.1 million for the six months ended 30 June 2012 primarily due to a decline in interest rates, partially offset by an increase in the amount of debt securities issued.

2012 versus 2011

Net interest income increased by Euro 48.2 million, or 51.1 per cent., to Euro 142.4 million for the year ended 31 December 2012, compared to Euro 94.2 million for the year ended 31 December

2011 primarily due to an increase in its interest rate margin and the volume of lending. As discussed previously, the Issuer decided to increase its lending margin in 2011 as part of its portfolio strategy to improve its leverage ratio to meet the current proposed Basel III requirement.

Interest income

Interest income decreased by Euro 52.6 million, or 16.0 per cent., to Euro 275.7 million for the year ended 31 December 2012, compared to Euro 328.3 million for the year ended 31 December 2011 primarily due a decline in interest rates, partially offset by increases in pricing margin on new lending and the volume of lending.

Interest income from loans and advances to the public and public entities increased by Euro 0.4 million, or 0.1 per cent., to Euro 313.8 million for the year ended 31 December 2012, compared to Euro 313.4 million for the year ended 31 December 2011 primarily due to increases in pricing margin on new lending and the volume of lending, which was substantially offset by a decline in interest rates.

Interest income from debt securities (i.e., the Group's investment portfolio) decreased by Euro 8.5 million, or 8.5 per cent., to Euro 91.9 million for the year ended 31 December 2012, compared to Euro 100.4 million for the year ended 31 December 2011 primarily due to a decline in interest rates which was a result of declining rates generally and the decision by the Issuer to invest in more conservative investments which typically had lower interest rates, although this was partially offset by an increase in the total amount of investments in debt securities.

Offsetting these increases was interest expense payable on derivative contracts which increased by Euro 44.3 million, or 49.2 per cent., to Euro 134.5 million for the year ended 31 December 2012, compared to Euro 90.2 million for the year ended 31 December 2011 primarily due to the decline in interest rates and an increase in amount of derivatives entered into.

Interest expense

Interest expense decreased by Euro 100.8 million, or 43.1 per cent., to Euro 133.3 million for the year ended 31 December 2012, compared to Euro 234.1 million for the year ended 31 December 2011 primarily due a decline in interest rates, partially offset by an increase in the amount of debt securities issued.

Interest expense from debt securities issued increased by Euro 105.7 million, or 25.5 per cent., to Euro 519.5 million for the year ended 31 December 2012, compared to Euro 413.8 million for the year ended 31 December 2011 primarily due to an increase in the amount of debt securities issued, partially offset by a decline in interest rates.

Offsetting this increase was interest income received on derivative contracts which increased by Euro 205.1 million, or 79.4 per cent., to Euro 463.5 million for the year ended 31 December 2012, compared to Euro 258.4 million for the year ended 31 December 2011 primarily due to changes in interest rates and the increase in the amount of derivatives entered into.

2011 versus 2010

Net interest income increased by Euro 15.5 million, or 19.7 per cent., to Euro 94.2 million for the year ended 31 December 2011, compared to Euro 78.7 million for the year ended 31 December 2010 primarily due to an increase in the volume of lending.

Interest income

Interest income increased by Euro 127.1 million, or 63.2 per cent., to Euro 328.3 million for the year ended 31 December 2011, compared to Euro 201.2 million for the year ended 31 December 2010 primarily due an increase in the volume of lending.

Interest income from loans and advances to the public and public entities increased by Euro 64.3 million, or 25.8 per cent., to Euro 313.4 million for the year ended 31 December 2011, compared to Euro 249.1 million for the year ended 31 December 2010 primarily due to an increase in the volume of loans and advances to the public and public sector entities.

Interest income from debt securities increased by Euro 36.8 million, or 57.8 per cent., to Euro 100.4 million for the year ended 31 December 2011, compared to Euro 63.7 million for the year ended 31 December 2010 primarily due to an increase in investments in debt securities and an increase in interest rates.

Offsetting these increases was interest expense payable on derivative contracts which decreased by Euro 24.6 million, or 21.4 per cent., to Euro 90.2 million for the year ended 31 December 2011, compared to Euro 114.8 million for the year ended 31 December 2010 primarily due changes in interest rates.

Interest expense

Interest expense increased by Euro 111.6 million, or 91.1 per cent., to Euro 234.1 million for the year ended 31 December 2011, compared to Euro 122.5 million for the year ended 31 December 2010 primarily due to the increased amount of funding and an increase in interest rates.

Interest expense from debt securities issued decreased by Euro 149.7 million, or 26.6 per cent., to Euro 413.8 million for the year ended 31 December 2011, compared to Euro 563.5 million for the year ended 31 December 2010 primarily due to changes in interest rates.

Offsetting this increase was interest income received on derivative contracts which decreased by Euro 250.9 million, or 49.3 per cent., to Euro 258.4 million for the year ended 31 December 2011, compared to Euro 509.3 million for the year ended 31 December 2010 primarily due changes in interest rates.

Administrative Expenses

The table below sets forth for the periods indicated, the principal components of the Group's administrative expenses.

	For the year ended 31 December		
	2012	**2011**	**2010**
		(Euro '000)	
Personnel expenses:			
Wages and salaries	7,416	6,685	5,571
Pension costs	1,407	1,287	1,071
Other personnel related costs	363	338	246
Total	**9,186**	**8,310**	**6,889**
Other administrative expenses	4,309	3,813	3,336
Total	**13,495**	**12,123**	**10,225**

The Group had 82, 72, 67 and 61 total personnel as at 30 June 2013 and 31 December 2012, 2011 and 2010, respectively.

Administrative expenses increased by Euro 0.7 million, or 10.8 per cent., to Euro 7.2 million for the six months ended 30 June 2013, compared to Euro 6.5 million for the six months ended 30 June 2012 primarily due to the growth in business volume and ongoing system development projects and the resulting increase in the number of personnel.

Administrative expenses increased by Euro 1.4 million, or 11.6 per cent., to Euro 13.5 million for the year ended 31 December 2012, compared to Euro 12.1 million for the year ended 31 December 2011 primarily due to the growth in business volume and the resulting increase in the number of personnel.

Administrative expenses increased by Euro 1.9 million, or 18.6 per cent., to Euro 12.1 million for the year ended 31 December 2011, compared to Euro 10.2 million for the year ended 31 December 2010 primarily due to the growth in business volume and the resulting increase in the number of personnel as well as a number of system development projects that were underway.

Income Taxes

Income taxes increased by Euro 4.2 million, or 26.9 per cent., to Euro 19.8 million for the six months ended 30 June 2013, compared to Euro 15.6 million for the six months ended 30 June 2012 due to an increase in operating profit in the first six months of 2013 compared with the first six months of 2012.

Income taxes increased by Euro 19.7 million, or 137.8 per cent., to Euro 34.0 million for the year ended 31 December 2012, compared to Euro 14.3 million for the year ended 31 December 2011 primarily due to an increase in operating profit in 2012 compared with 2011.

Income taxes for the Group decreased by Euro 0.9 million, or 5.9 per cent., to Euro 14.3 million for the year ended 31 December 2011, compared to Euro 15.2 million for the year ended 31 December 2010 primarily due to the change in the Finnish corporate tax rate (starting 1 January 2012) from 26 per cent. to 24.5 per cent., which was used for the calculation of deferred taxes for the Group for 2011, although the decrease from the tax rate is partially offset by the increase in operating profit.

Financial Position

Assets

As at 30 June 2013 and as at 31 December 2012, 2011 and 2010

The following table sets forth, as of the dates indicated, certain summary financial information about the assets of the Group:

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
		(Euro '000)		
Assets				
Cash and cash equivalents	142,246.0	228,187.6	26,507.3	35,502.8
Loans and advances to credit institutions	345,019.3	106,828.0	562,006.8	36,053.2
Loans and advances to the public and public sector entities	16,907,399.2	15,764,231.6	13,654,934.4	11,706,412.9
Debt securities	6,507,965.8	6,637,830.8	5,588,958.7	5,420,237.8
Shares and participations	10,022.8	10,035.1	27.2	27.2
Derivative contracts	1,395,833.6	2,551,682.7	3,750,333.8	2,634,015.0
Intangible assets	2,842.7	2,399.0	2,273.1	1,464.1
Tangible assets	2,348.2	2,341.5	2,460.1	1,485.5
Other assets	2,405.1	2,410.1	1,742.7	1,984.8
Accrued income and prepayments	218,051.1	254,213.7	247,761.4	207,555.6
Deferred tax assets	30.6	0.00	4,611.2	2,337.6
Total Assets	**25,533,164.5**	**25,560,160.0**	**23,841,616.7**	**20,047,076.3**

As of 30 June 2013, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 66.2 per cent., 25.5 per cent. and 5.5 per cent., respectively, of total assets. As of 30 June 2013, total assets had decreased by Euro 27 million, or by 0.1 per cent., to Euro 25,533.2 million, compared to Euro 25,560.2 million as of 31 December 2012, which was mainly attributable to a large decrease in derivative contracts assets as a result of exchange rate movements against the euro, which was partially offset by an increase in the portfolio of loans and advances to the public and public sector entities.

As of 31 December 2012, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 61.7 per cent., 26.0 per cent. and 10.0 per cent., respectively, of total assets. As of 31 December 2012, total assets had increased by Euro 1,718.6 million, or by 7.2 per cent., to Euro 25,560.2 million, compared to Euro 23,841.6 million as of 31 December 2011, which was mainly attributable to an increase in the portfolio of loans and advances to the public and public sector entities of Euro 2,109.3 million compared to the balance as of 31 December 2011.

As of 31 December 2011, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and derivative contracts, representing 57.3 per cent., 23.4 per cent. and 15.7 per cent., respectively, of total assets. As of 31 December 2011, total assets had increased by Euro 3,794.5 million, or by 18.9 per cent., to Euro 23,841.6 million, compared to Euro 20,047.1 million as of 31 December 2010, which was mainly attributable to an increase in the portfolio of loans and advances to the public and public sector entities of Euro 1,948.5 million compared to the balance as of 31 December 2010.

The main components of the Group's assets and the key drivers of the changes in the assets of the Group as of the indicated dates are described below.

Loans and advances to the public and public sector entities

Loans and advances to the public and public sector entities increased by Euro 1,143.2 million, or 7.3 per cent., to Euro 16,907.4 million as at 30 June 2013, compared to Euro 15,764.2 million as at 31 December 2012 primarily due an increase in the volume of lending by the Group.

Loans and advances to the public and public sector entities increased by Euro 2,109.3 million, or 15.4 per cent., to Euro 15,764.2 million as at 31 December 2012, compared to Euro 13,654.9 million as at 31 December 2011 primarily due an increase in the volume of lending by the Group.

Loans and advances to the public and public sector entities increased by Euro 1,948.5 million, or 16.6 per cent., to Euro 13,654.9 million as at 31 December 2011, compared to Euro 11,706.4 million as at 31 December 2010 primarily due to an increase in the volume of lending by the Group.

Debt securities

The following table sets forth, as of the dates indicated, information on the composition of debt securities of the Group:

	As at 31 December		
	2012	2011	2010
		(Euro '000)	
Debt securities issued by public sector entities	**1,391,274**	**685,680**	**752,106**
Held to maturity	697,341	—	—
Municipal commercial papers	697,341	—	—
Available for sale	693,933	685,680	752,106
Municipal commercial papers	—	475,769	487,269
Government bonds	333,618	43,993	129,888
Bonds issued by other public sector entities	360,315	165,918	134,949
Debt securities issued by other than public sector entities	**5,246,557**	**4,903,278**	**4,668,131**
Held to maturity	187,958	139,900	173,224
Bank bonds	4,999	7,988	17,897
Other debt securities	127,650	131,912	155,326
Commercial papers	55,309	—	—
Available for sale	5,058,599	4,763,378	4,494,908
Bank certificates of deposit	579,828	858,591	1,093,366
Commercial papers	—	58,025	93,166
Bank bonds	4,049,371	3,399,063	2,846,902
Other debt securities	429,400	447,699	461,474
Total debt securities	**6,637,831**	**5,588,959**	**5,420,238**
Eligible for central bank refinancing	4,604,967	3,558,112	3,036,604
Total non-interest bearing	4,999	7,946	19,030

Debt securities decreased by Euro 130.8 million, or 2.0 per cent., to Euro 6,507.0 million as at 30 June 2013, compared to Euro 6,637.8 million as at 31 December 2012 primarily due to a decrease in the amount of funds invested in debt securities.

Debt securities increased by Euro 1,048.9 million, or 18.8 per cent., to Euro 6,637.8 million as at 31 December 2012, compared to Euro 5,589.0 million as at 31 December 2011 primarily due to an increase in the amount of funds invested in debt securities.

Debt securities increased by Euro 168.7 million, or 3.1 per cent., to Euro 5,589.0 million as at 31 December 2011, compared to Euro 5,420.2 million as at 31 December 2010 primarily due to an increase in the amount of funds invested in debt securities.

Derivative contracts

For a breakdown of the Group's derivative contracts during the periods under review see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contract assets decreased by Euro 1,155.9 million, or 45.3 per cent., to Euro 1,395.8 million as at 30 June 2013, compared to Euro 2,551.7 million as at 31 December 2012 primarily due to changes in currency exchange rates.

Derivative contract assets decreased by Euro 1,198.7 million, or 32.0 per cent., to Euro 2,551.7 million as at 31 December 2012, compared to Euro 3,750.3 million as at 31 December 2011 primarily due to changes in interest rates and currency exchange rates.

Derivative contract assets increased by Euro 1,116.3 million, or 42.4 per cent., to Euro 3,750.3 million as at 31 December 2011, compared to Euro 2,634.0 million as at 31 December 2010 primarily due to changes in interest rates and currency exchange rates.

Liabilities

As at 30 June 2013 and as at 31 December 2012, 2011 and 2010

The following table sets forth, as of the dates indicated, certain summary financial information about the liabilities of the Group:

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
		(Euro '000)		
Liabilities				
Liabilities to credit institutions	2,927,042.5	3,961,730.2	3,533,230.1	2,613,259.0
Liabilities to the public and public sector entities	960,372.7	1,049,476.6	1,176,752.4	984,601.2
Debt securities issued	19,848,028.0	18,798,374.7	17,187,942.3	14,879,260.8
Derivative contracts	997,010.0	937,983.3	1,253,255.7	916,708.9
Other liabilities	1,041.0	1,306.3	2,529.6	1,223.1
Accrued expenses and deferred income	244,682.6	297,999.2	349,695.1	362,293.4
Subordinated liabilities	49,466.9	90,354.7	89,915.9	88,971.8
Deferred tax liabilities	97,936.9	77,670.4	43,605.1	29,413.8
Total Liabilities	**25,125,580.6**	**25,214,895.4**	**23,636,926.3**	**19,875,731.9**

As of 30 June 2013, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, liabilities to the public and public sector entities and derivative contracts, representing 79.0 per cent., 11.6 per cent., 3.8 per cent. and 4 per cent., respectively, of total liabilities. As of 30 June 2013, total liabilities had decreased by Euro 89.3 million, or by 0.4 per cent., to Euro 25,125.6 million, compared to Euro 25,214.9 million as of 31 December 2012, which was mainly attributable to a decrease in the amount of liabilities to credit institutions and liabilities to the public and public sector entities, but partially offset by an increase in the amount of debt securities issued of Euro 1,049.7 million compared to the balance as of 31 December 2012.

As of 31 December 2012, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, liabilities to the public and public sector entities and derivative contracts, representing 74.6 per cent., 15.7 per cent., 4.2 per cent. and 3.7 per cent., respectively, of total liabilities. As of 31 December 2012, total liabilities had increased by Euro 1,578.0 million, or by 6.7 per cent., to Euro 25,214.9 million, compared to Euro 23,636.9 million as of 31 December 2011, which was mainly attributable to an increase in the amount of debt securities issued of Euro 1,610.4 million compared to the balance as of 31 December 2011.

As of 31 December 2011, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, derivative contracts and liabilities to the public and public sector entities, representing 72.7 per cent. 14.9 per cent., 5.3 per cent. and 5.0 per cent., respectively, of total liabilities. As of 31 December 2011, total liabilities had increased by Euro 3,761.2 million, or by 18.9 per cent., to Euro 23,637.0 million, compared to Euro 19,875.7 million as of 31 December 2010, which was mainly attributable to an increase in the amount of debt securities issued of Euro 2,308.7 million compared to the balance as of 31 December 2010.

The main components of the Group's liabilities and the key drivers of the changes in the liabilities of the Group as of the indicated dates are described below.

Debt securities issued

The total amount (nominal value) of unmatured bonds and other funding issued by the Issuer as at 30 June 2013 was:

	As at 30 June 2013
	(Euro '000)
Domestic funding	
Municipal Bonds	95,995
Total	**95,995**
International funding	
Debt instruments issued under EMTN Programmes	15,725,235
Debt instruments issued under the AUD Programme	92,624
Debt instruments issued under stand-alone MTN documentation	1,338,434
Total	**17,156,294**
Other domestic funding	
Treasury Bills of the Issuer	2,336,850
Liabilities to the public and public sector entities	2,154
Debenture loans	35,000
Subordinated loans	11,009
Total	**2,385,013**
Other international funding	
Total	**2,672,872**

Debt securities issued by the Group increased by Euro 1,049.6 million, or 5.6 per cent., to Euro 19,848.0 million for as at 30 June 2013, compared to Euro 18,798.4 million as at 31 December 2012 primarily due to an increase in the volume of debt securities issued by the Group to accommodate its increased funding requirements.

Debt securities issued by the Group increased by Euro 1,610.4 million, or 9.4 per cent., to Euro 18,798.4 million as at 31 December 2012, compared to Euro 17,187.9 million as at 31 December 2011 primarily due to an increase in the volume of debt securities issued by the Group under its EMTN Programme to accommodate its increased funding requirements.

Debt securities issued by the Group increased by Euro 2,308.7 million, or 15.5 per cent., to Euro 17,187.9 million as at 31 December 2011, compared to Euro 14,879.3 million as at 31 December 2010 primarily due to an increase in the volume of debt securities issued by the Group under its EMTN Programme to accommodate its increased funding requirements.

For more information on the Group's debt securities issued, see "—*Contingent Liabilities—Commitments*" below.

Liabilities to credit institutions

Liabilities to credit institutions decreased by Euro 1,034.7 million, or 26.1 per cent., to Euro 2,927.0 million as at 30 June 2013, compared to Euro 3,961.7 million as at 31 December 2012 primarily due to a decrease in the volume of funding by the Group from credit institutions and the decrease in received collateral.

Liabilities to credit institutions increased by Euro 428.5 million, or 12.1 per cent., to Euro 3,961.7 million as at 31 December 2012, compared to Euro 3,533.2 million as at 31 December 2011 primarily due to an increase in the volume of funding acquired by the Group.

Liabilities to credit institutions increased by Euro 920.0 million, or 35.2 per cent., to Euro 3,533.2 million as at 31 December 2011, compared to Euro 2,613.3 million as at 31 December 2010 primarily due to an increase in the volume of funding acquired by the Group and the increase in received collateral.

Liabilities to the public and public sector entities

Liabilities to the public and public sector entities consists of primarily of bilateral loans. Liabilities to the public and public sector entities decreased by Euro 89.1 million, or 8.5 per cent., to Euro 960.4 million as at 30 June 2013, compared to Euro 1,049.5 million as at 31 December 2012 primarily due to matured liabilities and the decrease of funding acquired through the issuance to the public and public sector entities.

Liabilities to the public and public sector entities decreased by Euro 127.3 million, or 10.8 per cent., to Euro 1,049.5 million as at 31 December 2012, compared to Euro 1,176.8 million as at 31 December 2011 primarily due to matured liabilities and the decrease of funding acquired through the issuance to the public and public sector entities.

Liabilities to the public and public sector entities increased by Euro 192.2 million, or 19.5 per cent., to Euro 1,176.8 million as at 31 December 2011, compared to Euro 984.6 million as at 31 December 2010 primarily due to an increase in the volume of funding acquired by the Group.

Derivative contracts

For a breakdown of the Group's derivative contracts during the period see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contracts liabilities for the Group increased by Euro 59.0 million, or 6.3 per cent., to Euro 997.0 million as at 30 June 2013, compared to Euro 938.0 million as at 31 December 2012 primarily due to changes in interest rates and currency exchange rates.

Derivative contracts liabilities for the Group decreased by Euro 315.3 million, or 25.2 per cent., to Euro 938.0 million as at 31 December 2012, compared to Euro 1,253.3 million as at 31 December 2011 primarily due to changes in interest rates and currency exchange rates.

Derivative contracts liabilities for the Group increased by Euro 336.5 million, or 36.7 per cent., to Euro 1,253.3 million as at 31 December 2011, compared to Euro 916.7 million as at 31 December 2010 primarily due to changes in interest rates and currency exchange rates.

Capital Adequacy

The Group has calculated its capital adequacy since the financial year ended 31 December 2007 according to the Basel II capital adequacy requirements. As a credit institution, the Group will also be required to comply with forthcoming Basel III requirements, to the extent that they will be applied to credit institutions such as the Group which specialise in servicing the local government sector. Basel III will also be taken into account in the Group's future capital adequacy planning.

The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. For capital adequacy calculations of credit risk, the Group uses methods for reducing the credit risk such as guarantees provided by the municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional guarantee agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

The Board of Directors monitors and approves the plan for capital adequacy management, which is revised annually. The latest revision was made in December 2012 and the current plan extends to 2018. The possible implementation of the Basel III leverage ratio requirement in 2018 has forced the Issuer to begin preparations at this early stage, as the implementation of the leverage ratio would mean that requirements concerning the Issuer's own funds would be increased significantly. The leverage ratio requirement is based on comparing total own funds with balance sheet assets without the consideration for the risks related to the assets that are incorporated into capital adequacy calculations.

The adequacy of own funds is also followed up in monthly business analyses.

Consolidated own funds, Group

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
		(Euro '000)		
Share capital	42,583	42,583	42,583	42,583
Minority interest	53	168	241	303
Reserve fund	277	277	277	277
Reserve for invested non-restricted equity	40,366	40,366	40,366	40,366
Retained profit	239,944	135,434	84,703	51,540
Profit for the financial period	60,886	104,510	50,731	42,929
Provision for dividend distribution	—	—	—	(10,006)
Capital loans	11,009	11,009	11,009	11,009
Intangible assets	(2,843)	(2,399)	(2,273)	(1,464)
Total primary own funds	**392,275**	**331,948**	**227,637**	**177,537**
Fair value reserve	23,475	21,927	(14,210)	(6,653)
Subordinated liabilities included in upper secondary own funds	0	40,000	40,000	40,000
Subordinated liabilities included in lower secondary own funds	35,000	35,000	35,000	35,000
Total secondary own funds	**58,475**	**96,927**	**60,790**	**68,347**
Total own funds	**450,750**	**428,875**	**288,427**	**245,884**

Risk-weighted receivables, Group

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
		(Euro '000)		
Credit risk, standard method	**1,066,476**	**1,137,809**	**1,098,808**	**1,177,113**
Total minimum requirement for own funds				
Credit risk, standard method				
Claims on credit institutions and investment firms	36,622	45,549	45,627	53,240
Covered bonds	15,016	13,528	9,797	5,036
Securitised items	29,689	28,755	29,619	33,400
Shares in investment funds	116	105	0	0
Other items	3,875	3,087	2,861	2,493
Total credit risk, standard method	**85,318**	**91,024**	**87,904**	**94,169**
Market risk	0	0	0	0
Operational risk, basic method	15,609	10,270	7,722	7,839
Total minimum requirement for own funds	**100,927**	**101,294**	**95,627**	**102,008**
Capital adequacy ratio, Tier 1 capital, %	31.09%	26.22%	19.04%	13.92%
Capital adequacy ratio, %	35.73%	33.87%	24.13%	19.28%

As at 30 June 2013, the Group's own funds totalled Euro 450.8 million and its Tier 1 capital totalled Euro 392.3 million. No provision for dividend distribution was made for Tier 1 capital, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its proposal for the payment of dividends based on the Group's economic situation and the applicable regulations, taking into account the Issuer's structure of ownership. The Group's Tier 2 capital totalled Euro 58.5 million as at 30 June 2013. The Board of Directors applied to the Finnish Financial Supervisory Authority for permission to repay an "Upper Tier II loan 1/2008" bond of Euro 40 million. The Finnish Financial Supervisory Authority granted permission at the end of January 2013, and the Issuer repaid the loan on 31 March 2013.

As at 31 December 2012, the Group's own funds totalled Euro 428.9 million (2011: Euro 288.4 million) and its Tier 1 capital totalled Euro 331.9 million (2011: Euro 227.6 million). No provision for dividend distribution was made for Tier 1 capital, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its proposal for the payment of dividends based on the Group's economic situation and the applicable regulations, taking into account the Issuer's structure of ownership. The Group's Tier 2 capital totalled Euro 96.9 million as at 31 December 2012 (2011: Euro 60.8 million).

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8 per cent. pursuant to the Act on Credit Institutions, was Euro 100.9 million as at 30 June 2013. Credit risk represented the largest proportion of the Group's own funds requirements. The capital adequacy requirement for credit risk was Euro 85.3 million as at 30 June 2013, which consisted primarily of claims on credit institutions and investment firms, as well as securitised items.

The minimum requirement for own funds, corresponding to the minimum capital adequacy ratio of 8 per cent. pursuant to the Act on Credit Institutions, was Euro 101.3 million as at 31 December 2012 (2011: Euro 95.6 million). Credit risk represented the largest proportion of the Group's own funds requirements. The capital adequacy requirement for credit risk was Euro 91.0 million (2011: Euro 87.9 million) as at 31 December 2012, which consisted primarily of claims on credit institutions and investment firms, as well as securitised items.

In December 2010, the Basel Committee on Banking Supervision published its final standards on the revised capital adequacy and liquidity framework, known as Basel III, with a revised version published in June 2011 (the "**Basel III Standards**"), which are significantly more stringent than the existing requirements under Basel II. Basel III is intended to increase the quality and quantity of capital, to increase capital required to be held against risk weighted assets and to introduce a new liquidity framework (incorporating a leverage ratio, liquidity coverage ratio and a net stable funding ratio). While the Basel III Standards themselves are not legally binding in any jurisdiction, new rules in the form of a new directive and regulation of the European Commission have entered into force in order to implement the Basel III Standards. The new European Commission rules consist of a new Capital Requirements Regulation which entered into force on 28 June 2013 and a Fourth Capital Requirements Directive which entered into force on 17 July 2013. The rules will become effective on 1 January 2014, although certain requirements will be phased in over the coming years.

As at 30 June 2013, the Group's leverage ratio, calculated under the current Basel III Standards, would be substantially below the prescribed minimum threshold. As a result, the Board of Directors decided to reduce dividends and transfer the amount which otherwise would have been paid as dividends into retained earnings to boost the Group's capital, in attempt to prevent the Group from having to raise additional Tier 1 capital to meet the leverage ratio. In addition, in light of the leverage ratio requirement, the Issuer decided to increase the interest it charges on its loans in order to increase profits and thereby increase its amount of funds transferred to retained earnings. The Board believes that by restricting dividends and increasing profitability, the Group will be able to improve its leverage ratio sufficiently to meet the Basel III leverage ratio requirements.

The Annual General Meeting of Issuer was held on 23 March 2011 and at the meeting it was decided that a dividend of Euro 0.25 per share would be paid from Municipality Finance's distributable own funds, totalling Euro 9.8 million. The dividend was paid on 28 March 2011. The

Annual General Meeting also decided on changing the dividend policy in such a way that in the future, the Board of Directors evaluates the amount of dividend paid out each year and gives its proposal on the payment of dividends based on the Group's economic situation and the applicable regulations, taking into account the Issuer's structure of ownership. As a result, at the Annual General Meeting of the Issuer held on 27 March 2012 the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of Euro 144,330.52 in equity. At the Annual General Meeting of the Issuer held on 26 March 2013 the Annual General Meeting adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of Euro 21,641,120.68 in equity.

Contingent Liabilities

In the ordinary course of business, the Group enters into transactions which, upon being concluded, are not disclosed in the Group's statement of financial position as assets or liabilities, but result in contingent liabilities. The main item of these off-balance sheet liabilities of the Group is financial commitments, mainly credit facilities granted.

Breakdown of off-balance sheet unmatured commitments	**As at 30 June 2013**
	(Euro '000)
Binding credit commitments	1,587,947

Commitments

As a rule, debt instruments for loans issued to the municipal sector by the Issuer have been given to the Guarantor as collateral.

On 30 June 2013, the Issuer had given collateral as follows:

Bonds	**As at 30 June 2013**
	(Euro '000)
Loans pledged to the Guarantor	14,729,017
Debt securities pledged to the Guarantor	5,631,671
Deposits pledged to the Guarantor	20,000

The following is a breakdown of the Issuer's financial liabilities by maturity as at 31 December 2012:

	Payment due by period as at 31 December 2012					
	Total	**0-3 months**	**3-12 months**	**1-5 years**	**5-10 years**	**Over 10 years**
			(Euro '000)			
Liabilities to credit institutions	3,961,730	1,781,880	267,971	225,297	355,912	1,330,669
Liabilities to the public and public sector entities	1,049,477	20,986	26,620	216,996	473,148	311,726
Debt securities issued	18,798,375	2,854,234	6,164,798	7,422,376	1,695,948	661,018
Subordinated liabilities	90,355	40,000	10,000	39,346	—	1,009
Total	**23,899,936**	**4,697,101**	**6,469,389**	**7,904,016**	**2,525,009**	**2,304,422**

Cash Flows

The Six Months Ended 30 June 2013 and the Years Ended 31 December 2012, 2011 and 2010

The table below sets out, for the period indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
		(Euro '000)		
Cash flow from operating activities	(717,598.8)	(482,694.8)	273,711.5	902,839.2
Cash flow from investing activities	(1,005.8)	(1,128.3)	(2,498.7)	(1,497.1)
Cash flow from financing activities	(40,098.0)	(173.0)	(10,005.9)	(9,990.7)
Change in cash funds	(758,702.6)	(483,996.1)	261,206.8	891,351.4
Cash funds at 1 January	1,991,448.0	2,475,444.2	2,214,237.3	1,322,885.9
Cash funds at period end	1,232,745.5	1,991,448.0	2,475,444.2	2,214,237.3

Operating Activities

The operating activities of the Group for the six months ended 30 June 2013 and the year ended 31 December 2012 generated net cash outflows of Euro 717.6 million and Euro 482.7 million, compared to net inflows of Euro 273.7 million and Euro 902.8 million for the years ended 31 December 2011 and 2010, respectively. The main driver for this change was the change in collateral the Group received in connection with its derivative contracts. Generally, the Group requires counterparties to provide it with cash collateral for any obligations owed under derivative contracts, and the Group includes any such cash inflow or outflow in cash flow from operating activities. The Group's change in collateral was negative Euro 1,205.5 million in the six months ended 30 June 2013 and was negative Euro 32.9 million, Euro 490.1 million and Euro 1,233.1 million in the years ended 31 December 2012, 2011 and 2010, respectively.

Investing Activities

The investing activities of the Group generated net cash outflows of Euro 1.0 million for the six months ended 30 June 2013 and Euro 1.1 million, Euro 2.5 million and Euro 1.5 million for the years ended 31 December 2012, 2011 and 2010, respectively, from the acquisition of tangible and intangible assets.

Financing Activities

Net cash outflow from financing activities of Euro 40.1 million for the six months ended 30 June 2013 was primarily due to the repayment of a Euro 40 million capital loan in March 2013.

Net cash outflows from financing activities, principally consists of dividends paid to shareholders. For the years ended 31 December 2012, 2011 and 2010 the Issuer paid dividends of Euro 0.2 million, Euro 10.0 million and Euro 10.0 million, respectively.

Critical Accounting Policies

Preparation of the accounts in accordance with EU IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements. The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates of the date of closing the accounts. These are related to, among other things, the determination of fair value and the impairment of financial assets.

Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement.

The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

MUNICIPALITY FINANCE PLC

Introduction

Municipality Finance Plc was established on 1 May 2001, when the old Municipality Finance Plc (established in 1989) and Municipal Housing Finance Plc (established in 1993) were merged to form a new company, Municipality Finance Plc, a credit institution referred to in the (Finnish) Credit Institutions Act. On 26 April 2001, the Issuer was granted a credit institution licence by the Ministry of Finance.

The Issuer serves the Finnish municipal sector which consists of municipalities, municipal federations and a range of organisations owned or controlled by municipalities. The Issuer has provided funding for the Finnish municipal sector since 1991. The Issuer's mission is to be, as a financial institution owned by the municipal sector, the most sought-after and active partner in municipal-sector financial services in Finland. The Issuer's aim is to ensure cost-effective financial services for Finnish municipalities, to operate efficiently and grow profitably, and to improve its self-sufficiency and increase its own funds primarily through funds from its operations in compliance with the Municipal Guarantee Board Act (the "**MGB Act**") (see below "*The Municipal Guarantee Board*") and all relevant and applicable rules and legislation. The Issuer focuses actively on customer relations and creates solutions and services for its customers.

The risk management approach of the Issuer is based on risk avoidance and minimisation. In order to minimise risks and safeguard profits, derivatives are only used for hedging purposes. According to the Articles of Association, the Issuer's shares may not be assigned to anyone other than Keva (former name "the Local Government Pensions Institution"), municipalities, municipal federations, central organisations of municipalities, entities wholly owned by or under the control of municipalities or municipal federations or companies owned by such entities without the Issuer's consent.

Municipality Finance Plc's Financial Advisory Services, which was established in 2004, was turned into a subsidiary under the name Financial Advisory Services Inspira Ltd ("**Inspira**") in November 2007. Inspira focuses on independent expert advisory services for public-sector administration in various areas of funding. Its aim is to assist customers in providing different types of services and in meeting investment needs.

Funding by the Issuer is guaranteed by the Municipal Guarantee Board ("**MGB**") as are the Notes. MGB is an institution under public law which was established under the MGB Act and operates in accordance with it, as amended from time to time, to safeguard and develop the joint funding of the Finnish municipal sector. Its members are jointly responsible for its debts and obligations in accordance with the MGB Act. See "*The Municipal Guarantee Board*".

According to calculations carried out in accordance with the (Finnish) Financial Supervisory Authority, the Issuer's primary and secondary funds amounted to approximately Euro 450.8 million on 30 June 2013. The Issuer's total assets on 30 June 2013 were approximately Euro 25.5 billion, of which the loan portfolio represented approximately Euro 16.8 billion.

Customer finance

The Issuer grants financing:

- to municipalities and municipal federations (which are members of MGB);
- at preferential terms in accordance with European Union State aid rules to corporations designated by state authorities and engaging in the renting or production and maintenance of housing on social grounds, or corporations controlled by them; and
- at preferential terms in accordance with European Union State aid rules to entities totally owned or controlled by municipalities or municipal federations, or municipal enterprises provided they fall within certain categories. They should either provide public services falling within the sphere of municipal authority as provided for in the applicable legislation or carry

out functions directly in service thereof. Alternatively, they should provide other services essential to citizens, if due to local or regional circumstances the provision of such services is necessary to ensure their availability or efficient provision. An absolute guarantee or a deficiency guarantee from a municipality or municipal federation, a State deficiency guarantee or a guarantee from the State and a municipality are received as loan collateral in order for the Issuer to advance funds. In addition, a deficiency guarantee for a loan project requires mortgage security. A loan can be granted directly to a municipality or a municipal federation without separate collateral.

The Issuer offers also short-term funding products to municipalities, municipal federations and to organisations controlled by municipalities and municipal federations.

In 2012 the total number of municipalities which had been granted loans was 296. The loan portfolio was Euro 16.8 billion, Euro 15.7 billion and Euro 13.6 billion as at 30 June 2013 and 31 December 2012 and 2011, respectively. The municipal sector's funding needs depend on the size and project to be funded of each municipal-sector client. On average as at 31 December 2012, loans issued by the Issuer are in an amount of about Euro 2.5 million.

By acquiring funding jointly through the Issuer, municipalities can benefit from the good overall credit standing of the entire municipal sector and raise funds in the wholesale market. Because of the Issuer's policy on guarantees and the composition of the Issuer's clientele, all lending by the Issuer is considered zero risk in the capital adequacy calculations of banks and credit institutions in Finland.

Neither the Issuer nor its predecessors has ever suffered any credit losses or had non-performing loans. The Issuer has no significant investments in other companies or corporations.

Funding

The Issuer's long-term funding takes place in both the international (e.g. the euro zone, Japan, Australia, other Asian markets, Switzerland) and domestic capital markets.

International funding is usually obtained through bond issues. The main form of raising international funds is the issuance of bonds under the EMTN Programme. On 30 June 2013, the Issuer had a total of Euro 15.7 billion (Euro 15.7 billion on 31 December 2012) unmatured medium-term notes issued under the EMTN Programme. The Issuer also has an Australian dollar 2 billion Medium Term Note Programme for accessing the Australian markets. Total bonds outstanding under this program totalled Euro 92.6 million as at 30 June 2013.

The Issuer obtains domestic funding through Municipal Bonds and other bonds under its domestic Euro 800 million debt programme. In 1993, the old Municipality Finance Plc began to develop its domestic funding by issuing the first Municipal Bonds ("**Kuntaobligaatio**" in Finnish) for subscription by the general public. "**Kuntaobligaatio**" is a registered trademark owned by the Issuer. On 30 June 2013, unmatured Municipal Bonds totalled approximately Euro 96.0 million (Euro 111.0 million on 31 December 2012) and domestic funding totalled 2,481.0 million (Euro 1,580.0 million on 31 December 2012).

The Issuer's short-term funding is obtained through the issuance of domestic Treasury Bills under a Euro 3 billion Treasury Bill Programme. Short-term funding is used for the municipal sector's short-term financial needs and for securing the liquidity required for the Issuer's normal business operations. Treasury Bills are short-term, liquid, low-risk money market instruments for the investment needs of municipalities and other investors, for instance. Total Treasury Bills outstanding as at 30 June 2013 totalled Euro 2,336.9 million (Euro 1,377.1 million on 31 December 2012.

Liquidity

The Group front-loads its funding requirements and seeks to maintain liquidity for at least six months of undisturbed operation including accounting for new lending. As at 31 December 2012, the Group's liquidity buffer was approximately 11 months. The main sources of funding used by the Group for lending activities are its EMTN Programme, its domestic debt programme, its Treasury Bill programme and its AUD debt programme. To secure its liquidity, the Issuer has at the date of this Offering Circular liquidity back-up facility from an independent third party of Euro 40 million. To maintain its liquidity, the Issuer may also, if necessary, issue Treasury Bills. Since 2010, Municipality Finance has held the status of central bank counterparty, and together with its securities portfolio, the Group's entire municipal loan book can be used as eligible collateral for transactions with the Finnish central bank, which acts as an additional liquidity buffer.

Risk Management

The Issuer aims to satisfy the financing needs of the municipal sector as diversified and cost-effectively as possible. The Issuer does not seek maximum profit from its business operations, which is why risk-taking is also minimised.

The practical aspects of risk management are the responsibility of the Managing Director and the management group assisting him. The Issuer's management group handles risk management matters at its meetings at least once a month.

The Issuer's task is to provide competitive funding for Finnish municipalities. In accordance with this principle, the only credit risk affecting the Issuer's lending portfolio is related to that of municipalities, municipal federations and the State. If any loans are granted to entities owned or controlled by municipalities, these must have municipalities as their majority owners and an absolute guarantee or a deficiency guarantee from a municipality or municipal federation or a deficiency guarantee from the State. The Issuer's entire lending portfolio bears zero risk in the capital adequacy calculation of banks and financial institutions. The same applies to all debt instruments of various durations issued by the Issuer itself. For hedging against interest rate and currency risks, the Issuer uses derivatives contracts.

The Group has two risk committees, the Credit Risk Committee and the Asset, Liability and Management ("**ALM**") Committee. The Credit Risk Committee is responsible for monitoring and supervising the Group's credit risk, as well as making decisions regarding the management of credit risk. The ALM Committee is responsible for outlining the Group's strategic policies and risk management principles in relation to market, liquidity and funding risks.

Principles based on credit rating and contract types, approved by the Issuer's Board of Directors are applied of assessment of credit risk when contractual counterparties are being chosen.

In addition to credit risk and counterparty risk, the Issuer regularly monitors trends in market, liquidity and market liquidity, operational, legal and strategic risks and factors affecting them.

The Group assess its credit risks by utilizing principles and limits based on external credit ratings which have been approved by the Board of Directors and are applied to the selection of counterparties. Nominal values of debt securities and market values of derivatives (fair value method) are used in monitoring credit risk. Further, the Issuer limits credit risk caused by the derivative agreement with ISDA Credit Support Annexes in case of major derivatives counterparties. As at 30 June 2013, of the Issuer's 44 counterparties under ISDA Master Agreements, the Issuer has 42 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

The Group manages its operation risk, or the risk of loss due to insufficient or failed internal processes, personnel, systems, or external factors. Operational risks also include risks arising from failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or the interruption of operations.

Operational risks are recognised as part of the Group's operations and processes. This has been implemented with an annual mapping of operational risk at a unit and company-specific level. The management of operational risks is the responsibility of the Group's functions/departments and in addition, the risk management function supports them and coordinates the work.

The Group uses various methods for managing operational risks. The Group has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are revised on a regular basis. The tasks of trading, risk control, back office functions, documentation and bookkeeping are separated. The Group has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and improved through regular development discussions and training plans. The Group maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. The Group has a contingency plan for situations where business operations are interrupted. The plan is designed to help the Group continue functioning and limit its losses in different disruptive scenarios. The annual mapping of operational risks and the damage report procedure for operational risk events are used as input in the Group's continuity planning.

The Group's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the Group's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations of the authorities concerning the operations of credit institutions are facing significant changes, which creates challenges for the Group's compliance operations. The Group has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the Issuer's internal compliance operations (including reporting evaluation of effects).

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

The realisation of operational risks is monitored with systematic damage reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No material losses were incurred as a result of operational risks in 2012.

Financial reporting

The Issuer publishes yearly an annual report and a mid-year interim report.

MANAGEMENT AND SHAREHOLDERS OF MUNICIPALITY FINANCE PLC

Administration of the Issuer

In accordance with the Issuer's Articles of Association, the Board of Directors consists of 5-8 members. The current 7 members were elected at the annual shareholders' meeting held on 26 March 2013 for a one year period.

Board of Directors	Main duties outside the Issuer
Chairman	
Eva Liljeblom	Professor, Rector of Hanken School of Economics
Vice Chairman	
Fredrik Forssell	CIO, Internal Equity & FI Management, Keva
Board members	
Teppo Koivisto	Head of Division, State Treasury
Sirpa Louhevirta	Group Treasurer, Sanoma Oyj
Tuula Saxholm	Budget Director, City of Helsinki
Asta Tolonen	Municipal Manager, Municipality of Suomussalmi
Juha Yli-Rajala	Director, City of Tampere

The Board of Directors has approved the Corporate Governance rules for the Issuer, which largely follows the principles of corporate governance laid down by the (Finnish) Securities Market Association. The Board of Directors has also approved a Code of Conduct for the Issuer.

The Board of Directors has an Audit Committee, which has four members: Fredrik Forssell (Chairman), Sirpa Louhevirta, Tuula Saxholm and Asta Tolonen. The purpose of the Audit Committee is, as a preparatory body of the Board of Directors, to monitor the bookkeeping and the preparation of the final accounts, the final accounts and the internal control. The tasks and responsibilities of the committee have been defined in the rules of procedure, which the Board of Directors has approved. Internal auditing within the Issuer has been outsourced to Deloitte & Touche Oy. The Board of Directors approves internal audit plans annually.

The Board also has a Remuneration Committee, which has three members. The purpose of the Remuneration Committee is, as a preparatory body of the Board of Directors, to prepare remuneration matters and commitment schemes. The tasks and responsibilities of the committee have been defined in the rules of procedure, which the Board of Directors has approved. The members of the Remuneration Committee are Eva Liljeblom (Chairman), Teppo Koivisto and Juha Yli-Rajala.

The aggregate compensation paid to the members of the Board of Directors, excluding travel and out of pocket expenses related to their services on the Board of Directors, was approximately Euro 125,000.

The Issuer's President and CEO is Pekka Averio, and the deputy to the President and CEO is Esa Kallio. The Issuer's Management Group consists of the CEO, the Deputy to the CEO, Marjo Tomminen (Senior Vice President), Toni Heikkilä (Senior Vice President), Jukka Helminen (Senior Vice President) and Mari Tyster (Senior Vice President).

The Issuer's offices are located at P.O. Box 744 (Jaakonkatu 3A, 5th Floor), FI-00101 Helsinki, which is the contact address for each person mentioned above. The documents mentioned in this Offering Circular can also be viewed at this address.

No member of the Board of Directors or member of the Management Group is subject to existing or potential conflicts of interest between their duties related to the Issuer and their private interests or other duties.

Major Shareholders

As at 30 June 2013 the Issuer had 284 shareholders and the ten largest shareholders of the Issuer were:

Shareholder	Shares	% of shares
1. Keva (former name "The Local Government Pensions Institution")	11,975,550	30.66
2. Republic of Finland	6,250,000	16.00
3. City of Helsinki	4,066,525	10.41
4. City of Espoo	1,547,884	3.96
5. VAV Asunnot Oy (City of Vantaa)	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	841,825	2.16
8. City of Turku	615,681	1.58
9. City of Kuopio	552,200	1.41
10. City of Lahti	502,220	1.29

SELECTED FINANCIAL INFORMATION RELATING TO THE GUARANTOR

The following tables set out, in summary form, selected consolidated financial information on MGB as at and for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, and have been derived from the Audited MGB Financial Statements which have been prepared in accordance with Finnish Accounting Principles. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Audited MGB Financial Statements and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of the Guarantor*" appearing elsewhere in this Offering Circular.

INCOME STATEMENT DATA

	For the year ended 31 December		
	2012	**2011**	**2010**
		(Euro '000)	
Ordinary operations			
Income			
Guarantee premiums	2,000.0	2,000.0	1,500.0
Other income	—	—	—
Expenses			
Staff expense	(547.3)	(467.5)	(446.4)
Depreciation	(27.7)	(25.0)	(21.0)
Other expenses	(738.8)	(707.2)	(735.2)
Result from ordinary operations	**686.1**	**800.2**	**297.3**
Investment activities			
Income	290.7	360.1	388.1
Expenses	(10.4)	(13.4)	(15.1)
Result from investment activities	**280.3**	**346.7**	**373.0**
Result before transfer to fund	966.5	1,146.9	670.3
Transfer to fund	(966.5)	(1,146.9)	(670.3)
Result for the financial year	**0.00**	**0.00**	**0.00**

BALANCE SHEET DATA

	For the year ended 31 December		
	2012	**2011**	**2010**
		(Euro '000)	
Assets			
Non-current assets			
Tangible assets	165.1	169.7	165.0
Other shares and similar rights of ownership	2,266.0	2,143.6	2,048.6
Investments			
Other investments			
Shares and similar rights of ownership	4,679.6	3,650.6	3,714.0
Debt securities	6,559.9	6,416.8	6,170.8
Current assets			
Debtors			
Guarantee receivables	500.0	500.0	375.0
Receivables	94.8	109.2	155.4
Cash and bank accounts	126.5	93.6	114.0
Total assets	**14,391.9**	**13,083.6**	**12,742.8**
Equity and liabilities			
Equity			
Fund	14,071.4	13,105.0	11,958.1
Fair value reserve	101.9	(179.2)	649.3
Liabilities			
Current liabilities			
Trade creditors	59.1	29.2	22.1
Accruals and deferred income	157.7	128.7	113.1
Other current liabilities	1.8	0	0
Total equity and liabilities	**14,391.9**	**13,083.6**	**12,742.8**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS OF THE GUARANTOR

The discussion below was based on the Audited MGB Financial Statements.

The following discussion of MGB's results of operations, financial condition and cash flows should be read and interpreted in conjunction with the Audited MGB Financial Statements and other financial information included in other sections of this Offering Circular, specifically jointly with the data presented in "Selected Financial Information Relating to the Guarantor". This section includes forward-looking statements that reflect the current views of the Board of MGB and due to their nature involve risks and uncertainties. The actual results of MGB could differ materially from those contained in any forward-looking statements as a result of the factors discussed below and in other sections of this Offering Circular, particularly in "Risk Factors" (see also "Forward-Looking Statements"). Investors should read the whole of this Offering Circular and not base their decisions or opinions solely upon the information contained in this section.

Overview

The Municipal Guarantee Board is a public law body established by the MGB Act, and together with the Issuer, are the main participants in the joint funding system of the municipal sector in Finland. Its main purpose is to safeguard and develop the joint funding of the Finnish municipal sector and secure that such funding is raised at preferential terms, based on the joint creditworthiness of the entire municipal sector.

MGB grants guarantees to support the raising of funds by the Issuer to be used for lending to the Finnish municipal sector or to Government designated non-profit organisations that engage in the construction, renting, management or maintenance of social housing in Finland. The MGB Act, as amended, sets out the terms and conditions as well as the specific requirements for the permissible use of the funds raised with the support of the Guarantee, and essentially forms part of the internal government administration in Finland.

The membership of MGB consists of all 304 Finnish municipalities, representing 100 per cent. of the population of Finland as at 15 August 2013. Due to the autonomy of the Province of Åland, the municipalities of the Province of Åland are not clients of the Issuer or members of MGB. As members of MGB, municipalities are responsible for the funding expenses and commitments of MGB that cannot be otherwise covered in proportion to their population at previous year-end as referred to in the Population Data Act (507/1993).

Significant factors Affecting Operating and financial Results

Guarantee fee and expenses

The expenses of MGB are mostly covered by income from guarantee fees. MGB currently has one financial institution to which it can grant guarantees—the Issuer. The rate for the guarantee commissions paid by the Group each year is set by MGB. Increases in the guarantee commissions are designed to reflect increases in the amount and risk of guarantees provided by MGB.

To secure its liquidity, MGB has an equity fund which accumulates funds from guarantee commissions charged by MGB. MGB also has back-up facility agreements of Euro 150 million with independent third parties.

Investments

MGB invests the guarantee fee it receives as well as the funds in its equity fund. MGB has an investment policy approved by its Board of Directors. Under this policy, MGB allocates 50 per cent. of its investments to plain vanilla debt instruments issued by governments and banks (credit rating requirement S&P BBB/Moody's Baa3 or higher) and 50 per cent. to capital protected debt instruments issued by banks and debt instruments issued by corporations, shares of companies listed on the Helsinki stock exchange, equity investment funds and housing and real estate companies.

Results of Operations

The Year Ended 31 December 2012 Compared to the Year Ended 31 December 2011 and for the Year Ended 31 December 2011 Compared to the Year Ended 31 December 2010

	For the year ended 31 December				
	2012	**2011**	**2010**	**Change 2011 to 2012**	**Change 2010 to 2011**
		(Euro '000)			*(%)*
Ordinary operations					
Income					
Guarantee premiums	2,000.0	2,000.0	1,500.0	0.0	33.3
Other income	—	—	—	—	—
Expenses					
Staff expenses	(547.3)	(467.5)	(446.4)	17.1	4.7
Depreciation	(27.7)	(25.0)	(21.0)	10.8	19.0
Other expenses	(738.8)	(707.2)	(735.2)	4.5	(3.8)
Result from ordinary operations	**686.1**	**800.2**	**297.3**	**(14.3)**	**169.1**
Investment activities					
Income	290.7	360.1	388.1	(19.3)	(7.2)
Expenses	(10.4)	(13.4)	(15.1)	(22.4)	(11.0)
Result of investment activities	**280.3**	**346.7**	**373.0**	**(19.2)**	**(7.0)**
Result before transfer to fund	**966.5**	**1,146.9**	**670.3**	**(15.7)**	**71.1**
Transfer to fund	(966.5)	(1,146.9)	(670.3)	(15.7)	71.1
Result for the financial year	**0.00**	**0.00**	**0.00**	**—**	**—**

Guarantee premium

The guarantee premium for MGB remained at Euro 2.0 million for the years ended 31 December 2012 and 2011.

The guarantee premium for MGB increased by Euro 0.5 million, or 33.3 per cent., to Euro 2.0 million for the year ended 31 December 2011, compared to Euro 1.5 million for the year ended 31 December 2010 primarily to reflect the increase in the amount and risk of guarantees provided by MGB.

Expenses

Expenses of MGB from ordinary operations relate primarily to staff expenses and other expenses. Staff expenses is composed primarily of salaries, pensions and other personnel related expense paid to the Board of Directors, the Managing Director, the Deputy MD and other staff. Other expenses consists primarily of general administration expenses, such as rent, information technology and rating fees.

Expenses for MGB have remained relatively stable over the periods under review at Euro 1.3 million, Euro 1.2 million and Euro 1.2 million for the years ended 31 December 2012, 2011 and 2010, respectively.

Result from investment activities

MGB invests the guarantee premium it receives as well as the funds in its equity fund. Investments are valued in the balance sheet at fair value, so the unrealized differences between their book value and fair value have been recognized in the fair value reserve under capital and reserves.

Result from investment activities for MGB remained relatively stable at Euro 0.3 million for the years ended 31 December 2012, 2011 and 2010.

Financial Position

Equity and liabilities

31 December 2012 compared with 31 December 2011

As of 31 December 2012 and 2011, the main component of the equity and liabilities of MGB was MGB's fund, which operates in a way similar to restricted capital, which represented 97.8 per cent. and over 100.0 per cent. of total equity and liabilities, respectively.

As of 31 December 2012, total equity and liabilities was Euro 14.4 million, compared to Euro 13.1 million as of 31 December 2011, mainly as a result of the transfer of the previous year's result into the fund of Euro 1.1 million.

As of 31 December 2011, total equity and liabilities had increased by Euro 0.3 million, or by 2.7 per cent., to Euro 13.1 million, compared to Euro 12.7 million as of 31 December 2010, mainly as a result of the transfer of the previous year's result into the fund of Euro 0.7 million.

Contingent Liabilities

The table below sets out the guarantees MGB has granted and counter-collateral it has received as 31 December 2012, 2011 and 2010, respectively:

	As at 31 December		
Guarantees and collateral	**2012**	**2011**	**2010**
		(Euro '000)	
Guarantee limits granted	34,515,795.8	34,583,912.6	29,969,168.9
Guarantees in use	20,062,220.5	17,459,460.4	15,478,450.7
Collateral received and items affecting collateral situation	22,812,393.8	18,919,899.2	16,723,342.7
Balance of collateral and guarantees	2,750,173.3	1,460,438.7	1,244,892.0
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net	53,859.6	351,625.7	130,166.3

In connection with providing its guarantees, MGB requires the Issuer to pledge substantially all of its loan portfolio and its investment portfolio as collateral. MGB has the right to assume the rights and obligations under the collateral it has received should it ever need to make a payment under the guarantees it provides.

Guarantee Activities by MGB

Guarantee liabilities on 31 December 2012

The most recent data on MGB's guarantee activities at the time of publication of this Offering Circular is from 31 December 2012.

	As at 31 December 2012
	(Euro '000)
A. Guarantee Limits Guaranteed Municipal Housing Finance Plc	
EMTN Programme	1,500,000
Total	**1,500,000**
The Issuer	
EMTN Programme	22,000,000.0
Domestic Debt Programme	800,000.0
Treasury Bill Programme	2,000,000.0
AUD Debt Programme	1,575,795.8
Other international or domestic funding	6,500,000.0
Liquidity back-up facilities	140,000.0
Total	**33,015,795.8**
Guarantees Granted Total	**34,515,795.8**
B. Current Guarantees (31 December 2012)	
EMTN Programme under Municipal Housing Finance Plc	98,599.6
EMTN Programme	15,649,232.0
Domestic Debt Programme	111,024.0
Treasury Bill Programme	1,377,088.1
AUD Debt Programme	43,687.5
Other international funding	2,776,745.6
Other domestic funding	5,843.9
Liquidity back-up facilities	0
Current Guarantees Total	**20,062,220.5**

Credit facilities

MGB has credit facilities of Euro 100 million and Euro 50 million, respectively, available to be used for working capital purposes, including funding a capital injection into the Issuer if required.

THE MUNICIPAL GUARANTEE BOARD

The Municipal Guarantee Board is a public law body established by the MGB Act, and together with the Issuer, are the main participants in the joint funding system of the municipal sector in Finland. Its main purpose is to safeguard and develop the joint funding of the Finnish municipal sector and secure that such funding is raised at preferential terms, based on the joint creditworthiness of the entire municipal sector.

The MGB Act provides that MGB can grant guarantees to support the raising of such funds by the Issuer to be used for lending to the Finnish municipal sector or to Government designated non-profit organisations that engage in the construction, renting, management or maintenance of social housing in Finland. The MGB Act, as amended, sets out the terms and conditions as well as the specific requirements for the permissible use of the funds raised with the support of the Guarantee. The joint funding system of the Finnish municipal sector was established and is operated under the terms and conditions of the MGB Act, as amended, and essentially forms part of the internal government administration in Finland.

The expenses of the Municipal Guarantee Board are mostly covered by income from guarantee commissions. As at 31 December 2012, MGB had Euro 14.4 million in total assets. In addition, at the date of this Offering Circular, the Municipal Guarantee Board has liquidity back-up facilities from independent third parties of an amount equal to Euro 150 million to secure its liquidity. Any expenses or obligations that cannot be otherwise covered are the responsibility of member municipalities in proportion to their population at the preceding year-end, as specified in the (Finnish) Population Data Act. In addition, the Guarantor has the ability to seek funding in excess of the proportional requirement from the municipalities on a short term basis. The Guarantor can collect guarantee premiums on the guarantees granted by the Guarantor and the contributions of member municipalities without a court decision using an execution decree in the form required in the Act on the Collection of Taxes and Charges through Execution.

The compliance of MGB and the Issuer with the MGB Act (as amended) is subject to regular monitoring. The recent amendment of the MGB Act by Act 944/2006 in conjunction with the operation of certain Standing Orders issued by the Council of MGB, strengthen further the basis upon which the Commission Decision of June 2004 concerning the Finnish Municipal Guarantee (the Finnish joint funding system) concluded that the EU State aid rules will not apply to the Guarantee.

The membership of MGB consists of all 304 Finnish municipalities, representing 100 per cent. of the population of Finland as at 15 August 2013. Due to the autonomy of the Province of Åland, the municipalities of the Province of Åland are not clients of the Issuer or members of MGB. As members of MGB, municipalities are responsible for the funding expenses and commitments of MGB that cannot be otherwise covered in proportion to their population at previous year-end as referred to in the Population Data Act (507/1993).

MGB has the corporate authority to inject capital into Municipality Finance Plc if required. MGB's main access to funds are its Euro 150 million liquidity facilities and its equity fund.

The guarantee of the Notes is an absolute irrevocable guarantee granted by MGB, which covers capital, interest and penalty interest.

MANAGEMENT OF THE MUNICIPAL GUARANTEE BOARD

Administration of MGB

The managing bodies of MGB consist of the Council and the Board of Directors. The Members and Deputy Members of the Council for the term office ending on 30 September 2013 were appointed by the Ministry of Finance on 28 August 2009.

The day-to-day management of MGB is handled by the Managing Director in accordance with instructions and orders from the Board of Directors. Heikki Niemeläinen is the Managing Director and Tuukka Salminen is the Deputy Managing Director.

The necessary provisions on the composition and terms of office, duties and other activities are laid down in the Standing Orders of MGB. The Standing Orders were adopted by the Council on 12 April 2007. The operations of MGB are supervised by the Guarantee Board Auditor appointed by the Ministry of Finance at the proposal of the Board of Directors. The Guarantee Board Auditor for 2013 (appointed by the Ministry of Finance on 21 March 2012) is Deloitte & Touche Oy, Authorised Public Accountants. The responsibilities of the Guarantee Board Auditor are set out in the MGB Act. Deloitte & Touche Oy was the Guarantee Board Auditor in 2010, 2011 and 2012.

The financial statements of MGB for the years ended 31 December 2012, 2011 and 2010 have been audited by KPMG Oy Ab, Authorised Public Accountants. The Council of MGB has elected KPMG Oy Ab as its independent auditors also for the year 2013. The office of KPMG Oy Ab and the responsible auditor is at Mannerheimintie 20 B, FIN-00100 Helsinki, Finland.

Council	Main duties outside the MGB
Chairperson	
Mika Munkki	Agrologist, Vehmaa
Deputy Chairpersons	
Reijo Vuorento	Assistant Director, Helsinki
Matti Kankare	Project Director, Espoo
Other members	
Kimmo Behm	Municipal Manager, Nurmijärvi
Marketta Kokkonen	City Counsellor, Espoo
Anni Laihanen	D. Sc. (Econ. & Bus. Adm.), Taipalsaari
Sinikka Kangas	Office Manager, Salla
Anssi Laine...........................	St.Sc., Kuopio
Lea Palomäki	Senior Advisor, Harjavalta
Anneli Moilanen	Councillor, Mikkeli
Arttu Uhlgren	Mechanic, Vaasa
Virpi Ylitalo	Bank employee, Ruovesi
Jyrki Sitolahti	M.Sc., Järvenpää
Raija Rönkä-Nieminen	Administrative Manager, Lohja
Arto Välikangas	St.Sc, Helsinki

Board	Main duties outside the MGB
Chairperson	
Jari Blom	Executive Director, Jyväskylä
Deputy Chairperson	
Sari Innanen	Lecturer, Kokkola
Other Board members	
Pekka Alanen	Deputy CEO, Helsinki
Maija-Liisa Havia	M.Sc. Admin., Jyväskylä
Jaana Karrimaa.....................	City Manager, Harjavalta
Leena Kuha	Department Secretary, Oulu
Janne Laine...........................	City Manager, Savonlinna

MGB's office is located at Yrjönkatu 11 A 1, FI-00120, Helsinki, Finland, which is also the contact address for each person mentioned above (including the Managing Director and the Deputy

Managing Director). MGB's telephone number is (+358) (0) 9 6227 2880. The persons listed above (including the Managing Director and the Deputy Managing Director) are not subject to any existing or potential conflicts of interest between their duties related to MGB and their private interests or other duties.

THE MUNICIPAL SECTOR

Introduction

The local government administration in Finland is administered by a national network of self-governing municipalities, which has evolved over the centuries. The foundation of the present local government was established in the second half of the 19th century when legislation governing the municipal sector was enacted.

In 1917, the Republic of Finland gained its independence from the Russian Empire and the current Constitution was established. The Constitution enshrined a system of local government based on municipalities which are independent of the central government and which enjoy a strong, self-governing status.

Under the Local Government Act municipalities are defined by geographic area and covers the entire state such that all land and people in Finland are represented in one of the municipalities. Authority in each municipality rests with a Municipal Council whose members are directly elected by secret and proportional ballot.

The municipal sector in Finland and other Nordic countries plays a more important role in the public sector than elsewhere in Europe. The Finnish municipalities and federations of municipalities employ approximately 439,000 persons, representing approximately one fifth of the work force.

According to the Association of Finnish Local and Regional Authorities in 2013, total expenditure by municipalities and joint municipal authorities is expected to amount to Euro 45.7 billion, approximately 23 per cent. of Finland's estimated gross domestic product. Measured in terms of personnel, local government is a substantially larger entity than central government.

The total interest-bearing debt portfolio of the Finnish municipalities and joint authorities was Euro 13.9 billion at the end of the year 2012. The Issuer believes the municipal sector debt will increase in the coming years. "**Municipal sector**" refers to municipalities, joint authorities and the municipally owned joint stock companies and other entities under the control of a municipality. "**Local authorities**" refers only to municipalities and joint authorities.

The local authorities' financing requirement for 2013 is estimated by the Association of Finnish Local and Regional Authorities to be approximately Euro 3.4 billion.

The aim of the Government's housing policy is to ensure a socially and regionally balanced and stable housing market, to eliminate homelessness and to improve the quality of housing.

In order for housing to be available at reasonable cost, the Government needs to ensure sufficient social housing production. In 2012, approximately 6,500 units were built and approximately 6,000 units were renovated with state interest subsidies. Currently, the Government is trying to find solutions to increase the production with a special focus on growth centres with high demand for housing. Loans and interest subsidies will be channelled to the Helsinki metropolitan area, major growth centres and other regions with high demand for housing. In 2011, a total of approximately 12,500 state subsidised dwellings were started (incl. buildings and renovations).

The Role of Municipalities

The Local Government Act and other legislation give the municipalities broad powers and responsibilities. The municipalities have long held primary responsibility for the provision of education and healthcare. In recent years, central government has increased the social welfare responsibilities of the municipalities, and the state grants and subsidies cover some 18 per cent. of the local government total expenditure.

The municipal sector is also an important provider of public transport, telecommunications, power, water and sewerage. Many of these functions are carried out through corporations and companies owned or controlled by municipalities and through municipal federations such as hospitals and educational institutions.

In addition to the provision of utilities and services, municipalities have important regulatory functions. They have a monopoly over building permissions, which gives municipalities effective control over town and land-use planning. They are also direct owners of a large number of public buildings and public service institutions.

Apart from administrative buildings, municipalities own premises devoted to art and culture, sports facilities, schools, hospitals, medical centres, homes for the aged and day-care centres.

Municipalities own industrial and commercial premises, which are leased to the private sector and municipality-owned property companies own most social rental housing units.

Municipal Expenditure and Revenues

Individual municipalities have considerable freedom over their expenditure. In 2012, the estimated spending by the municipality sector on education and culture was Euro 9.5 billion and Euro 22.0 billion on health care and social welfare.

The Local Government Act obliges the municipalities to ensure sufficient revenues to cover their expenditure and, to this end, municipalities have a constitutional right to levy taxes on the income of the residents and the real estate owners within their areas. In addition, they receive an annual share of the revenues from corporate taxes collected by the state. An average Finnish municipality funds approximately half of its activities by its own tax revenues. The proportion varies, however, between 75 and 17 per cent. In 2012, the municipalities raised approximately Euro 19.3 billion from taxation.

Municipal income tax is levied at flat rates on the earned income of individuals. For 2013, the average tax rate is approximately 19.38 per cent., ranging from 22.00 to 16.25 per cent. of taxable income. Each municipality decides independently on its income tax rate; no upper limit is set. Municipal tax on real property is levied on real estate situated in Finland. The revenue is received by the municipality in which the property is situated. The average real estate rate based on the assessable value of the property is approximately 0.92 per cent. Municipalities receive presently a 29.49 per cent. share of corporation tax. A municipality's share is assessed by the taxable income of companies within the municipality's area. Municipalities also derive income from fees and charges. In 2012, the municipal sector's income from all different types of operations was approximately Euro 11.6 billion. The largest sources of fee income are fees levied for the use of local energy and water supplies. Other fees are earned, for example from health and social services and local government businesses such as ports, public transport and sewerage.

Municipalities also receive grants from the central Government. Grants are typically given for the provision of social welfare, educational and healthcare services. In 2012, the municipal sector estimates to have received Euro 8.1 billion in grants from the central Government.

According to Association of Finnish Local and Regional Authorities, in 2013, taxes are expected to comprise 44 per cent. of the total revenues of municipalities and joint authorities, grants will comprise 18 per cent. and sales of goods and services will comprise 26 per cent. Other sources of income include rental income, interest income and income from municipally owned corporations.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Finland of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Republic of Finland

The following summary outlines Finnish tax consequences to holders of Notes who are not residents of Finland for tax purposes and who are not engaged in business in Finland for Finnish tax purposes through a permanent place of business in Finland or otherwise. Purchasers are urged to consult their professional advisers as to the tax consequences of holding or transferring Notes.

Under present Finnish law, payments of the principal of and interest (if any) on the Notes will be exempt from all taxes, duties, fees and imposts of whatever nature, imposed or levied by or within the Republic of Finland or by any province, municipality or other political sub-division or taxing authority thereof and therein, except when the holder of the Note or Coupon to which any such payment relates is subject to such taxation thereon by reason of such holders being connected with the Republic of Finland otherwise than solely by his holding of such Note or Coupon or the receipt of income therefrom.

The above holders of the Notes are not liable to pay Finnish capital gains tax or net wealth tax on Notes nor is transfer tax in general payable on a transfer of Notes.

Transfer of Notes by a non-resident by way of a gift or by reason of the death of the owner may be subject to Finnish gift or inheritance tax, respectively.

United States Federal Income Taxation

The following is a description of certain material U.S. federal income tax consequences of the acquisition, ownership, retirement or other taxable disposition of Notes by a U.S. Holder (as defined below). The discussion addresses only U.S. Holders who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets for U.S. federal income tax purposes and, except as set forth below, does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- tax-exempt organisations;
- persons that will own Notes through partnerships or other pass-through entities;
- dealers or traders in securities or currencies;
- certain former citizens or long-term residents of the United States;
- holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes; or
- holders that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax, the Medicare tax on net investment income, or the alternative minimum tax consequences of the acquisition, ownership, retirement or other taxable disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of this offering. Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the Internal Revenue Code of 1986 as amended (the "**Code**"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Notes who, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) organised in or under the laws of the United States, any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust (a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If an entity treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of the entity and a partner in such entity generally will depend on the status of the partner and the activities of the entity. Such partner or entity should consult its own tax adviser as to the U.S. federal income tax consequences of holding Notes.

IRS Circular 230 Disclosure

The description set out herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the Code. Such description was written in connection with the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Payments of Stated Interest

Payments on the Notes, including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes — Taxation*", generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with the U.S. Holder's method of tax accounting for United States federal income tax purposes.

In addition to interest on Notes, a U.S. Holder will be required to include in income the amount of any foreign tax withheld from the interest payments received by such holder. Thus, a U.S. Holder could be required to report income in an amount greater than the cash the holder actually receives in respect of payments on Notes. A U.S. Holder may be entitled to deduct or credit this tax, subject to certain limitations (including that by electing to deduct or credit a particular foreign tax, such election will apply to all of such holder's applicable foreign taxes for a particular tax year).

Interest income (as discussed below) will constitute foreign source "passive category" income, or, in the case of certain U.S. Holders, "general category" income for foreign tax credit purposes. The rules relating to foreign tax credits and the timing thereof are complex and a U.S. Holder should consult its own tax adviser regarding the availability of a foreign tax credit and the application of the foreign tax credit limitations to their particular situation.

Sale, Exchange, Retirement or Other Taxable Disposition

Upon the sale, exchange, retirement or other taxable disposition of Notes, U.S. Holders will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other taxable disposition, other than amounts attributable to accrued but unpaid interest which will be taxable as interest to the extent not previously included in income, and the U.S. Holder's adjusted tax basis in the Notes. A U.S. Holder's adjusted basis in a Note generally will be the amount paid for the Note reduced by any payments other than payments of interest.

Any gain or loss realised on the sale, exchange, retirement or other taxable disposition of Notes generally will be treated as U.S. source gain or loss, as the case may be. Consequently, U.S. Holders may not be able to claim a credit for any foreign tax imposed upon a taxable disposition of Notes unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. The deductibility of capital losses is subject to limitations.

U.S. Backup Withholding Tax and Information Reporting

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain U.S. Holders or their U.S. paying agents or other intermediaries. Information reporting generally will apply to payments of principal of, and interest on, Notes, and to proceeds from the sale or redemption of Notes within the United States, or by a U.S. payor or U.S. middleman, to a U.S. Holder (other than an exempt recipient, including a corporation, and certain other persons). The payor will be required to backup withhold on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a U.S. Holder (other than an exempt recipient) if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. U.S. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against their U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisers regarding their information reporting obligations, if any, with respect to their ownership and disposition of Notes.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

EU Savings Tax Directive

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

CLEARING AND SETTLEMENT ARRANGEMENTS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and Guarantor believe to be reliable, but the Issuer and Guarantor do not take any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor and any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg are each an International Central Securities Depositary ("**ICSD**") and each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

In a press release dated 22 October 2008, "Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the new structure (the "**New Safekeeping Structure**" or "**NSS**") would be in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

The Unrestricted Global Note will be held under the New Safekeeping Structure.

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, relevant agents or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Note, will be legended as set forth under "*Subscription and Sale*" and "*Transfer Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depositary with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depositary is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depositary). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be represented by the Unrestricted Global Certificate registered in the name of, and held by, a Common Safekeeper (or its nominee) for Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes held through DTC will be represented by the Restricted Global Certificate registered in the name of Cede & Co., as nominee for DTC, and held by a custodian for DTC. As necessary, the Registrars will adjust the amounts of Notes on their respective Registers for the accounts of Euroclear, Clearstream, Luxembourg and DTC to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of book-entry interests in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Notes. The relevant Registrar will be responsible for maintaining a record of the aggregate holdings of Notes registered in the name of a Common Safekeeper (or its nominee), a nominee for DTC and/or, if individual Certificates are issued in the limited circumstances described under "*The Global Certificates — Registration of Title*", holders of Notes represented by those individual Certificates. The Fiscal Agent will be responsible for ensuring that payments received by it from the Issuer for holders of book-entry interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Fiscal Agent will also be responsible for ensuring that payments received by the Fiscal Agent from the Issuer for holders of book-entry interests in the Notes holding through DTC are credited to DTC.

The Issuer will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC.

Clearing and Settlement Procedures

Initial Settlement

Upon their original issue, the Notes will be in global form represented by the two Global Certificates. Interests in the Notes will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (value the Closing Date). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Notes through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Notes following confirmation of receipt of payment to the Issuer on the Closing Date.

Secondary Market Trading

Secondary market trades in the Notes will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within Euroclear and within Clearstream, Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Notes between Euroclear or Clearstream, Luxembourg and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream, Luxembourg and DTC.

General

None of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer, the Guarantor or any of their agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Citigroup Global Markets Inc., Deutsche Bank AG, London Branch and Nordea Bank Danmark A/S (together, the "**Joint Lead Managers**") and Daiwa Capital Markets Europe Limited, Mitsubishi UFJ Securities International plc, Nomura International plc and RBC Europe Limited (the "**Co-Managers**" and together with the Joint Lead Managers, the "**Managers**") have in a subscription agreement dated 6 September 2013 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Joint Lead Managers upon the terms and subject to the conditions contained therein, severally and not jointly agreed to subscribe and pay for the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Initial Purchaser	**Principal Amount of Notes**
Barclays Bank PLC	U.S.$240,000,000
Citigroup Global Markets Inc.	U.S.$240,000,000
Deutsche Bank AG, London Branch	U.S.$240,000,000
Nordea Bank Danmark A/S	U.S.$240,000,000
Daiwa Capital Markets Europe Limited	U.S.$10,000,000
Mitsubishi UFJ Securities International plc	U.S.$10,000,000
Nordea International plc	U.S.$10,000,000
RBC Europe Limited	U.S.$10,000,000
Total	**U.S.$1,000,000,000**

The Subscription Agreement provides that the obligations of the Managers to purchase the notes are subject to approval of legal matters by counsel and to other conditions. The Managers must purchase all the notes if they purchase any of the notes.

The Managers propose to resell the notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) that are also QPs in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "*Transfer Restrictions*". The price at which the notes are offered may be changed at any time without notice. As Nordea Bank Danmark A/S is not registered with the SEC as a U.S.-registered broker-dealer, it will effect offers and sales of the Notes solely outside the United States pursuant to Regulation S.

The notes will constitute a new class of securities with no established trading market. However, we cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the notes will develop and continue after this offering. The Managers have advised the Issuer that they currently intend to make a market in the notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the notes.

In connection with the offering, the Managers may purchase and sell notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilising purchases.

- Short sales involve secondary market sales by the Managers of a greater number of notes than they are required to purchase in the offering.

- Covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover short positions.

- Stabilising transactions involve bids to purchase notes so long as the stabilising bids do not exceed a specified maximum.

Purchases to cover short positions and stabilising purchases, as well as other purchases by the Managers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Managers may conduct these transactions in the over-the-counter market or otherwise. If the Managers commence any of these transactions, they may discontinue them at any time.

The Managers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Managers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Issuer from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Issuer and the Guarantor in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of the Managers or their affiliates. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer has agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Managers may be required to make because of any of those liabilities.

United States of America

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs that are also QPs in connection with resales by the Managers, in reliance on, and in compliance with, Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each Manager has represented and agreed that it has offered and sold, and will offer and sell, the Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither such Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Manager, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. Each Manager has agreed that, at or prior to confirmation of sale of the Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the restricted period a confirmation or notice to substantially the foregoing effect.

Each purchaser of a Note, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Managers as follows:

It understands and acknowledges that the Notes have not been registered under the Securities Act or any other applicable securities law, and that the Notes are being offered for sale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A and Regulation S and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or pursuant to a transaction not subject thereto.

It is either (i) (A) a QIB who is also a QP; (B) it is not a broker-dealer who own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (C) it is not a participant-directed employee plan, such as a 401(k) plan; (D) it is acting for its own account, or the account of one or more QIBs each of which is a QP; (E) it is not formed for the purpose of investing in the Notes or the Issuer; (F) it will, and each account for which it is purchasing will hold and transfer at least U.S.$200,000 in principal amount of Notes at any time; (G) it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (H) it will provide notice of the transfer restrictions set forth in the Offering Circular to any subsequent transferees, or (ii) it is purchasing the Notes in an offshore transaction (as defined in Regulation S) in accordance with Regulation S.

It is purchasing the Notes for its own account or for the account of investors meeting the requirements of paragraph (b) above for which it is acting as a fiduciary or agent and with respect to which it has the authority to make these acknowledgements, representations and agreements, in each case not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act.

If it is a QIB that is also a QP purchasing the Notes pursuant to Rule 144A, it will not offer, sell, pledge or otherwise transfer the Notes except (i) (A) to the Issuer, (B) to a person whom the purchaser reasonably believes is a QIB that is also a QP in a transaction meeting the requirements of Rule 144A, (C) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (D) in a transaction that is otherwise exempt from the registration requirements of the Securities Act but only upon delivery to the Issuer of an opinion of counsel in form and scope satisfactory to the Issuer and (ii) in accordance with all applicable securities laws of the States of the United States.

It acknowledges that certificates in respect of Notes purchased pursuant to Rule 144A, unless otherwise agreed by the Issuer, will bear a legend to the following effect:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO MUNICIPALITY FINANCE PLC; (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A "QP") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY UPON

DELIVERY TO MUNICIPALITY FINANCE PLC OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO MUNICIPALITY FINANCE PLC; IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB THAT IS ALSO A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER.

THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, BUT RATHER INTENDS TO RELY ON AN EXEMPTION FROM REGISTRATION THEREUNDER WHICH LIMITS THE TYPE OF INVESTORS THAT MAY BE PERMITTED TO PURCHASE AN INTEREST IN THIS NOTE TO THOSE WHO ARE "QUALIFIED PURCHASERS" AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT.

It acknowledges that certificates in respect of Notes purchased pursuant to Regulation S, unless otherwise agreed by the Issuer, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

Each purchaser further acknowledges that the Joint Lead Managers and their affiliates and otherwise will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Restricted Global Certificates for the account of one or more QIBs that are also QPs, the purchaser thereof represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**") and each Manager has represented and agreed, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the Monday, registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

United Kingdom

Each Manager has represented, warranted and agreed that;

1. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

2. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

This Offering Circular has not and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). Accordingly, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither the Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

United Arab Emirates (excluding the Dubai International financial Centre)

Each Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Each Manager has acknowledged that the information contained in the Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in the Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Law 2012 of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of the Notes is a private placement under Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**CMA Regulations**") through a person authorised by the Capital Market Authority (the "**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the CMA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the CMA Regulations.

Each Manager has represented and agreed that any offer of Notes by it or its Affiliates to a Saudi Investor will comply with the CMA Regulations.

Investors are informed that Article 17 of the CMA Regulations place restrictions on secondary market activity with respect to the Notes which are summarised as follows:

(a) any transfer must be made through an entity licensed by the CMA;

(b) a person (the "**transferor**") who has acquired Notes may not offer or sell such Notes or part thereof to any person (referred to as a "**transferee**") unless (i) the price to be paid by the transferee for such Notes equals or exceeds Saudi Riyals 1,000,000; or (ii) the transferee is a sophisticated investor (as defined under the CMA Regulations);

(c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original offer was equal to or exceeded Saudi Riyals 1,000,000;

(d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Notes if he/she sells his entire holding of the Notes to one transferee; and

(e) the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Notes.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

Delivery of the Notes will be made against payment therefor on or about the Issue Date, which will be the fifth business day following the date of pricing of the Notes (such settlement being herein referred to as "**T+5**"). Under Rule 15c6-l under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own adviser.

Certain of the Managers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and/or its affiliates in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Notes.

Rule 144A Notes

Each purchaser of a beneficial ownership interest in a Rule 144A Notes, by accepting delivery of this Offering Circular and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

1. it is (a) QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A;

2. it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees; in addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories;

3. it understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, or (b) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;

4. it understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB that is also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB that is also a QP;

5. it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO MUNICIPALITY FINANCE PLC; (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A "**QP**") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (E)

UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY UPON DELIVERY TO MUNICIPALITY FINANCE PLC OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO MUNICIPALITY FINANCE PLC; IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB THAT IS ALSO A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER.

THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, BUT RATHER INTENDS TO RELY ON AN EXEMPTION FROM REGISTRATION THEREUNDER WHICH LIMITS THE TYPE OF INVESTORS THAT MAY BE PERMITTED TO PURCHASE AN INTEREST IN THIS NOTE TO THOSE WHO ARE "QUALIFIED PURCHASERS" AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT.

6. it acknowledges that the Issuer, the Guarantor, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor, and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;

7. it understands that the Rule 144A Notes will be evidenced by the Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and

8. it is relying on the information contained in this Offering Circular in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the Issuer, the Guarantor or the Managers has made any representation to it with respect to the Issuer or the Guarantor or the offering or sale of the Rule 144A Notes, other than the information contained in this Offering Circular which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer and the Guarantor and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an opportunity to ask questions of and request information from the Issuer, the Guarantor and the Managers.

9. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

1. it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is not acting for the account or benefit of a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Guarantor or a person acting on behalf of such an affiliate;

2. it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;

3. it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THE SECURITIES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (II) OTHERWISE UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE OF THE OFFERING, EXCEPT IN EITHER CASE IN ACCORDANCE WITH (A) REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON OR (B) RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) THAT IS ALSO A QUALIFIED PURCHASER (AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940). TERMS USED ABOVE WHICH ARE NOT OTHERWISE DEFINED HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

4. the Issuer, the Guarantor, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements; and

5. it understands that the Regulation S Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in a Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

GENERAL INFORMATION

General

1. The Issuer, which is domiciled in Helsinki, was entered in the Trade Register on 1 May 2001 under the corporate code 1701683-4. The documents mentioned in this Offering Circular may be viewed at the Issuer's head office at P.O. Box 744 (Jaakonkatu 3A, 5th Floor) FI-00101 Helsinki. The Issuer's telephone number is (+358) (0)9 6803 5666.

2. The Issuer's fully paid-up capital entered in the (Finnish) Trade Register was Euro 43,008,044.20 on 30 June 2013 and the total number of shares was 39,063,798. The Issuer's shares are divided into A (26,331,646) and B (12,732,152) shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. All issued shares have been paid in full.

3. MGB's latest Annual Report and documents related to the latest financial statements are available for inspection at the Issuer's office at P.O. Box 744 (Jaakonkatu 3A, 5th Floor), FI-00101 Helsinki. MGB is currently not engaged in any litigation or arbitration that might have or has had a significant impact on its financial standing.

4. A copy of the Deed of Guarantee is available for inspection at the registered offices of the Issuer.

Authorisation

The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 26 August 2013. The giving of the Guarantee of the Notes has been authorised by a resolution of the Board of Directors of the guarantor dated 15 August 2013.

Legal and Arbitration Proceedings

Save as disclosed in this Offering Circular, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Significant/Material Change

Save as disclosed in this Offering Circular, since 30 June 2013 there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer. Save as disclosed in this Offering Circular, since 30 June 2013 there has been no material adverse change in the prospects of the Guarantor nor any significant change in the financial or trading position of the Guarantor or the Guarantor and its Subsidiaries.

Auditors

The financial statements of the Issuer and the Guarantor have been audited without qualification for the years ended 31 December 2010, 31 December 2011, and 31 December 2012 by KPMG Oy Ab, authorised public accountants. The responsible auditor is Marcus Tötterman, Authorised Public Accountant (the change of responsible auditor was because of KPMG's normal rotation cycle). The office of KPMG Oy Ab and the responsible auditor is at Mannerheimintie 20 B, FIN-00100 Helsinki.

Material Contracts

1. There are no contracts entered into by the Issuer or the Guarantor outside the ordinary course of business that are, or may be, material to the ability of the Issuer or the Guarantor to meet its obligations in respect of the Notes.

2. Application has been made to list the Notes on the official list of the FCA and to admit the Notes to trading on the London Stock Exchange's Regulated Market. Copies (and certified English translations where the documents in question are not in English) of the following documents may be obtained during normal business hours at the offices of the specified office of the Fiscal Agent and the head office of the Issuer, currently at P.O. Box 744 (Jaakonkatu 3A, 5th floor) FI-00101 Helsinki, namely:

   (a) this Offering Circular;

   (b) the Agency Agreement;

   (c) the Guarantee;

   (d) the Deed of Covenant; and

   (e) the Collateral Agreement (as defined below).

   The English translations are direct and accurate. In the case of any discrepancy, inconsistency or ambiguity between a foreign language document and its English translation the original foreign language document will prevail.

3. In accordance with Finnish statutory regulations governing the giving of guarantees by the Guarantor in respect of debt obligations of the Issuer, it is a pre-condition to the issuance of any such guarantee that sufficient counter-collateral is provided by the Issuer to the Guarantor with respect to any such obligations. For this purpose, the Issuer and the Guarantor will enter into a Collateral Agreement dated on or about 12 September 2013, as amended and supplemented from time to time (the "**Collateral Agreement**"). Pursuant to the Collateral Agreement, and in order to comply with the requirements of the Municipal Guarantee Board for the giving of guarantees, all net issue proceeds will, unless otherwise agreed between the Issuer and the Guarantor, be paid directly to the United States Dollars account of the Guarantor at Citibank, N.A., London Branch, the Fiscal Agent with number 10135852.

4. Application has been made for acceptance of the Restricted Global Certificates into DTC's book-entry settlement system. The Unrestricted and Restricted Global Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Unrestricted Global Certificates is XS0970863386 and for the Restricted Global Certificates is US62628PAB22. The Common Code for the Unrestricted Global Certificates is 090786338. The CUSIP number for the Restricted Global Certificates is 62628PAB2.

5. Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

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Consolidated Statement of Financial Position

Group, EUR	30 Jun 2013	31 Dec 2012
ASSETS		
Cash & cash equivalents	142,246,010.11	228,187,577.63
Loans and advances to credit institutions	345,019,321.91	106,827,960.79
Loans and advances to the public and public sector entities	16,907,399,195.03	15,764,231,632.51
Debt securities	6,506,965,766.56	6,637,830,750.68
Shares and participations	10,022,824.35	10,035,087.37
Derivative contracts	1,395,833,646.48	2,551,682,689.75
Intangible assets	2,842,745.44	2,399,027.80
Tangible assets	2,348,236.34	2,341,475.06
Other assets	2,405,057.43	2,410,053.48
Accrued income and prepayments	218,051,073.30	254,213,722.25
Deferred tax assets	30,624.96	0.00
TOTAL ASSETS	**25,533,164,501.91**	**25,560,159,977.32**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	2,927,042,489.61	3,961,730,190.03
Liabilities to the public and public sector entities	960,372,732.90	1,049,476,634.38
Debt securities issued	19,848,028,002.85	18,798,374,704.55
Derivative contracts	997,009,999.46	937,983,299.37
Other liabilities	1,041,003.00	1,306,287.44
Accrued expenses and deferred income	244,682,638.92	297,999,204.21
Subordinated liabilities	49,466,856.06	90,354,746.57
Deferred tax liabilities	97,936,876.21	77,670,361.00
TOTAL LIABILITIES	**25,125,580,599.01**	**25,214,895,427.55**
EQUITY AND NON-CONTROLLING INTEREST		
Share capital	42,583,195.49	42,583,195.49
Reserve fund	276,711.01	276,711.01
Fair value reserve	23,474,841.63	21,926,619.09
Reserve for invested non-restricted equity	40,366,099.60	40,366,099.60
Retained earnings	300,830,359.23	239,943,960.64
Total equity attributable to parent company equity holders	**407,531,206.96**	**345,096,585.83**
Non-controlling interest	**52,695.94**	**167,963.94**
TOTAL EQUITY AND NON-CONTROLLING INTEREST	**407,583,902.90**	**345,264,549.77**
TOTAL LIABILITIES AND EQUITY	**25,533,164,501.91**	**25,560,159,977.32**

Consolidated Income Statement

Group, EUR	1 Jan – 30 Jun 2013	1 Jan – 30 Jun 2012
Interest income	85,225,050.86	165,932,626.72
Interest expense	-6,604,248.67	-98,081,041.13
NET INTEREST INCOME	**78,620,802.19**	**67,851,585.59**
Commission income	1,036,395.05	926,679.69
Commission expense	-2,103,627.80	-1,582,941.04
Net income from securities and foreign exchange transactions	7,568,356.12	3,229,487.71
Net income from available-for-sale financial assets	-905,100.09	-529,140.03
Net income from hedge accounting	6,793,101.11	3,242,666.11
Other operating income	2,150.00	-20,543.91
Administrative expenses	-7,214,057.40	-6,506,015.48
Depreciation and impairment on tangible and intangible assets	-567,037.48	-525,783.72
Other operating expenses	-2,627,654.49	-2,418,947.34
Impairment losses on other financial assets	54,485.05	0.00
OPERATING PROFIT	**80,657,812.26**	**63,667,047.58**
Income taxes	-19,788,681.67	-15,616,222.63
PROFIT FOR THE PERIOD	**60,869,130.59**	**48,050,824.95**
Profit attributable to:		
Equity holders of the parent company	60,886,398.59	48,007,267.86
Non-controlling interest	-17,268.00	43,557.09

STATEMENT OF COMPREHENSIVE INCOME

Group, EUR	1 Jan – 30 Jun 2013	1 Jan – 30 Jun 2012
Profit for the financial period	60,869,130.59	48,050,824.95
Components of other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	3,198,681.42	22,807,679.89
Net amount transferred to profit or loss	-1,243,371.88	710,390.39
IAS 39 reclassification adjustment	95,316.00	148,233.00
Taxes related to components of other comprehensive income	-502,403.26	-5,798,244.30
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**62,417,352.87**	**65,918,883.93**
Total comprehensive income attributable to:		
Equity holders of the parent company	62,434,620.87	65,875,326.84
Non-controlling interest	-17,268.00	43,557.09

Consolidated Statement of Cash Flows

Group, EUR	1 Jan – 30 Jun 2013	1 Jan – 30 Jun 2012
CASH FLOW FROM OPERATING ACTIVITIES	**-717,598,753.29**	**771,095,356.93**
Change in long-term funding	1,234,816,935.14	2,269,264,162.90
Change in short-term funding	1,000,744,809.90	244,499,664.52
Change in long-term loans	-1,252,348,500.35	-1,044,658,712.55
Change in short-term loans	-24,151,179.96	393,466.18
Change in investments	-531,516,199.41	-1,325,276,073.78
Change in collaterals	-1,205,460,000.00	569,430,000.00
Interest paid	-7,788,430.08	-119,399,465.68
Interest received	82,849,193.15	184,368,213.85
Other income	6,861,730.16	3,239,669.24
Payments of operating expenses	-14,597,093.13	-10,679,921.32
Taxes paid	-7,010,018.71	-85,646.43
CASH FLOW FROM INVESTING ACTIVITIES	**-1,005,828.31**	**-634,205.78**
Acquisition of tangible items	-271,837.33	-164,559.29
Acquisition of intangible items	-733,990.98	-469,646.49
CASH FLOW FROM FINANCING ACTIVITIES	**-40,098,000.00**	**-173,000.00**
Change in capital loans	-40,000,000.00	0.00
Dividends paid	-98,000.00	-173,000.00
CHANGE IN CASH FUNDS	**-758,702,581.60**	**770,288,151.15**
CASH FUNDS AT 1 JANUARY	**1,991,448,034.42**	**2,475,444,173.53**
CASH FUNDS AT 30 JUNE	**1,232,745,452.82**	**3,245,732,324.68**

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

Cash funds, EUR	30 Jun 2013	30 Jun 2012
Cash & cash equivalents	142,246,010.11	13,526,351.24
Loans and advances to credit institutions	345,019,321.91	2,135,130,609.95
Debt securities maturing within three months	745,480,120.80	1,097,075,363.49
TOTAL	**1,232,745,452.82**	**3,245,732,324.68**

Consolidated Statement of Changes in Equity

Group, EUR 1,000	Total equity attributable to parent company equity holders							
	Share capital	Reserve equity	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
EQUITY AT 31 DECEMBER 2011	**42,583**	**277**	**-14,210**	**40,366**	**135,434**	**204,450**	**241**	**204,691**
Dividends paid for 2011	-	-	-	-	-	0	-173	-173
Comprehensive income for the period	-	-	36,137	-	104,510	140,647	100	140,747
EQUITY AT 31 DECEMBER 2012	**42,583**	**277**	**21,927**	**40,366**	**239,944**	**345,097**	**168**	**345,265**
Dividends paid for 2012	-	-	-	-	-	0	-98	-98
Comprehensive income for the period	-	-	1,548	-	60,886	62,434	-17	62,417
EQUITY AT 30 JUNE 2013	**42,583**	**277**	**23,475**	**40,366**	**300,830**	**407,531**	**53**	**407,584**

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 2012 consolidated financial statements.

The interim report of 30 June 2013 also complies with the following new and amended standards:

- IAS 1 Presentation of Financial Statements (amendment)
- IAS 34 Interim Financial Reporting (amendment)
- IFRS 13 Fair Value Measurement

The figures in the notes to the financial statements are presented in thousands. This interim report has not been audited.

2. Derivative contracts

30 Jun 2013, EUR 1,000	Nominal value of underlying instrument	Fair value	
		Positive	Negative
Contracts not included in hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	6,423,162	45,625	-65,206
Currency derivatives			
Cross currency interest rate swaps	48,447	218	-216
Forward exchange contracts	2,036,850	1,755	0
Equity derivatives	2,639,691	162,530	-162,530
Other derivatives	224,976	36,319	-35,959
Total	**11,373,126**	**246,447**	**-263,911**
Contracts under hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	23,063,949	312,332	-277,308
Currency derivatives			
Cross currency interest rate swaps	15,729,312	837,055	-455,791
Total	**38,793,261**	**1,149,387**	**-733,099**
Grand total	**50,166,387**	**1,395,834**	**-997,010**

31 Dec 2012, EUR 1,000	Nominal value of underlying instrument	Fair value	
		Positive	Negative
Contracts not included in hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	6,196,383	56,035	-91,858
Currency derivatives			
Cross currency interest rate swaps	53,858	329	-323
Forward exchange contracts	927,088	592	-13,249
Equity derivatives	3,790,493	172,391	-172,391
Other derivatives	365,562	44,093	-43,733
Total	**11,333,384**	**273,441**	**-321,554**
Contracts under hedge accounting (IFRS classification)			
Interest rate derivatives			
Interest rate swaps	18,625,030	516,296	-378,058
Currency derivatives			
Cross currency interest rate swaps	14,041,357	1,761,946	-238,371
Total	**32,666,387**	**2,278,242**	**-616,429**
Grand total	**43,999,772**	**2,551,683**	**-937,983**

3. Contingent liabilities

Liabilities and collateral, EUR 1,000	**30 Jun 2013**	**31 Dec 2012**
Loans pledged to the central bank	1,931,088	2,036,320
Loans pledged to the Municipal Guarantee Board	14,729,017	13,381,558
Debt securities pledged to the Municipal Guarantee Board	5,631,671	5,738,476
Deposits pledged to the Municipal Guarantee Board	20,000	20,000
Total	**22,311,776**	**21,176,354**

Off-balance-sheet commitments, EUR 1,000	**30 Jun 2013**	**31 Dec 2012**
Binding credit commitments	1,587,947	1,247,588
Total	**1,587,947**	**1,247,588**

4. Related party transactions

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

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

5. Financial assets and liabilities measured at fair value

30 Jun 2013, EUR 1,000	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	1,047,720	-	-	1,047,720
Loans and advances to the public and public sector entities	-	6,684,532	-	6,684,532
Derivative contracts	-	246,447	-	246,447
Hedging derivatives	-	1,149,387	-	1,149,387
Available-for-sale assets				
Debt securities	4,544,039	14,470	-	4,558,509
Shares in investment funds	9,996	-	-	9,996
Total assets measured at fair value	**5,601,755**	**8,094,836**	**–**	**13,696,591**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	1,962,177	-	1,962,177
Liabilities to the public and public sector entities	-	758,207	-	758,207
Debt securities issued	-	16,960,359	-	16,960,359
Subordinated liabilities	-	38,458	-	38,458
Derivative contracts	-	263,911	-	263,911
Hedging derivatives	-	733,099	-	733,099
Total liabilities measured at fair value	**–**	**20,716,211**	**–**	**20,716,211**

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

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

Level 3 Fair value is based on input data that are not based on verifiable market prices.

No reclassifications between levels were made during the 2013 financial year.

6. Financial assets and liabilities

30 Jun 2013, EUR 1,000

Financial assets	Loans and receivables	Available for sale	Held to maturity	Fair value through P/L	Hedging derivative contracts	Total	Fair value
Cash & cash equivalents	142,246	-	-	-	-	142,246	142,246
Loans and advances to credit institutions	345,019	-	-	-	-	345,019	345,019
Loans and advances to the public and public sector entities	10,222,867	-	-	6,684,532	-	16,907,399	17,514,964
Debt securities	-	4,558,509	900,737	1,047,720	-	6,506,966	6,492,388
Shares and participations	-	10,023	-	-	-	10,023	10,023
Derivative contracts	-	-	-	246,447	1,149,387	1,395,834	1,395,834
Total assets	**10,710,132**	**4,568,532**	**900,737**	**7,978,699**	**1,149,387**	**25,307,487**	**25,900,474**

Financial liabilities	Other financial liabilities	Fair value through P/L	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	964,865	1,962,177	-	2,927,042	2,927,100
Liabilities to the public and public sector entities	202,166	758,207	-	960,373	956,268
Debt securities issued	2,887,669	16,960,359	-	19,848,028	19,847,386
Derivative contracts	-	263,911	733,099	997,010	997,010
Subordinated liabilities	11,009	38,458	-	49,467	50,403
Total liabilities	**4,065,709**	**19,983,112**	**733,099**	**24,781,920**	**24,778,167**

Loans and advances to the public and public sector entities include EUR 67,993 thousand in receivables based on leasing agreements.

Municipality Finance

Financial statements

1 Jan–31 Dec 2012

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Report of the Board of Directors

Summary of 2012:

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

Key figures (Group):

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

The calculation formulas for the key figures are given on page 36.
All figures mentioned in this Report of the Board of Directors are for the Municipality Finance Group unless otherwise mentioned.

Credit ratings

Municipality Finance Plc's credit ratings

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

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

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

The Municipal Guarantee Board's credit ratings

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

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

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

Operating environment in 2012

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

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

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

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

Development of business operations

Group structure

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

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

Inspira offers expert financial services to the public sector. Its services include the analysis and arrangement of various forms of financing for public sector investments. In addition, Inspira offers its services for different public sector ownership arrangements by planning the services, making value assessments and assisting in contract negotiations. Inspira helps the public sector to arrange its services more effectively and invest more economically.

Net interest income and net operating profit

Considering the challenges in the international operating environment, the Group's net operating profit was excellent. The growth of business continued and net operating profit for the financial year before appropriations and taxes stood at EUR 138.6 million (2011: EUR 65.3 million). Net operating profit grew by 112% year-on-year. The Group's net interest income amounted to EUR 142.4 million (2011: EUR 94.2 million).

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

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

Expenses

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

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

Balance sheet

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

Capital adequacy

The equity objectives of Municipality Finance relating to the Company's risk taking and operating environment are defined as part of annual planning. The planning horizon was extended from three years to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds in relation to the increasing capital requirements arising from changing regulation and to be able to react to potential additional needs for capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The Company updated its capital adequacy plan in December 2012.

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

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operational risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the Company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the Company's currency position is very small and it is not necessary to reserve capital for the currency risk. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk factors used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. For capital adequacy calculations for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

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

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

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

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

Consolidated own funds, Group

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

Risk-weighted receivables, Group

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

Funding

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

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

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

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

International funding

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

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

The year 2012 was characterised by continued restlessness on the markets. As the European crisis continued, investors sought safe harbours for their assets. Supported by the stability and solid reputation of the Finnish local government sector, Municipality Finance was seen as a safe alternative by investors. Active work among investors has increased Municipality Finance's reputation in various markets, and diversifying the sources of funding has proven to be a good strategy in the unstable market situation. Despite the challenges, the company has managed to keep funding costs at a competitive level.

Domestic funding

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

Customer financing

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

Long-term lending

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

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

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

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

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

Leasing operations

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

The aim of Municipality Finance's leasing operations is to increase transparency and the range of alternatives available in the leasing market. The Company has concluded a number of facility agreements for leasing services and the prospects for expanding leasing operations are good, as financial leasing is increasingly seen as a viable alternative, particularly for procurement by municipal corporations engaging in municipal operations and hospital districts. Early in 2012, Municipality Finance also began offering financial real estate leasing services to municipalities as an alternative to traditional modes of financing.

Short-term lending

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

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

Investment operations

Municipality Finance's investment operations comprise the investment of funds acquired in advance in liquid financial instruments with a good credit rating in order to ensure that the Company can remain operational under all market conditions. According to the Company's liquidity policy, the investment portfolio must be sufficient to cover the liquidity needs of continued undisturbed operations for at least the six following months. The Company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. In addition, the Company has other investments that are not included in liquidity.

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

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

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

Inspira

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

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

Governance

Corporate Governance Policy

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

The Board is responsible for making sure that Municipality Finance complies with the Corporate Governance rules and is committed to developing them further. As a part of the annual report 2012 (as a separate section), Municipality Finance publishes a corporate governance statement, including the description of the key characteristics of internal control and risk management systems related to financial reporting processes as required in the Securities Market Act.

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

Annual General Meeting

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

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

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

Board of Directors

At the Annual General Meeting on 27 March 2012, according to the proposal of the Shareholders' Nomination Committee, all members of the then Board of Directors were re-elected for the term that started at the end of the Annual General Meeting of 2012 and terminates at the end of the following Annual General Meeting. The Annual General Meeting elected the following members to the Board of Directors: Eva Liljeblom (chairman), Fredrik Forssell (vice chairman), Teppo Koivisto, Tapio Korhonen, Sirpa Louhevirta, Ossi Repo, Asta Tolonen and Juha Yli-Rajala.

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

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

Personnel

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

The President and CEO of Municipality Finance is Pekka Averio. Executive Vice President Esa Kallio acts as deputy to the CEO. In addition, the Board of Management of Municipality Finance includes Senior Vice President Toni Heikkilä, Senior Vice President Marjo Tomminen and Senior Vice President Mari Tyster. Senior Vice President Mari Tyster was appointed as a member of the Board of Management effective 1 June 2012.

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

Salaries and remuneration

The remuneration paid to the management and employees of Municipality Finance consists of fixed remuneration (base salary and fringe benefits) and variable remuneration based on the conditions of the remuneration system. The Board of Directors confirms the principles of the remuneration system and these are evaluated annually. The Remuneration Committee of the Board of Directors assists the Board in matters related to the remuneration systems and remuneration. A more detailed description of salaries and remuneration is available in Section 38 in the notes to the parent company.

Internal audit

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

Risk management

Municipality Finance's operations require sufficient risk management mechanisms to ensure that the Company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk at such a low level that the Company's strong credit rating (Aaa/AAA) is not compromised.

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

The Investments department is responsible for the use of counterparty limits in the Company's investment operations. The Treasury department is in charge of the management of the risk position of the balance sheet with regard to market and financial risks. The Company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

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

A comprehensive stress test is conducted at the Company annually by an independent external party. The main aim for the test conducted in the autumn of 2012 was to analyse the development of Municipality Finance's equity and its range in 2012–2017. The test included to operational market and credit risks and their estimated financial impacts under different scenarios. The test also included a so-called reverse stress test, analysing the trends in exceptional circumstances in which the Company's capital might fall to a critically low level. The results of the test showed that with the current capital requirements, the level of the Company's capital is adequate in the review period even in highly unfavourable circumstances.

There were no material changes in the Company's risk standing in 2012. Risks remained within the set limits and, based on the Company's assessment, risk management has met the requirements established for it. The Company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the Company's risk standing in relation to various risk areas every six months.

Strategic risks

Strategic risk means that the Company would have chosen the wrong strategy for financially profitable operations or that the Company would fail to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of clients' needs, forecasts of market trends and analyses of changes in competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2018.

Credit risk

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

Municipality Finance is also exposed to credit risk from the investment portfolio for pre-funding and derivative instruments. In the assessment of credit risks, principles and limits that are based on external credit ratings and have been approved by the Board of Directors are applied to the selection of counterparties. Nominal values of debt securities and market values of derivatives (fair value method) are used in monitoring credit risk.

Liability values of balance sheets and binding loan commitments

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

31 Dec 2011 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	7,436,100	6,517,541	-	685,680	232,879
Enterprises and housing corporations	8,182,458	6,981,594	-	58,025	1,142,839
Non-profit organisations	155,799	155,799	-	-	-
Credit institutions	4,827,650	-	562,007	4,265,643	-
Other	579,611	-	-	579,611	-
Total	**21,181,618**	**13,654,934**	**562,007**	**5,588,959**	**1,375,718**

The Company limits credit risk caused by the derivative contracts with ISDA Credit Support Annexes in case of major derivatives counterparties. The Company has 42 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

Market risk

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

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. The Company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other price risks. Derivatives may only be used for hedging purposes.

Breakdown of derivative agreements by counterparty's credit rating

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

Breakdown of funding acquisition by denomination (foreign currency)

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

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

The Board has specified limits for the following market risks:

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

Currency position

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

Duration

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

Value-at-Risk

The VaR figure describes the maximum negative change in the market value of the balance sheet during 10 days at a probability of 99% in euros. The VaR model used by the Company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the Company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

Economic Value

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

Income risk

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

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

Currency position

(EUR 1,000)	Currency	Currency position
31 Dec 2012	USD	-1
31 Dec 2011	USD	-5

Duration

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

Value-at-Risk

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

Economic value

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

Income risk

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

Breakdown of financial liabilities by maturity

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

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

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

Liquidity risk

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

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

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

Market liquidity risk

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

The Company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are concluded. The market values of almost all debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

The Company has been approved as a counterparty of financial policy of the Bank of Finland. The Company has pledged loans to the Bank of Finland (parent company note 34).

Operational risks

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

Operational risks are recognised as part of the Company's operations and processes. This has been implemented with an annual mapping of operational risk at a department and Company-specific level. The management of operational risks is the responsibility of the company's functions / departments in addition risk management supports them and coordinates.

Municipality Finance uses various methods for managing operational risks. The Company has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are revised on a regular basis. The tasks of trading, risk control, back office functions, documentation and accounting are separated. The Company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and improved through regular development discussions and training plans. Municipality Finance maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help the Company to continue functioning and limit its losses in different disruptive scenarios. The annual mapping of operational risks and the damage report procedure for operational risk events are used as inputs in the Company's continuity planning.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the Company's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations of the authorities concerning the operations of credit institutions are facing significant changes, which creates challenges for the Company's compliance operations. The Company has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the Company's internal compliance operations (incl. reporting, evaluation of effects).

The Company has significant information system projects in progress to enhance the efficiency of operations. The extent of these projects causes operational risks that the Company is trying to minimise by developing models related to project management and monitoring (incl. regular reporting).

The realisation of operational risks is monitored with systematic damage reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The Board of Management and the Board of Directors are kept up-to-date on any damage reports. No material losses were incurred as a result of operational risks in 2012.

Share capital and owners

At the end of the 2012 financial year, Municipality Finance's paid share capital registered in the Trade Register was EUR 43.0 million and the number of shares was 39,063,798. Each share confers one vote at shareholders' meetings.

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

10 largest shareholders 31 December 2012

		No. of shares	%
1.	Keva	11,975,550	30.66
2.	Republic of Finland	6,250,000	16.00
3.	City of Helsinki	4,066,525	10.41
4.	City of Espoo	1,547,884	3.96
5.	VAV-Asunnot Oy (City of Vantaa)	963,048	2.47
6.	City of Tampere	919,027	2.35
7.	City of Oulu	841,825	2.16
8.	City of Turku	615,681	1.58
9.	City of Kuopio	552,200	1.41
10.	City of Lahti	502,220	1.29

Events after the financial statements

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

Prospects for 2013

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

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

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

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

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

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

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

The Group's development

Key figures describing the development of the Municipality Finance Group

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

Basis for calculating the key figures

Turnover

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

Cost-to-income ratio

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

Return on equity (%) (ROE)

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

Return on assets (%) (ROA)

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

Equity ratio (%)

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

Capital adequacy ratio, Tier 1 capital (%)

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

Capital adequacy ratio (%)

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

Municipality Finance Group

Financial statements

Consolidated statement of financial position

EUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Cash and cash equivalents		228,187,577.63	26,507,291.80
Loans and advances to credit institutions	(2)	106,827,960.79	562,006,830.73
Loans and advances to the public and public sector entities		15,764,231,632.51	13,654,934,443.96
Debt securities	(3)	6,637,830,750.68	5,588,958,735.18
Shares and participations	(4)	10,035,087.37	27,219.06
Derivative contracts	(5)	2,551,682,689.75	3,750,333,786.73
Intangible assets	(6,8)	2,399,027.80	2,273,072.18
Tangible assets	(7,8)	2,341,475.06	2,460,149.10
Other assets	(9)	2,410,053.48	1,742,655.66
Accrued income and prepayments	(10)	254,213,722.25	247,761,352.13
Deferred tax assets	(11)	0.00	4,611,171.00
TOTAL ASSETS		**25,560,159,977.32**	**23,841,616,707.53**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		3,961,730,190.03	3,533,230,091.21
Liabilities to the public and public sector entities		1,049,476,634.38	1,176,752,432.59
Debt securities issued	(12)	18,798,374,704.55	17,187,942,326.47
Derivative contracts	(5)	937,983,299.37	1,253,255,710.82
Other liabilities	(13)	1,306,287.44	2,529,600.82
Accrued expenses and deferred income	(14)	297,999,204.21	349,695,135.86
Subordinated liabilities	(15)	90,354,746.57	89,915,861.74
Deferred tax liabilities	(11)	77,670,361,00	43,605,100.00
TOTAL LIABILITIES		**25,214,895,427.55**	**23,636,926,259.51**
EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(16)	42,583,195.49	42,583,195.49
Reserve fund	(16)	276,711.01	276,711.01
Fair value reserve		21,926,619.09	-14,209,934.69
Reserve for invested non-restricted equity	(16)	40,366,099.60	40,366,099.60
Retained earnings		239,943,960.64	135,433,584.54
Total equity attributable to parent company equity holders		**345,096,585.83**	**204,449,655.95**
Non-controlling interest		**167,963.94**	**240,792.07**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**345,264,549.77**	**204,690,448.02**
TOTAL LIABILITIES AND EQUITY		**25,560,159,977.32**	**23,841,616,707.53**

Consolidated income statement

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

Statement of comprehensive income

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

Consolidated statement of cash flows

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

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

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

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders							
	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
EQUITY AT 31 DECEMBER 2010	**42,583**	**277**	**-6,653**	**40,366**	**94,469**	**171,042**	**303**	**171,345**
Dividends paid for 2010					-9,766	-9,766	-240	-10,006
Comprehensive income for the period			-7,557		50,731	43,174	178	43,352
EQUITY AT 31 DECEMBER 2011	**42,583**	**277**	**-14,210**	**40,366**	**135,434**	**204,450**	**241**	**204,691**
Dividends paid for 2011						0	-173	-173
Comprehensive income for the period			36,137		104,510	140,647	100	140,747
EQUITY AT 31 DECEMBER 2012	**42,583**	**277**	**21,927**	**40,366**	**239,944**	**345,097**	**168**	**345,265**

Notes to the consolidated financial statements

General information on the Group

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

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

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

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 14 February 2013. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also alter the financial statements.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS standards and the SIC and IFRIC interpretations in force on December 31 2012. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) No 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

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

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

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

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

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

Municipality Finance reclassified certain debt securities used for acquiring funding in advance. Based on the amendments to IAS 39 and IFRS 7, debt securities recorded as available for sale were transferred to held to maturity at their fair value on 1 July, 2008. In addition, debt securities classified as available-for-sale were also reclassified to held to maturity on 1 January, 2008. The transfers are itemised in Note 3.

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

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

Basis of consolidation

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

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

Foreign currency denominated items

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

Monetary receivables and liabilities denominated in a foreign currency have been converted into euros using the European Central Bank's average exchange rate on the balance sheet date. Gains and losses resulting from foreign exchange translation are included in the income statement under "Net income from foreign exchange transactions".

Classification of financial instruments and measurement principles

On the basis of IAS 39 *Financial Instruments: Recognition and Measurement* the company's financial assets and liabilities have been classified into the following categories: loans and receivables, available-for-sale financial assets, held to maturity and financial assets and liabilities at fair value through profit or loss. The classification is made on the basis of the purpose of acquiring the financial assets upon acquisition. The groups are measured as follows:

Loans and receivables

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

Available-for-sale financial assets

These include investment of advance funding in debt securities.

Debt securities are initially measured at fair value, and subsequent changes in fair value are recognised in "Other comprehensive income" and presented in the fair value reserve net of tax. Realised capital gains and losses as well as impairment recognised through profit or loss are recognised in the income statement under "Net income from available-for-sale financial assets".

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

Held to maturity

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

Financial assets and liabilities at fair value through profit or loss

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

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

Impairment of financial assets

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

Financial liabilities

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

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

Determination of fair value

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

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

Financial assets and liabilities measured at fair value

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

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

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

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

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

Hedge accounting

In addition to derivative contracts, items measured at fair value through profit or loss under hedge accounting include lending at fixed rates, lending tied to long-term reference rates, lending based on structured interest rate terms and conditions, financial leasing and funding hedged with derivative contracts, as well as certain fixed rate debt securities where the interest rate risk is hedged with derivatives. Hedging performance is calculated as the ratio of the change in the hedging instrument value to the change in the hedged item value. Hedging is effective when the hedge ratio is at least 80% and at the most 125%. The effectiveness of hedging is verified when an agreement is recognised in fair value hedge accounting and subsequently at least every six months.

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

Recognition and derecognition of financial assets and liabilities

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

Leases

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

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

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

Intangible and tangible assets

Intangible and tangible assets are recognised on the balance sheet at acquisition cost, less accumulated depreciation and impairment.

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

Impairment of intangible and tangible fixed assets

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

Recognition of income and expenses

Net interest income

The effective interest method is applied to interest income and interest expenses. Commissions and fees received and paid, transaction expenses as well as any premiums and discounts are taken into account when the effective interest rate is calculated.

Commission income and expenses

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

Net income from hedge accounting

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

Employee benefits

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

Voluntary credit loss provision

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

Income taxes

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

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

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

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

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

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates at balance sheet date. Concerning amongst others the determination of fair value and the impairment of financial assets.

Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles applied to the determination of fair value are discussed in the section "Determination of fair value".

The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

The risk management principles applied are discussed in the Report of the Board of Directors and in Notes to the consolidated financial statements.

Application of new standards

The standards and interpretations that enter into force in 2013 are not believed to have a significant effect on the consolidated financial statements of Municipality Finance.

The IASB has issued a new standard, IFRS 9, which is still pending EU approval. The company will monitor the timetable and effects of the standard's implementation in 2013.

Risk management

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

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

The Investments department is responsible for the use of counterparty limits in the company's investment operations. The Treasury department is in charge of the management of the risk position of the balance sheet with regard to market and financial risks. The company's Middle Office and Legal Affairs and Compliance departments are responsible for managing the supervision and reporting tasks related to financial and operational risks. Risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

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

A comprehensive stress test is conducted at the company annually by an independent external party. The main aim for the test conducted in the autumn of 2012 was to analyse the development of Municipality Finance's equity and its range in 2012–2017. The test included to operational market and credit risks and their estimated financial impacts under different scenarios. The test also included a so-called reverse stress test, analysing the trends in exceptional circumstances in which the company's capital might fall to a critically low level. The results of the test showed that with the current capital requirements, the level of the company's capital is adequate in the review period even in highly unfavourable circumstances.

There were no material changes in the company's risk standing in 2012. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements established for it. The company's risk standing is regularly reported on to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the Board with a broader overall review of the company's risk standing in relation to various risk areas every six months.

Strategic risks

Strategic risk means that the company would have chosen the wrong strategy for financially profitable operations or that the company would fail to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of clients' needs, forecasts of market trends and analyses of changes in competition and the operating environment. Risks and their significance are assessed annually when the business plan is drawn up. The Group's existing strategy extends to 2018.

Credit risk

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

Municipality Finance is also exposed to credit risk from the investment portfolio for pre-funding and derivative instruments. In the assessment of credit risks, principles and limits that are based on external credit ratings and have been approved by the Board of Directors are applied to the selection of counterparties. Nominal values of debt securities and market values of derivatives (fair value method) are used in monitoring credit risk.

Liability values of balance sheets and binding loan commitments

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

31 Dec 2011 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding credit commitments
Public sector entities	7,436,100	6,517,541	-	685,680	232,879
Enterprises and housing corporations	8,182,458	6,981,594	-	58,025	1,142,839
Non-profit organisations	155,799	155,799	-	-	-
Credit institutions	4,827,650	-	562,007	4,265,643	-
Other	579,611	-	-	579,611	-
Total	**21,181,618**	**13,654,934**	**562,007**	**5,588,959**	**1,375,718**

The Company limits credit risk caused by the derivative contracts with ISDA Credit Support Annexes in case of major derivatives counterparties. The Company has 42 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

Market risk

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

Municipality Finance manages the interest rate risk arising from business operations by means of derivative contracts. The Company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. Derivative contracts are also used to hedge against other price risks. Derivatives may only be used for hedging purposes.

Breakdown of derivative agreements by counterparty's credit rating

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

Breakdown of funding acquisition by denomination (foreign currency)

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

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

The Board has specified limits for the following market risks:

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

Currency position

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

Duration

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

Value-at-Risk

The VaR figure describes the maximum negative change in the market value of the balance sheet during 10 days at a probability of 99% in euros. The VaR model used by the Company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the Company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

Economic Value

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

Income risk

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

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

Currency position

(EUR 1,000)	Currency	Currency position
31 Dec 2012	USD	-1
31 Dec 2011	USD	-5

Duration

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

Value-at-risk

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

Economic value

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

Income risk

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

Breakdown of financial liabilities by maturity

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

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

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

Liquidity risk

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

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

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

Market liquidity risk

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

The company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are concluded. The market values of almost all debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

The company has been approved as a counterparty of financial policy of the Bank of Finland. The company has pledged loans to the Bank of Finland (parent company note 34).

Operational risks

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

Operational risks are recognised as part of the company's operations and processes. This has been implemented with an annual mapping of operational risk at a department and company-specific level. The management of operational risks is the responsibility of the company's functions/departments in addition risk management supports them and coordinates.

Municipality Finance uses various methods for managing operational risks. The company has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are revised on a regular basis. The tasks of trading, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and improved through regular development discussions and training plans. Municipality Finance maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help the company to continue functioning and limit its losses in different disruptive scenarios. The annual mapping of operational risks and the damage report procedure for operational risk events are used as inputs in the company's continuity planning.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations of the authorities concerning the operations of credit institutions are facing significant changes, which creates challenges for the company's compliance operations. The company has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the company's internal compliance operations (incl. reporting, evaluation of effects).

The company has significant information system projects in progress to enhance the efficiency of operations. The extent of these projects causes operational risks that the company is trying to minimise by developing models related to project management and monitoring (incl. regular reporting).

The realisation of operational risks is monitored with systematic damage reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The Board of Management and the Board of Directors are kept up-to-date on any damage reports. No material losses were incurred as a result of operational risks in 2012.

Capital adequacy

The equity objectives of Municipality Finance relating to the company's risk taking and operating environment are defined as part of annual planning. The planning horizon was extended from three years to 2018, in order to be able to predict the business performance trend and the sufficiency of own funds in relation to the increasing capital requirements arising from changing regulation and to be able to react to potential additional needs for capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updated its capital adequacy plan in December 2012.

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

The Group has adopted the Basel II parameters for capital adequacy. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operational risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small and it is not necessary to reserve capital for the currency risk. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk factors used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. For capital adequacy calculations for the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

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

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

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

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

Consolidated own funds, Group

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

Risk-weighted receivables, Group

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

Notes to the balance sheet

1. Financial assets and liabilities

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

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

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

Breakdown of financial assets and liabilities by maturity

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

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

31 Dec 2011 Financial assets	Loans and receivables	Available for sale	Held to maturity	Recognised at fair value through P/L	Hedging derivative contracts	Total	Fair value
Cash and cash equivalents	26,507	-	-	-	-	26,507	26,507
Loans and advances to credit institutions	562,007	-	-	-	-	562,007	562,007
Loans and advances to the public and public sector entities	7,956,731	-	-	5,698,204	-	13,654,935	14,027,930
Debt securities	533,794	2,775,897	139,900	2,139,368	-	5,588,959	5,398,175
Shares and participations	-	27	-	-	-	27	27
Derivative contracts	-	-	-	450,465	3,299,869	3,750,334	3,750,334
Total	**9,079,039**	**2,775,924**	**139,900**	**8,288,037**	**3,299,869**	**23,582,769**	**23,937,443**

31 Dec 2011 Financial liabilities	Other financial liabilities	Recognised at fair value through P/L	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	2,081,618	1,451,612	-	3,533,230	2,612,959
Liabilities to the public and public sector entities	190,043	986,709	-	1,176,752	1,172,712
Debt securities issued	3,608,510	13,579,432	-	17,187,942	17,183,941
Derivative contracts	-	477,307	775,949	1,253,256	1,253,256
Subordinated liabilities	51,009	38,907	-	89,916	89,172
Total	**5,931,180**	**16,533,967**	**775,949**	**23,241,096**	**19,886,072**

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

Breakdown of financial assets and liabilities by maturity

31 Dec 2011	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Loans and advances to credit institutions	562,007	-	-	-	-	562,007
Loans and advances to the public and public sector entities	251,819	904,101	4,472,077	3,532,054	4,494,883	13,654,934
Debt securities	1,886,930	907,633	2,576,853	137,387	80,155	5,588,959
Total	**2,700,756**	**1,811,734**	**7,048,930**	**3,669,442**	**4,575,038**	**19,805,900**
Liabilities to credit institutions	1,813,364	69,320	463,381	268,504	918,662	3,533,230
Liabilities to the public and public sector entities	16,362	10,194	85,694	606,861	457,642	1,176,752
Debt securities issued	3,320,879	4,984,380	6,478,267	1,706,949	697,466	17,187,942
Subordinated liabilities	-	10,000	78,907	-	1,009	89,916
Total	**5,150,605**	**5,073,894**	**7,106,249**	**2,582,314**	**2,074,779**	**21,987,841**

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

2. Loans and advances to credit institutions

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

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

3. Debt securities

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

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

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

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

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

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

2012	272
2011	652
2010	765
2009	953
2008	852

4. Shares and participations

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

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

5. Derivative contracts

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

31 Dec 2011	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	640,000	3,515,880	1,306,928	5,462,807	27,513	-55,088
Currency derivatives Cross currency interest rate swaps	-	57,219	21,123	78,342	466	-456
Equity derivatives	163,032	2,773,285	176,996	3,113,313	375,534	-375,534
Other derivatives	54,104	200,657	49,960	306,721	46,952	-46,229
Total	**859,136**	**6,547,041**	**1,555,007**	**8,961,183**	**450,465**	**-477,307**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	307,975	4,599,751	11,401,496	16,309,222	308,436	-221,969
Currency derivatives Cross currency interest rate swaps	3,156,333	6,663,42	4,816,861	14,636,337	2,991,433	-553,979
Total	**3,464,308**	**11,262,893**	**16,218,357**	**30,945,559**	**3,299,869**	**-775,949**
All total	**4,323,444**	**17,809,934**	**17,773,364**	**39,906,742**	**3,750,334**	**-1,253,256**

6. Intangible assets

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

7. Tangible assets

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

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

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

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

9. Other assets

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

10. Accrued income and prepayments

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

11. Deferred tax assets and liabilities

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

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

12. Debt securities issued

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

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

13. Other liabilities

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

14. Accrued expenses and deferred income

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

15. Subordinated liabilities

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

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

Loan terms and conditions:

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

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

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level required by Finnish laws. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors approves the interest payment. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not require payment of interest under the loan terms and conditions for 2012.

4) The loan does not have a maturity date. The company has the right to repay the loan principal with accumulated interest prematurely with written consent from the Finnish Financial Supervisory Authority as of 31 March, 2013. The company has the right to delay the payment of interest on the loan if the company's capital adequacy does not meet the requirements laid out in the law, the company has no distributable funds or the company is otherwise unable to distribute a dividend.
   In dissolution procedures and bankruptcy, the loan principal and accumulated interest are subordinated to all other debts. The loan has at least the same priority status as the company's other corresponding perpetual loans and any corresponding perpetual loans potentially issued or subscribed in the future. The interest accumulated by the end of the financial year has been recorded in the financial statements as an interest expense.
   The Board of Municipality Finance applied to the Finnish Financial Supervisory Authority for permission to repay the "Upper Tier II loan 1/2008" bond of EUR 40 million. The Finnish Financial Supervisory Authority granted the permission on 28 January 2013, and the company will repay the loan on 31 March 2013.

16. Notes on equity

There were no changes to the number of shares:

	Number of shares	Share capital	Reserve fund	Reserve for invested non-restricted equity	Total
1 Jan 2011	39,063,798	42,583	277	40,366	83,226
31 Dec 2011	39,063,798	42,583	277	40,366	83,226
31 Dec 2012	39,063,798	42,583	277	40,366	83,226

The shares in the parent company are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

Equity reserves:

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

17. Contingent assets

As a consequence of the financial crisis, the Group has claims amounting to EUR 1,033 thousand related to the insolvency proceedings of various credit institutions. The outcome of debt collection is contingent on the post-bankruptcy solvency of the credit institutions in question and the result of their bankruptcy proceedings. Impairment has been recorded for the full amount of the original claims.

18. Contingent liabilities

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

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

19. Lease and other rental commitments

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

20. Related party transactions

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

Municipality Finance's related parties also include its subsidiary Inspira. Transactions with Inspira comprise fees related to administrative services. Transactions with, receivables from and liabilities to the subsidiary:

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

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

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

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

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

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members.

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

Notes to the income statement

21. Breakdown of net interest income and expense

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

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

22. Commission income

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

23. Commission expense

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

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

24. Net income from securities and foreign exchange transactions

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

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

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

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

26. Net income from hedge accounting

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

27. Other operating income

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

28. Administrative expenses

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

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

29. Other operating expenses

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

30. Impairment losses on other financial assets

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

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

31. Income taxes

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

32. Events after the reporting period

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

Municipality Finance Plc parent company

Financial statements

Balance sheet

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

EUR	Note	31 Dec 2012		31 Dec 2011	
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities to credit institutions and central banks					
To credit institutions					
Other			3,961,730,190.03		3,533,230,091.21
Liabilities to the public and public sector entities					
Other liabilities			1,049,476,634.38		1,176,752,432.59
Debt securities issued	(13)				
Bonds		17,434,533,316.86		16,925,977,534.53	
Other		1,363,841,387.69	18,798,374,704.55	261,964,791.94	17,187,942,326.47
Derivative contracts	(6)		937,983,299.37		1,253,255,710.82
Other liabilities	(14)		1,227,975.43		2,434,035.48
Accrued expenses and deferred income	(15)		297,768,904.60		349,367,869.84
Subordinated liabilities	(16)		90,354,746.57		89,915,861.74
Deferred tax liabilities	(12)		7,115,261.00		0.00
APPROPRIATIONS					
Voluntary provisions			287,980,000.00		177,980,000.00
EQUITY	(20–22)				
Share capital			43,008,044.20		43,008,044.20
Other restricted reserves					
Reserve fund		276,711.01		276,711.01	
Fair value reserve		21,926,619.09	22,203,330.10	-14,209,934.69	-13,933,223.68
Non-restricted reserves					
Reserve for invested non-restricted equity			40,742,886.40		40,742,886.40
Retained earnings		144,330.52		41,043.41	
Profit for the financial period		21,496,790.16	21,641,120.68	103,287.11	144,330.52
TOTAL LIABILITIES	(17–19)		**25,559,607,097.31**		**23,840,840,365.59**
OFF-BALANCE-SHEET COMMITMENTS	(37)				
Irrevocable commitments given in favour of customers			1,247,587,752.94		1,375,718,336.22

Income statement

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

Statement of cash flows

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

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

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

Notes to the parent company's financial statements

Accounting principles

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

In 2008, Municipality Finance reclassified some of the debt securities in its pre-funding portfolio based on the amendments to the IAS 39 and IFRS 7 standards. The Finnish Financial Supervisory Authority approved the amendments to the IFRS standards as part of the national accounting principles. The transfers are itemised in Note 3.

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

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

Notes to the balance sheet

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

1. Loans and advances to credit institutions

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

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

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

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

3. Debt securities

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 2,182 thousand on the fair value reserve. EUR 272 thousand of the valuation difference resulting from the transfer of debt securities to investments held to maturity was released from the fair value reserve in 2012.

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

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

Without this reclassification, changes in fair value of investments would have had an impact of EUR 5,238 thousand on the fair value reserve. EUR 652 thousand of the valuation difference resulting from the transfer of debt securities to investments held to maturity was released from the fair value reserve in 2011.

4. Assets leased under finance leases

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

5. Shares and participations

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

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

6. Derivative contracts

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

31 Dec 2011	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts not included in hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	640,000	3,515,880	1,306,928	5,462,807	27,513	-55,088
Currency derivatives Cross currency interest rate swaps	-	57,219	21,123	78,342	466	-456
Equity derivatives	163,032	2,773,285	176,996	3,113,313	375,534	-375,534
Other derivatives	54,104	200,657	49,960	306,721	46,952	-46,229
Total	**859,136**	**6,547,041**	**1,555,007**	**8,961,183**	**450,465**	**–477,307**
Contracts under hedge accounting (IFRS classification)						
Interest rate derivatives Interest rate swaps	307,975	4,599,751	11,401,496	16,309,222	308,436	-221,969
Currency derivatives Cross currency interest rate swaps	3,156,333	6,663,142	4,816,861	14,636,337	2,991,433	-553,979
Total	**3,464,308**	**11,262,893**	**16,218,357**	**30,945,559**	**3,299,869**	**–775,949**
All total	**4,323,444**	**17,809,934**	**17,773,364**	**39,906,742**	**3,750,334**	**–1,253,256**

7. Intangible assets

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

8. Tangible assets

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

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

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

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

10. Other assets

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

11. Accrued income and prepayments

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

12. Deferred tax assets and liabilities

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

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

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

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

13. Debt securities issued

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

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

14. Other liabilities

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

15. Accrued expenses and deferred income

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

16. Subordinated liabilities

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

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

Loan terms and conditions:

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

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

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

3) Capital investments may not be recalled, but the company may repay them with permission from the Finnish Financial Supervisory Authority on the condition that the company's own funds do not fall below the minimum level required by Finnish laws. Interest may be paid to the extent as the credit institution's profit distribution allows and distributable funds are adequate, and the Board of Directors approves the interest payment. Entitlement to interest is not carried over to future financial years if no interest is paid on earlier years. The prevailing interest rates do not require payment of interest under the loan terms and conditions for 2012.

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

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

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

17. Breakdown of financial assets and liabilities by maturity

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

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

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

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

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

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

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

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

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

20. Equity

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

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

21. Share capital

The shares in Municipality Finance Plc are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2012, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798.

22. Largest shareholders

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

31 Dec 2012	Number	Percentage
1. Keva (former name Local Government Pensions Institution)	11,975,550	30.66%
2. Republic of Finland	6,250,000	16.00%
3. City of Helsinki	4,066,525	10.41%
4. City of Espoo	1,547,884	3.96%
5. VAV-Asunnot Oy (City of Vantaa)	963,048	2.47%
6. City of Tampere	919,027	2.35%
7. City of Oulu	841,825	2.16%
8. City of Turku	615,681	1.58%
9. City of Kuopio	552,200	1.41%
10. City of Lahti	502,220	1.29%

The total number of shareholders is 296. The total number of shareholders on 1 January 2013 after mergers of municipalities is 284.

Notes to the income statement

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

23. Breakdown of net interest income and expense

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

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

24. Net income from leasing operations

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

25. Commission income and expense

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

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

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

26. Net income from securities and foreign exchange transactions

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

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

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

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

28. Net income from hedge accounting

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

29. Other operating income

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

30. Other operating expenses

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

31. Depreciation and impairment on tangible and intangible assets

The item consists of depreciation according to the plan.

32. Impairment losses on other financial assets

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

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

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

Notes on collateral, contingent liabilities and derivative contracts

34. Collateral given

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

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

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

35. Pension liabilities

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

36. Leasing and other rental liabilities

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

37. Off-balance-sheet commitments

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

Notes on personnel and management

38. Municipality Finance Plc's personnel

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

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

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members.

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

Salaries and remuneration

General principles

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

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

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

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

The company does not offer any unusual fringe benefits.

Remuneration system

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

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

The new remuneration system that became applicable at the beginning of 2012 is based on one annual scheme in which remuneration exceeding 50 thousand euros is, according to the regulation, delayed for payment during four years after the earning year. In this scheme, the maximum and target levels of remuneration vary between different groups of personnel (CEO and the Board of Management, heads of departments, key personnel, other employees). The target remuneration of the CEO and members of the Board of Management equals six months' salary, and the maximum remuneration for an earning year corresponds to the salary of twelve months. The maximum remuneration requires exceptional performance by the company as well as the individual.

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

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

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

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

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

The Company has no supplementary pension arrangements.

Salaries and remuneration paid in 2012

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

Related party transactions

39. Loans and other financial receivables from the related parties

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

Notes on audit fees

40. Audit and other fees paid to audit firm

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

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

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

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

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

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

Helsinki,14 February 2013

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Fredrik Forssell
Vice Chairman of the Board

Teppo Koivisto
Member of the Board

Tapio Korhonen
Member of the Board

Sirpa Louhevirta
Member of the Board

Ossi Repo
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
President and CEO

Auditor's note

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

Marcus Tötterman
Authorised Public Accountant

KPMG Oy Ab
PO Box 1037
00101 Helsinki
FINLAND

Mannerheimintie 20 B
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3897
www.kpmg.fi

AUDITOR'S REPORT

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Municipality Finance Plc for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

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

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

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

Opinion on the consolidated financial statements

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

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

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

Helsinki, 14 February 2013

KPMG OY AB

Marcus Tötterman
Authorized Public Accountant

Municipality Finance

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1 Jan–31 Dec 2011

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Report of the Board of Directors

Summary of 2011:

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

Key figures (Group):

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

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

Credit ratings

Municipality Finance Plc's credit ratings

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

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

The Municipal Guarantee Board's credit ratings

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

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

Operating environment in 2011

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

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

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

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

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

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

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

Development of business operations

Group structure

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

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

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

Net interest income and net operating profit

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

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

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

Expenses

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

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

Balance sheet

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

Capital adequacy

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

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

The Group calculates its capital adequacy based on the Basel II regulations. The capital adequacy requirement for credit risk is calculated using Pillar I and the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk factors used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. For capital adequacy calculations of the credit risk, Municipality Finance uses methods for reducing the credit risk such as guarantees provided by the municipalities as well as deficiency guarantees given by the state of Finland. For derivatives, netting agreements, additional guarantee agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

The own funds of the Municipality Finance Group totalled EUR 288.4 million at the end of the year (2010: EUR 245.9 million). The Group's primary own funds totalled EUR 227.6 million at the end of 2011 (2010: EUR 177.5 million). Based on the Board of Directors' proposal, no provision for dividend distribution was deducted from the primary own funds. The Board of Directors evaluates the amount of dividend paid out each year based on the decision of the Annual General Meeting and gives its proposal on the payment of dividends based on the company's economic situation and the applicable regulations, taking into account the company's structure of ownership. The Group's secondary own funds totalled EUR 60.8 million at the end of the year (2010: EUR 68.3 million). Detailed descriptions of the subordinated loans and debenture loans are included in Section 15 in the notes of the Group.

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

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

Consolidated own funds, Group

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

Risk-weighed receivables, Group

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

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

Funding

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

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

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

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

International funding

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

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

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

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

Domestic funding

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

Lending

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

Long-term lending

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

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

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

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

Leasing operations

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

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

Short-term lending

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

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

Investment operations

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

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

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

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

Inspira

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

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

Governance

Corporate Governance Policy

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

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

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

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 23 March 2011. The Annual General Meeting confirmed the financial statements of 2010 and discharged the members of the Board of Directors, the Managing Director and the Deputy Managing Director from liability. In addition it was decided that a dividend of EUR 0.25 per share is paid from Municipality Finance's distributable own funds, totalling EUR 9.8 million. The dividend was paid on 28 March 2011. The Annual General Meeting also decided on changing the dividend policy in such a way that in the future, the Board of Directors evaluates the amount of dividend paid out each year and gives its proposal on the payment of dividends based on the company's economic situation and the applicable regulations, taking into account the company's structure of ownership.

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

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

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

Board of Directors

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

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

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

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

Personnel

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

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

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

Salaries and remuneration

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

Internal audit

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

Risk management

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

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

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

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

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

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

Strategic risks

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

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

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

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

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

Credit risk

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

Municipality Finance is also exposed to credit risk from investments in advance funding acquisition and derivative instruments. In the assessment of credit risks, principles and limits that are based on external credit ratings and have been approved by the Board of Directors are applied to the selection of counterparties. Nominal values of debt securities and market values of derivatives (fair value method) are used in monitoring credit risk.

The company limits credit risk caused by the derivative agreement with ISDA Credit Support Annexes in case of major derivatives counterparties. The company has 42 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risks related to the derivative contracts of certain counterparties.

Breakdown of derivative agreements by counterparty's credit rating

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

Market risk

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

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

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

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

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

The Board has specified limits for the following market risks:
- currency position
- interest rate risk
  - duration
  - Value-at-Risk
  - Economic Value
  - income risk

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

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

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

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

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

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

Currency position

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

Duration

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

Value-at-risk

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

Liquidity risk
Liquidity risk means the risk of the company not being able to perform on the due date its payment obligations arising from the implementation of funding agreements or other funding activities. The Board of Directors of Municipality Finance has set the following limits on liquidity risks:
- refinancing gap
- sufficiency of liquid assets measured as a minimum of time
- maximum amount of liquid assets

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

Market liquidity risk

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

The company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are made. The market values of almost all debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

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

Operational risks

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

Operational risks are recognised as part of the company's operations and processes. This has been implemented with an annual mapping of operational risk at a unit and company-specific level. The management of operational risks is the responsibility of each function/department. In addition, the compliance department supports functions/departments in this and has general responsibility at the company level for coordinating the management of operational risks.

Municipality Finance uses various methods for managing operational risks. The company has internal operational guidelines that are updated regularly and monitored for compliance. Key duties and processes have been charted and described. Internal instructions and processes are revised on a regular basis. The tasks of trading, risk control, back office functions, documentation and bookkeeping are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and improved through regular development discussions and training plans. Municipality Finance maintains adequate insurance cover and assesses the level of insurance cover on a regular basis. Municipality Finance has a contingency plan for situations where business operations are interrupted. The plan is designed to help company continue functioning and limit its losses in different disruptive scenarios. The annual mapping of operational risks and the damage report procedure for operational risk events are used as input in the company's continuity planning.

Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations of the authorities concerning the operations of credit institutions are facing significant changes, which creates challenges for the company's compliance operations. The company has tried to minimise the risks related to this by means of active contacts with the authorities as well as arrangements of the company's internal compliance operations (incl. reporting, evaluation of effects).

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

The realisation of operational risks is monitored with systematic damage reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The Board of Management and the Board of Directors are kept up-to-date on the damage reports. No material losses were incurred as a result of operational risks in 2011.

Share capital and owners

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

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

10 largest shareholders 31 December 2011

	No. shares	%
1. Keva	11,975,550	30.66
2. Republic of Finland	6,250,000	16.00
3. City of Helsinki	4 066,525	10.41
4. City of Espoo	1,547,884	3.96
5. VAV-Asunnot Oy (City of Vantaa)	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	841,825	2.16
8. City of Turku	615,681	1.58
9. City of Kuopio	552,200	1.41
10. City of Lahti	502,220	1.29

Events after the financial statements

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

Prospects for 2012

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

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

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

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

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

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

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

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

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

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

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

The Group's development

Key figures describing the financial development of the Municipality Finance Group

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

Basis for calculating the key figures

Turnover

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

Cost/income ratio

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

Return on equity (%) (ROE)

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

Return on assets (%) (ROA)

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

Equity ratio (%)

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

Capital adequacy ratio, Tier 1 capital (%)

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

Capital adequacy ratio (%)

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

Consolidated statement of financial position

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

Consolidated income statement

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

Statement of comprehensive income

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

Consolidated statement of cash flows

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

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

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

Consolidated statement of changes in equity

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

Notes to the consolidated financial statements

Basic information on the Group

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

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

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

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

Accounting policies applied to the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

Consolidation principles

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

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

Foreign currency denominated items

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

Monetary receivables and liabilities denominated in a foreign currency have been converted into euros using the European Central Bank's average exchange rate on the balance sheet date. Gains and losses resulting from foreign exchange measurements are included in the income statement under "Net income from foreign exchange transactions".

Classification of financial instruments and measurement principles

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

Loans and other receivables

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

Available-for-sale financial assets

The item includes investment of advance funding in debt securities.

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

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

Investments held to maturity

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

Financial assets and liabilities at fair value through profit or loss

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

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

Financial liabilities

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

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

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

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

Determination of fair value

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

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

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

Hedge accounting

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

Financial assets and liabilities measured at fair value

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

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

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

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

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

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

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

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

Recognition and derecognition of financial assets and liabilities

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

Leases

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

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

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

Intangible and tangible assets

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

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

Impairment of intangible and tangible fixed assets

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

Recognition of income and expenses

Net interest income

The effective interest method is applied to interest income and interest expenses. Commissions and fees received and paid, transaction expenses as well as any premiums and discounts are taken into account when the effective interest rate is calculated.

Commission income and expenses

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

Net income from hedge accounting

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

Employee benefits

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

Voluntary credit loss allowance

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

Income taxes

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

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

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

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

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

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates of the date of closing the accounts. These are related to, among other things, the determination of fair value and the impairment of financial assets.

Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles applied to the determination of fair value are discussed in the section "Determination of fair value".

The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss.

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

Application of new standards

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

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

Notes to the balance sheet

1. Classification of financial assets and liabilities

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

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

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

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

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

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

2. Loans and advances to credit institutions

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

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

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

3. Debt securities

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

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

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

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

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

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

2011	652
2010	765
2009	953
2008	852

4. Shares and participations

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

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

5. Derivative contracts

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

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

6. Intangible assets

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

7. Tangible assets

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

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

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

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

9. Other assets

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

10. Accured income and prepayments

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

11. Deferred tax assets and liabilities

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

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

12. Debt securities

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

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

13. Other liabilities

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

14. Accrued expenses and deferred income

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

15. Subordinated liabilities

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

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

Loan terms and conditions:

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

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

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

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

16. Notes on equity

There were no changes to the number of shares:

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

The shares in the parent company are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

Equity reserves:

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

17. Contingent assets

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

18. Liabilities and collateral

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

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

19. Lease commitments

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

20. Related parties

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

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

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

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

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

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

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

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

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

Notes to the income statement

21. Breakdown of net interest income

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

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

22. Commission income

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

23. Commission expense

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

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

24. Net income from securities and foreign exchange transactions

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

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

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

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

26. Net income from hedge accounting

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

27. Other operating income

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

28. Administrative expenses

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

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

29. Other operating expenses

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

30. Impairment losses on other financial assets

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

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

31. Income taxes

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

32. Post balance sheet events

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

Balance sheet

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

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

Income statement

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

Statement of cash flows

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

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

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

Notes to the parent company's financial statements

Accounting principles

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

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

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

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

Notes to the balance sheet

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

1. Loans and advances to credit institutions

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

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

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

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

3. Debt securities

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

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

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

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

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

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

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

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

4. Assets leased under finance leases

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

5. Shares and participations

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

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

6. Derivative contracts

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

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

7. Intangible assets

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

8. Tangible assets

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

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

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

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

10. Other assets

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

11. Accrued income and prepayments

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

12. Deferred tax assets and liabilities

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

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

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

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

13. Debt securities issued

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

14. Other debts

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

15. Accrued expenses and deferred income

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

16. Subordinated liabilities

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

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

Loan terms and conditions:

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

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

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

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

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

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

17. Breakdown of financial assets and liabilities by maturity

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

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

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

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

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

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

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

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

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

20. Equity items

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

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

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

21. Share capital

The shares in Municipality Finance Plc are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2011, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798.

22. Largest shareholders

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

31 Dec 2011	Number	Percentage
1. Keva (former name Local Government Pensions Institution)	11,975,550	30.66
2. Finnish state	6,250,000	16.00
3. City of Helsinki	4,066,525	10.41
4. City of Espoo	1,547,884	3.96
5. VAV Asunnot Oy (Vantaa)	963,048	2.47
6. City of Tampere	919,027	2.35
7. City of Oulu	841,825	2.16
8. City of Turku	615,681	1.58
9. City of Kuopio	552,200	1.41
10. City of Lahti	502,220	1.29

The total number of shareholders is 296.

Notes to the income statement

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

23. Breakdown of net interest income

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

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

24. Net income from leasing operations

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

25. Commission expense

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

26. Net income from securities and foreign exchange transactions

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

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

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

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

28. Net income from hedge accounting

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

29. Other operating income

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

30. Other operating expenses

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

31. Depreciation and impairment on tangible and intangible assets

The item consists of planned depreciation.

32. Impairment losses on other financial assets

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

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

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

Notes on collateral, contingent liabilities and derivative contracts

34. Collateral given

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

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

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

35. Pension liabilities

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

36. Leasing and other rental liabilities

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

37. Off-balance-sheet commitments

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

Notes on personnel and management

38. Municipality Finance Plc's personnel

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

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

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

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

Salaries and remuneration

General principles

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

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

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

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

The company does not offer any unusual fringe benefits.

Remuneration system

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

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

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

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

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

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

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

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

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

The Company has no supplementary pension arrangements.

<u>Salaries and remunerations paid in 2011</u>

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

Related party transactions

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

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

Notes on auditing fees

40. Auditing and other fees paid to auditing corporation

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

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

Municipality Finance Plc's distributable funds total EUR 144,330.52, of which the profit for the financial year is EUR 103,287.11.
The Board of Directors will propose to the Annual General Meeting that:
- no dividend be paid, and
- the distributable funds totalling EUR 144,330.52 be retained in equity.

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

In Helsinki on 14 February 2012

MUNICIPALITY FINANCE PLC

Eva Liljeblom
Chairman of the Board

Fredrik Forssell
Vice Chairman of the Board

Teppo Koivisto
Member of the Board

Tapio Korhonen
Member of the Board

Sirpa Louhevirta
Member of the Board

Ossi Repo
Member of the Board

Asta Tolonen
Member of the Board

Juha Yli-Rajala
Member of the Board

Pekka Averio
CEO

Auditor's note

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

Raija-Leena Hankonen
Authorized Public Accountant

KPMG Oy Ab
PO Box 1037
00101 Helsinki
FINLAND

Mannerheimintie 20 B
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3897
www.kpmg.fi

AUDITOR'S REPORT

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

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

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

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

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

Opinion on the consolidated financial statements

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

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

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

Helsinki, 14 February 2012

KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

Annual report 2012

The purpose of the Municipal Guarantee Board (MGB) is to safeguard and develop the joint funding of Finnish municipalities.

The uncertainty in the international financial markets which has been on-going since 2008, is beginning to wane and regulations are being drafted, for example those related to credit institutions and the banking union. The joint municipal funding system, comprised of MGB and Municipality Finance Plc (Munifin), has prepared for these changes by developing its capital structure and studying the further developing needs of its operations.

The growth in Munifin's yearly results, in our view, strengthened Munifin's ability to meet its future obligations related to the amount and quality of its own capital.

MGB prepared for the future changes by studying the need for amending the Act on the Municipal Guarantee Board. The basic result of the survey was that the Act and the procedures of the joint municipal funding system should in all aspects comply with the competition legislation of the European Union and the procedures of the forthcoming banking union of the eurozone.

In addition to previous development measures targeting the future, the operations of the joint funding system were further enhanced during the year by adopting Munifin's repo operations in practice. Repo operations are transactions secured by a transfer of collateral provided by the repo counterparty. The transfer of collateral gives additional security to repo activities in possible disruptive situations and also offers benefits related to Munifin's liquidity management.

MGB continued its publication activities of previous years by producing a two-part report on the institutions and creditworthiness of Finnish municipality finances. An information session on related credit rating methods was arranged in connection with the publication of the said report. Due to the increasing publication activities and growing number of the joint system's funding arrangements, MGB hired a third employee with the title of Communications Specialist to take care of the various operative functions within MGB.

Standard & Poor's accredited MGB with the highest possible credit rating of AAA, but with a negative outlook, i.e. the same as the Republic of Finland's credit rating. According to S&P's credit rating system, the state's credit rating is also the upper limit for the local governments' credit ratings, and thus the limit for MGB's credit rating. Moody's maintained the highest possible credit rating of Aaa for MGB with a stable outlook.

The ability of the joint municipal funding system to secure and develop the necessary funding for municipalities and social housing production remained excellent, as has been the case during previous years. Munifin's new lending increased to approximately 15.42 billion euros, up by approximately 2.01 billion euros from the previous year.

At the end of the year under review, MGB's membership stood at 319. The total number of residents in the member municipalities constitutes about 99.95 per cent of Finland's population, excluding the municipalities of the Åland Islands. For constitutional reasons, the municipalities of the Åland Islands are not members of MGB. The number of non-member municipalities remained at one.

MGB's social responsibility is a vital part of its purpose. The joint funding system, comprised of Munifin and MGB, is an integral part of the funding of the Finnish municipal sector and social housing production, and it has served its basic purpose without problems under all market conditions throughout its history. The joint funding system creates financial benefits based on the joint guarantee by municipalities through MGB, and transfers the benefits to the eligible borrowers in the form of loans with preferential terms in accordance with the Act on the Municipal Guarantee Board.

The success of the joint municipal funding system and its ability to react swiftly to changes in the operating environment is based on its motivated personnel, advanced business methods and stable, long-term partnerships, both in Finland and abroad. In the coming years the system has excellent prospects for carrying out the task set for it in the Act on the Municipal Guarantee Board, i.e. safeguarding and developing municipal funding.

Legislation on the Municipal Guarantee Board

The Act on the Municipal Guarantee Board (487/1996, "the Act") was passed by the Finnish Parliament on18 June 1996 and entered into force on 1 July 1996. The Act states that the purpose of MGB is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this purpose, MGB can grant guarantees for such funding by credit institutions directly or indirectly owned or controlled by municipalities where this funding is used for lending to municipalities and municipal federations, and to corporations wholly owned by municipalities or under their control. In 2012, one credit institution, Munifin, met the criteria set out in the Act.

The first amendment to the Act, passed by the Finnish Parliament on 25 April 1997, entered into force on 1 May 1997. As a result of the amendment, MGB has also been able to grant guarantees for funding by a credit institution that is used for lending to corporations designated by government authorities and engaged in renting or producing and maintaining housing on social grounds, or corporations controlled by them.

The Parliament made further considerable changes to the Act with another amendment to the Act passed on 18 October 2006, which entered into force on 1 January 2007. The amendment specified the range of receivables for which a guarantee granted by MGB can be used as security. With the amendment, the former Regulations controlling the operations of MGB and approved by the Ministry of Finance were abandoned and parts of the legal provisions included in the Regulations were transferred to the Act. These include the requirements for the granting of guarantees in accordance with European Community State Aid rules and their relationship with the said rules, the investment and use of monies transferred to MGB's fund and the powers of the Guarantee Board Auditor.

Since the adoption of the amendment, it has also been possible to use MGB's fund for interim arrangements in order to prevent a directly imminent MGB's payment obligation. Municipalities that are not members may also now join MGB. The auditing corporation appointed for the auditing of MGB's administration and accounts and the Guarantee Board Auditor responsible for MGB's supervision can be appointed for a term of between one and four years. The amendment to the Act also defines in more detail the right of a municipality, which is a member organisation of MGB, to appeal for an amendment of the contribution to be paid by the municipality to cover MGB's guarantee liabilities.

Administration and personnel

Under the Act, MGB has a Council of 15 members, each of whom has a personal deputy. The Ministry of Finance has appointed a Council for MGB for a term of office to run from 1 October 2009 to 30 September 2013. Mr Mika Munkki, Agrologist (Vehmaa), acts as Chairperson, and Mr Reijo Vuorento, Assistant Manager (Helsinki) and Mr Matti Kankare, Project Director (Espoo), act as Deputy Chairpersons. The Council convened twice during the year under review.

Under the Act, MGB has a Board of Directors of 5–7 members. The Board is responsible for MGB's administration, the granting of guarantees and the preparation and execution of the decisions of the Council.

The Council chose the following persons as members of the Board of Directors starting its term of office on 1 January 2012:

Mr Jari Blom, Executive Director, Jyväskylä
Ms Maija-Liisa Havia, Permanent Undersecretary, Jyväskylä
Ms Sari Innanen, Lecturer, Kokkola
Ms Jaana Karrimaa, City Manager, Harjavalta
Ms Leena Kuha, Secretary, Oulu
Mr Janne Laine, City Manager, Savonlinna
Mr Pekka Alanen, Deputy Managing Director, Helsinki

The Board chose *Jari Blom* as its Chairperson and *Sari Innanen* as Deputy Chairperson. *Mr Heikki Niemeläinen* was MGB's Managing Director and *Mr Tuukka Salminen,* Executive Director, acted as a deputy to the Managing Director. The number of employees during the year increased to three.

Auditing and supervision

The Council appoints an auditing corporation authorised by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors for a maximum period corresponding to its term of office, to audit the financial accounts and administration of MGB. In 2012, the authorised auditing corporation was KPMG Oy Ab, which was, after competitive tendering, reappointed by MGB's Council for 2013.

The activities of MGB are supervised by the Guarantee Board Auditor, who is appointed by the Ministry of Finance on the proposal of the Board of Directors of MGB. In 2012, the Guarantee Board Auditor was Deloitte & Touche Oy, which the Ministry of Finance also reappointed for 2013.

Risk management

RISKS IN GUARANTEE OPERATIONS

Under the Act, MGB may grant guarantees against sufficient security. The level of security during the year under review was sufficient. Guarantee activities are mostly arranged in such a way that MGB's Board of Directors grants guarantees for Munifin's funding programmes, the most important of which is the MTN programme. Within the programmes, MGB's Managing Director or the Deputy to the Managing Director are authorized to grant guarantees for individual debt issues. Of the guarantees granted by MGB to Munifin, EUR 20,062,220,525.96 was in use at the end of 2012.

Under the Act, guarantees granted as security for Munifin's receivables may, at the time of granting the guarantee, amount to a maximum of four per cent of the total amount of MGB's guarantee liabilities. On 31 December 2012, these guarantee liabilities totalled EUR 53,859,581.00, or 0.27 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 20,116,080,376.96.

Funding guaranteed by MGB on 31 December 2012 was divided amongst the following currencies: Japanese yen 26%, US dollar 23%, euro 16%, Swiss franc 13%, Norwegian krone 6% and other currencies 16%. Collateral received by MGB from Munifin was denominated in euros. The currency risk is removed as a result of Munifin's hedging operations.

OPERATIVE RISKS

MGB's operative risks are dealt with in the Standing Orders and in the Guarantee and Operations Policy approved by the Board of Directors, which stipulates the authorisations within MGB. MGB has a continuity plan, preparing for exceptional conditions so that MGB is able to continue its operations and prevent damages in different disruptive circumstances. Operative risks have been mitigated by outsourcing activities and by appointing deputies.

RISKS RELATED TO INVESTMENT OPERATIONS

MGB's liquidity is ensured through its fund and sufficient standby credit facilities. According to the strategy decided by the Council, increasing the fund must be based primarily on the risk-based funding need of counterparty guarantees in hedging operations or the interest and administration fees of temporary capitalisation.

The Board of Directors has decided on the investment of assets in its Guarantee and Operations Policy. According to the Policy, investments are allocated so that they support the operations of the municipal funding system. The aim of the investment activity is to obtain the maximum yield on the fund's assets while investing the assets safely; MGB invests only in liquid instruments that can be swiftly converted to cash based on MGB's liquidity needs. Derivatives are used only in special situations to hedge against risks.

MGB allocates 50% of its investments to plain vanilla debt instruments issued by governments and banks (credit rating requirement S&P BBB / Moody's Baa3) and 50% to capital protected debt instruments issued by banks, and debt instruments issued by corporations, shares of companies listed on the Helsinki Stock Exchange, equity investment funds and housing and real estate companies. The range is +/- 10 percentage points. Any greater deviation must be specifically justified on a case by case basis.

Finances

Income from operations consisted of fees related to guarantees granted, which produced a total guarantee premium of EUR 2,000,000.00. Operating costs totalled EUR 1,313,868.85, comprising of personnel costs of EUR 547,327.82, depreciation amounting to EUR 27,728.91 and other costs of EUR 738,812.12. Prime factors in the increase in other costs were the credit rating costs resulting from the municipal funding system's substantial funding acquisition. The result from MGB's operations was EUR 686,131.15.

In 2012 no claims on MGB's guarantees were made or paid, nor were there any recovery claims. Taking into consideration the nature of the municipal funding system's and MGB's activities makes it unlikely that any claims on guarantees will be made, or that recovery claims will be made in the future.

Income from investments came to EUR 290,686.93 and costs to EUR 10,370.99, giving a result from investment activities of EUR 280,315.94. MGB values its investments at fair value on its balance sheet. The fair value reserve stood at EUR 101,924.45 and the increase in fair value compared to the previous year was EUR 281,173.21. The result of investment activities and the change of the fair value reserve gave a total return of 5.3% on invested capital.

The result for the financial year, i.e. the total from MGB's activities and investments, was EUR 966,447.09 before transfer to MGB's fund. The result for the financial year is proposed to be transferred to the fund in its entirety. The fund will thus total EUR 14,071,405.06 on 31 December 2012, and the total amount of the equity will be EUR 14,173,329.51.

MGB has on-going credit facilities for safeguarding its cash position up to EUR 150 million.

Outlook

The outlook for the joint municipal funding system is fairly positive as far as funding acquisition, the creditworthiness of Finnish municipalities and municipal finances are concerned. Uncertainties may arise depending on how the new Basel III financial regulatory framework will be applied to the public sector's internal financing arrangements. This is also the sector in which MGB and Munifin operate. The solid result of Munifin for 2012 proves that the joint municipal funding system can operate successfully in a changing operating environment and ensure the sufficiency of own funds which are required for its operations.

The support to the joint municipal funding system provided by the main players in the Finnish public sector and the strong performance of the joint municipal funding system will provide a sound basis for the system's future operations.

Income statement

	1.1.-31.12.2012	1.1.-31.12.2011
Ordinary operations		
Income		
Guarantee premium	2 000 000,00	2 000 000,00
Expenses		
Staff expenses	-547 327,82	-467 534,33
Depreciation	-27 728,91	-25 032,38
Other expenses	-738 812,12	-707 211,85
Result from ordinary operation	686 131,15	800 221,44
Investment activities		
Income	290 686,93	360 112,19
Expenses	-10 370,99	-13 441,48
Result of investment activities	280 315,94	346 670,71
Result before transfer to fund	966 447,09	1 146 892,15
Transfer to fund	-966 447,09	-1 146 892,15
Result for the financial year	**0,00**	**0,00**

Balance sheet

	1.1.-31.12.2012	1.1.-31.12.2011
Assets		
Non-current assets		
Tangible assets	165 115,44	169 728,18
Other shares and similar rights of ownership	2 265 974,03	2 143 562,88
Investments		
Other investments		
Shares and similar rights of ownership	4 679 591,62	3 650 630,76
Debt securities	6 559 924,00	6 416 804,50
Current assets		
Debtors		
Guarantee debtors	500 000,00	500 000,00
Receivables	94 829,90	109 211,88
Cash and bank accounts	126 485,93	93 640,92
Total assets	**14 391 920,92**	**13 083 579,12**
Equity and liabilities		
Equity		
Fund	14 071 405,06	13 104 957,97
Fair value reserve	101 924,45	-179 248,76
Liabilities		
Current liabilities		
Trade creditors	59 085,05	29 175,70
Accruals and deferred income	157 691,36	128 664,21
Other current liabilities	1 815,00	30,00
Total equity and liabilities	**14 391 920,92**	**13 083 579,12**


YLÖJÄRVEN UUTISET
KURUN LEHTI
Kurun Lehti
VARUSMIES


Tunne
muistisi
SENSORI

Cash flow statement

	1.1.-31.12.2012	*1.1.-31.12.2011*
Cash flow from ordinary operations		
-operating income	2 000 000,00	1 875 000,00
-operating costs	-1 237 961,81	-1 153 139,33
Cash flow from ordinary operations	**762 038,19**	**721 860,67**
Cash flow from non-current assets	-145 527,32	-124 678,62
Cash flow from investments	-583 665,86	-617 573,86
Change in cash funds	**32 845,01**	**-20 391,81**
Cash funds at the beginning of financial period	93 640,92	114 032,73
Cash funds at the end of financial period	126 485,93	93 640,92

Notes to the financial statements

The Municipal Guarantee Board observes, where applicable, the Accounting Act and Decree in force.

Investments are valued in the balance sheet at fair value, so the unrealized differences between their book value and fair value have been recognized in the fair value reserve under capital and reserves. Investments are adhered to by using the FIFO-principle.

Non-current assets have been valued at acquisition cost, on which planned depreciation is calculated.

Depreciation method:
- Machinery and equipment, equal depreciation, 3 years
- Equipment, 5 years
- Equipment of the MGB premises, 10 years

Staff expenses

1.1.-31.12.2012	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	84 379,78	9 945,76	1 274,75
Managing Director and Deputy MD	265 2298,99	51 906,43	9 784,18
Others	98 165,35	14 603,09	2 793,01
Total	**447 844,12**	**76 455,28**	**13 851,94**

Non-current assets	*2012*	*2011*
Tangible assets		
Acquisition cost 1.1.	225 252,32	195 506,80
Disposals	-31 168,45	0,00
Increase	23 116,18	29 745,52
Acquisition cost 31.12.	217 200,05	225 252,32
Accrued depreciation 1.1.	-55 524,14	-30 491,76
Accrued depreciation on disposals	31 168,45	0,00
Accounting period depreciation	-27 728,91	-25 032,38
Accrued depreciation 31.12.	-52 084,61	-55 524,14
Book value 31.12.	165 115,44	169 728,18
Other shares and similar rights of ownership	*2012*	*2011*
Koy Yrjönkatu 11	1 476 953,13	1 476 953,13
Nurmijärven Golf Club one share	21 713,55	21 713,55
As Oy Helsingin Eino Leinon katu 7	45 720,00	45 720,00
As Oy Topeliuksenkatu 15	721 587,35	599 176,20
Total	**2 265 974,03**	**2 143 562,88**

Changes to capital and reserves	*2012*	*2011*
Fund 1.1.	13 104 957,97	11 958 065,82
Fund transfer 31.12.	966 447,09	1 146 892,15
Fund 31.12.	14 071 405,06	13 104 957,97
Fair value reserve 1.1.	-179 248,76	649 324,82
Change in financial year	281 173,21	-828 573,58
Fair value reserve 31.12.	101 924,45	-179 248,76

Guarantees and collateral	*31.12.2012*	*31.12.2011*
Guarantee limits granted	34 515 795 776,87	34 583 912 599,23
Guarantees in use	20 062 220 525,96	17 459 460 423,62
Collateral received and items affecting collateral situation	22 812 393 842,88	18 919 899 154,37
Balance of collateral and guarantees	2 750 173 316,92	1 460 438 730,75
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	53 859 581,00	351 625 700,00

Signs

SIGNATURES OF THE REPORT OF THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS

Helsinki, 13th February 2013

MUNICIPAL GUARANTEE BOARD

Jari Blom
Chairperson of the Board

Sari Innanen
Deputy Chairperson of the Board

Pekka Alanen
Member of the Board

Maija-Liisa Havia
Member of the Board

Jaana Karrimaa
Member of the Board

Leena Kuha
Member of the Board

Janne Laine
Member of the Board

Heikki Niemeläinen
Managing Director

AUDITOR´S NOTE

Our auditors' report has been issued today.

Helsinki 13th February 2013

KPMG OY AB

Marcus Tötterman
Authorized Public Accountant

KPMG Oy Ab
PO Box 1037
00101 Helsinki
FINLAND

Mannerheimintie 20 B
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3897
www.kpmg.fi

AUDITOR'S REPORT

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of the Municipal Guarantee Board for the year ended 31 December, 2012. The financial statements comprise the balance sheet, the income statement, the cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the Guarantee Board's accounts and finances, and the Managing Director shall see to it that the accounts of the Guarantee Board are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

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

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

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

Opinion

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

Helsinki, 13 February 2013

KPMG OY AB

Marcus Tötterman
Authorized Public Accountant in Finland

Guarantees

Million euro

Municipality Finance Plc	Guarantees	Funding *31.12.2012*
Municipal Housing Finance Plc (-30.4.2001)		
EMTN Programme	1 500,0	98,6
Total	**1 500,0**	**98,6**
Municipality Finance Plc (1.5.2001-)		
EMTN Programme	22 000,0	15 649,2
AUD 1 billion Programme (Kangaroo)	1 575,8	43,7
Treasury Bill Programme	2 000,0	1 377,1
Domestic Debt Issuance Programme	800,0	111,0
Other domestic and foreign funding	6 500,0	2 757,6
Separate Decisions		25,0
Back up facilities	140,0	0,0
Total	**33 015,8**	**19 963,6**
Total	**34 515,8**	**20 062,2**
Receivables of Municipality Finance Plc derivatives guaranteed		53,9
by the Municipal Guarantee Board from counterparties, net	Max 4 %	0,3 %
Total		**20 116,08**

Annual report 2011

The year 2011 was a time of further development for the joint Finnish municipal funding system - Municipal Guarantee Board (MGB) and Municipality Finance Plc (Munifin). The general task of MGB is to safeguard and develop the joint funding of municipalities.

During the year Munifin became a counterparty to the European System of Central Banks (ESCB). Hence Munifin became eligible to receive funding from the ESCB thus safeguarding its liquidity position. For its part, MGB contributed in the practicalities related to the necessary operational arrangements related to the procedure.

Munifin acquires its funding with guarantees provided by the Municipal Guarantee Board. An essential element related to the financing activities of the joint municipal funding system is the temporary investment of the acquired funds. Before lending the funds to municipalities, municipal federations and to social housing production the funds are invested in money market instruments. This is also necessary for funds received by Munifin as CSA collateral.

As an ESCB counterparty Munifin is also authorised to deposit funds in the central bank system. This deposit option creates more security for investments in possible crisis situations, in which the creditworthiness of other counterparties such as private banks has possibly weakened.

In addition to activities related to ESCB, the operations of the joint municipal funding system were improved with preparing the implementation of Munifin's repo operations. Repo operations are transactions secured by the transfer of collateral provided by the counterparty. The transfer of collateral gives additional security to repo activities in possible crisis situations, and offers benefits related TO liquidity management.

In addition to the aforementioned operations MGB created for its part new foundations for amending the joint municipal funding system in the future in accordance with the forthcoming financial legislation and its requirements. The foundations were laid by participating in a task force created by the Minister of Public Administration and Local Government Mr Tapani Tölli and headed by Legislative Adviser Mr Erkki Sarsa.

During the year under review MGB continued its publication activities of previous years by producing a publication related to institutional factors of credit rating criteria and by organising a press conference related to credit rating methods.

Standard & Poor's affirmed MGB the highest possible credit rating Aaa, but as with the Republic of Finland's credit rating with a negative outlook. According to Standard & Poor's, the state's credit rating is a limit also for local government's credit ratings, and thus a limit for MGB's credit rating. Moody's maintained the highest possible rating AAA for MGB with a stable outlook.

The joint municipal funding system's ability to secure and develop funding for the municipal sector and social housing production remained excellent, as it has been during the previous years. Munifin's customer lending increased to approximately 13.41 billion euros, up by approximately 1.85 billion euros from the previous year.

At the end of the year under review, MGB's membership toll stood at 319 municipal members. The total number of residents in member municipalities constitutes about 99.95 per cent of Finland's population, excluding the municipalities of the Åland Islands. For constitutional reasons, the municipalities of the Åland Islands cannot be members of MGB. The number of non-member municipalities thus remained the same.

The success of the joint municipal funding system and its ability to react swiftly to changes in its operating environment are based on its motivated personnel, advanced business methods and stable, long-term partnerships, both in Finland and abroad. In the coming years the system has excellent prospects for carrying out the task set out for it in the Act on the Municipal Guarantee Board, i.e. the safeguarding and development of municipal funding.


UIMAHALLI

Legislation on the Municipal Guarantee Board

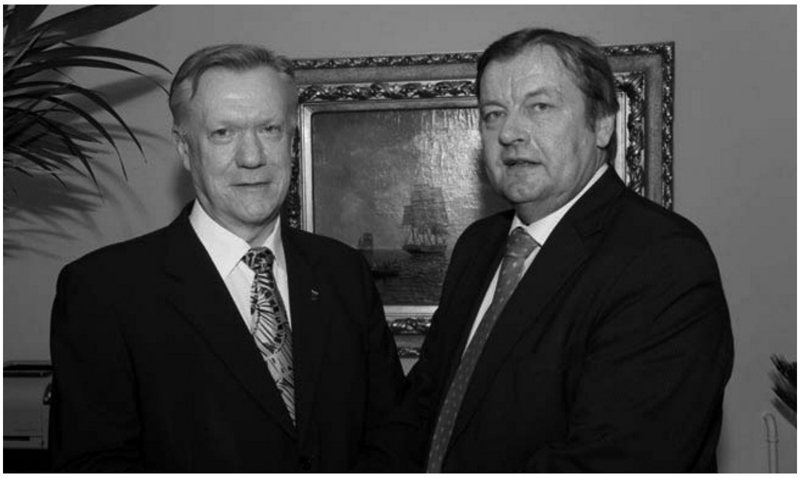
The Act on the Municipal Guarantee Board (487/1996, “the Act”)) was passed by the Finnish Parliament on 18 June 1996 and entered into force on 1 July 1996. The Act states that the purpose of the MGB is to safeguard and develop the joint funding of Finnish municipalities. In order to fulfil this purpose, the MGB can grant guarantees for such funding by credit institutions directly or indirectly owned or controlled by municipalities where this funding is used for lending to municipalities and municipal federations, and to corporations wholly owned by municipalities or under their control. In 2011, one credit institution, Munifin, met the criteria set out in the Act.

The first amendment to the Act, passed by the Finnish Parliament on 25 April 1997, entered into force on 1 May 1997. As a result of the amendment, MGB has also been able to grant guarantees for funding by a credit institution that is used for lending to corporations designated by government authorities and engaged in renting or producing and maintaining housing on social grounds, or corporations controlled by them.

The Parliament made further considerable changes to the Act with another amendment to the Act passed on 18 October 2006, which entered into force on 1 January 2007. The amendment specified the range of receivables for which a guarantee granted by MGB can be used as security. With the amendment, the former Regulations controlling the operations of MGB and approved by the Ministry of Finance were abandoned and parts of the legal provisions included in the Regulations were transferred to the Act. These include the requirements for the granting of guarantees in accordance with European Community State Aid rules and their relationship with the said rules, the investment and use of monies transferred to MGB’s fund, and the powers of the Guarantee Board Auditor.

Since the adoption of the amendment, it has also been possible to use MGB’s fund for interim arrangements in order to prevent a directly imminent MGB’s payment obligation. Municipalities that are not members may also join MGB. The auditing corporation appointed for the auditing of MGB’s administration and accounts and the Guarantee Board Auditor responsible for MGB’s supervision can be appointed for a term of between one and four years. The amendment to the Act also defines in more detail the right of a municipality, which is a member organisation of MGB, to appeal for an amendment of the contribution to be paid by the municipality to cover MGB’s guarantee liabilities.

Administration and Personnel



Under the Act, MGB has a Council of 15 members, each of whom has a personal deputy. The Ministry of Finance has appointed a Council for MGB for a term of office to run from 1 October 2009 to 30 September 2013. Mr Mika Munkki, Agrologist (Vehmaa), acts as Chairperson, and Mr Reijo Vuorento, Assistant Manager (Helsinki) and Mr Matti Kankare, Project Director (Espoo), as Deputy Chairpersons. The Council convened twice during the year under review.

Under the Act, MGB has a Board of Directors of 5-7 members, which is responsible for MGB's administration, the granting of guarantees and the preparation and execution of the decisions of the Council.

The Council chose the following persons as members of the Board of Directors starting its term of office on 1 January 2010:

Mr Jari Blom, Executive Director, Jyväskylä
Ms Maija-Liisa Havia, Permanent Undersecretary, Jyväskylä
Ms Sari Innanen, Lecturer, Kokkola
Ms Jaana Karrimaa, City Manager, Harjavalta
Ms Leena Kuha, Secretary, Oulu
Mr Janne Laine, City Manager, Savonlinna
Mr Juha Yli-Rajala, Director, Tampere

The Board chose Jari Blom as its Chairperson and Sari Innanen as Deputy Chairperson. On 11 March 2011, the Council accepted Juha Yli-Rajala's resignation from the Board and chose Pekka Alanen as a member of the Board.

Mr Heikki Niemeläinen was MGB's Managing Director and Mr Tuukka Salminen, Executive Director, acted as deputy to the Managing Director. The number of employees during the year was two.

Auditing and Supervision

The Council appoints an auditing corporation authorised by the Central Chamber of Commerce or by the Board of Chartered Public Finance Auditors for a maximum period corresponding to its term of office, to audit the financial accounts and administration of MGB. In 2011, the authorised auditing corporation was KPMG Oy Ab, which was, after competitive tendering, reappointed by MGB's Council for the period 2012-2013.

The activities of MGB are supervised by the Guarantee Board Auditor, who is appointed by the Ministry of Finance on the proposal of the Board of Directors of MGB. In 2010, the Guarantee Board auditors were Deloitte & Touche Oy, which the Ministry of Finance also reappointed for 2012.

Risk Management

RISKS RELATED TO GUARANTEE OPERATIONS

Under the Act, MGB may grant guarantees against sufficient security. The level of security during the year under review was sufficient. Guarantee activities are mostly arranged in such a way that MGB's Board of Directors grants guarantees for Munifin's funding programmes, the most important of which is the MTN programme. Of the guarantees granted by MGB to Munifin, EUR 17,459,460,423.62 was in use at the end of 2011.

Under the Act, guarantees granted as security for Munifin's receivables may at the time of granting the guarantee amount to a maximum of four per cent of the total amount of MGB's guarantee liabilities. On 31 December 2011, these guarantee liabilities totalled EUR 361,625,700, or 2.0 per cent of all guarantee liabilities. The guarantee liabilities of MGB totalled EUR 17,821,086,123.62.

As a result of Munifin's fundraising in 2011, funding guaranteed by MGB on 31 December 2011 was divided among the following currencies: Japanese yen 33%, US dollar 28%, euro 8%, Swiss franc 7%, Turkish lira 6%, Norwegian krone 5% and other currencies 13%. Collateral received by MGB from Munifin was denominated in euros. The currency position thus formed is closed by Munifin's hedging operations.

RISKS RELATED TO INVESTMENT OPERATIONS

MGB has an investment policy approved by its Board of Directors. Under this policy, MGB allocates 50% of its investments to plain vanilla debt instruments issued by governments and banks (credit rating requirement S&P BBB / Moody's Baa3) and 50% to capital protected debt instruments issued by banks and debt instruments issued by corporations, shares of companies listed on the Helsinki stock exchange, equity investment funds and housing and real estate companies. The range is +/- 10 percentage points. Any greater deviation must be specifically justified.

OPERATIVE RISKS

MGB's operative risks are dealt with in the Standing Orders and in the Guarantee and Operations Policy approved by the Board of Directors, which stipulates the operating authorisations and rights within MGB. Operative risks have been mitigated by outsourcing activities and by nominating deputies.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Finances

Income from regular operations consisted of fees related to guarantees granted, which produced a total guarantee premium sum of EUR 2,000,000.00. Operating costs totalled EUR 1,199,778.56, comprising personnel costs of EUR 467,534.33, depreciation amounting to EUR 25,032.38 and other costs of EUR 707,211.85. Prime factors in the increase in other costs were the credit-rating costs resulting from the joint municipal funding system's substantial fund-raising. The result from MGB's ordinary activities was EUR 800,221.44.

In 2011 no claims on MGB's guarantees were made or paid, nor were there any recovery claims. The nature of MGB's activities makes it unlikely that any claims on guarantees will be made or paid, or that recoveries will be made in the future.

Income from investments came to EUR 360,112.19 and costs to EUR 13,441.48, giving a result from investment activities of EUR 346,670.71. MGB values its investments at fair value in its balance sheet. The fair value fund stood at EUR -179,248.76, and the revaluation on the previous year was EUR -828,573.58. The result of investment activities and revaluations of the fair value fund gave a total return of -4.9% on invested capital.

The result for the financial year, i.e. the total from ordinary activities and investment, was EUR 1,146,892.15 before transfer to MGB's fund. The result for the financial year is proposed to be transferred to the fund in its entirety. The fund will thus total EUR 13,104,957.97 on 31 December 2011, and the total amount of the equity will be EUR 12,925,709.21.

MGB has on-going credit facilities for safeguarding its cash position up to EUR 150 million.

Outlook

The outlook for the joint municipal funding system is very positive as far as fundraising, the creditworthiness of Finnish municipalities and municipal finances are concerned. Uncertainties may arise depending on how the new Basel III financial regulatory framework is applied to public sector's internal financing arrangements. This is also the sector in which the joint Finnish funding system consisting of MGB and Munifin operates.

The solid support given by all players of the Finnish society, resulting from the strong performance of the joint municipal funding system, will provide a sound basis for operations in changing circumstances.

Income statement

	1.1.-31.12.2011	1.1.-31.12.2010
Ordinary operations		
Income		
Guarantee premiums	2 000 000,00	1 500 000,00
Other income	0,00	0,00
Expenses		
Staff expenses	-467 534,33	-446 401,72
Depreciation	-25 032,38	-21 042,21
Other expenses	-707 211,85	-735 234,00
Result from ordinary operations	800 221,44	297 322,07
Investment activities		
Income	360 112,19	388 065,28
Expenses	-13 441,48	-15 104,39
Result of investment activities	346 670,71	372 960,89
Result before transfer to fund	1 146 892,15	670 282,96
Transfer to fund	-1 146 892,15	-670 282,96
Result for the financial year	**0,00**	**0,00**

Balance sheet

	1.1.-31.12.2011	1.1.-31.12.2010
Assets		
Non-current assets		
Tangible assets	169 728,18	165 015,04
Other shares and similar rights of ownership	2 143 562,88	2 048 629,78
Investments		
Other investments		
Shares and similar rights of ownership	3 650 630,76	3 713 973,50
Debt securities		
Other investments	6 416 804,50	6 170 755,45
Current assets		
Debtors		
Guarantee debtors	500 000,00	375 000,00
Receivables	109 211,88	155 377,62
Cash and bank accounts	93 640,92	114 032,73
Total assets	**13 083 579,12**	**12 742 784,12**
Equity and liabilities		
Equity		
Fund	13 104 957,97	11 958 065,82
Fair value reserve	-179 248,76	649 324,82
Liabilities		
Current liabilities		
Trade creditors	29 175,70	22 057,90
Accruals and deferred income	128 664,21	113 084,38
Other current liabilities	30,00	251,20
Total equity and liabilities	**13 083 579,12**	**12 742 784,12**

Cash flow statement

	1.1.-31.12.2011	1.1.-31.12.2010
Cash flow from ordinary operations		
-operating income	1 875 000,00	1 500 000,00
-operating costs	-1 153 139,33	-1 105 257,25
Cash flow from ordinary operations	**721 860,67**	**394 742,75**
Cash flow from non-current assets	-124 678,62	-47 019,30
Cash flow from investments	-617 573,86	-284 043,60
Change in cash funds	**-20 391,81**	**63 679,85**
Cash funds at the beginning of financial period	114 032,73	50 352,88
Cash funds at the end of financial period	93 640,92	114 032,76

Notes to the financial statements

The Municipal Guarantee Board observes, where applicable, the Accounting Act and Decree in force.

Investments are valued in the balance sheet at fair value, so the unrealized differences between their book value and fair value have been recognized in the fair value reserve under capital and reserves. Investments are adhered to by using the FIFO-principle.

Non-current assets have been valued at acquisition cost, on which planned depreciation is calculated.
Depreciation method:
- Machinery and equipment, equal depreciation, 3 years
- Before 1.1.2009 purchased machineryand equicpment, equal depreciation, 3 years
- Equipment
- Equipment of the MGB premises

Staff expenses 1.1.-31.12.2011	Salaries and fees	Pension expenses	Other personnel-related expenses
Board of Directors	62 320,65	10 549,53	1 246,35
Managing Director and Deputy MD	248 202,55	45 931,91	11 008,74
Others	62 104,16	8 697,94	1 458,23
Total	372 627,36	65 179,38	13 713,32

Non-current assets	2011	2010
Tangible assets		
Acquisition cost 1.1.	195 506,80	194 207,50
Increase	29 745,52	1 299,30
Acquisition cost 31.12.	225 252,32	195 506,80
Accrued depreciation 1.1.	-30 491,76	-9 449,55
Accounting period depreciation	-25 032,38	-21 042,21
Accrued depreciation 31.12.	-55 524,14	-30 491,76
Book value 31.12.	169 728,18	165 015,04
Other shares and similar rights of ownership		
Nurmijärven Golf Club one share	21 713,55	21 713,55
As Oy Topeliuksenkatu 15	599 176,20	504 243,10
Koy Yrjönkatu 11	1 476 953,13	1 476 953,13
As Oy Helsingin Eino Leinon katu 7	45 720,00	45 720,00
Total	**2 143 562,88**	**2 048 629,78**

Changes to capital and reserves	2011	2010
Fund 1.1.	11 958 065,82	11 287 782,86
Fund transfer 31.12.	1 146 892,15	670 282,96
Fund 31.12.	13 104 957,97	11 958 065,82
Fair value reserve 1.1.	649 324,82	261 839,67
Change in financial year	-828 573,58	387 485,15
Fair value reserve 31.12.	-179 248,76	649 324,82
Guarantees and collateral	31.12.2011	31.12.2010
Guarantee limits granted	34 583 912 599,23	29 969 168 896,70
Guarantees in use	17 459 460 423,62	15 478 450 730,90
Collateral received and items	18 919 899 154,37	16 723 342 684,95
Affecting collateral and guarantees		
Balance of collateral and guarantees	1 460 438 730,75	1 244 891 954,05
Receivables of Municipality Finance Plc derivatives guaranteed by the Municipal Guarantee Board from counterparties, net.	351 625 700,00	130 166 329,00

Signs

SIGNATURES OF THE REPORT OF THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS

Helsinki, 8th February 2012

MUNICIPAL GUARANTEE BOARD

Jari Blom
Chairperson of the Board

Sari Innanen
Deputy Chairperson of the Board

Pekka Alanen
Member of the Board

Maija-Liisa Havia
Member of the Board

Jaana Karrimaa
Member of the Board

Leena Kuha
Member of the Board

Janne Laine
Member of the Board

Heikki Niemeläinen
Managing Director

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Helsinki 8th February 2012

KPMG OY AB

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Authorized Public Accountant

KPMG Oy Ab
PO Box 1037
00101 Helsinki
FINLAND

Mannerheimintie 20 B
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3897
www.kpmg.fi

AUDITOR'S REPORT

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

Opinion

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

Helsinki, 8 February 2012

KPMG OY AB

Marcus Tötterman
Authorized Public Accountant in Finland

Guarantees

Million euro

Municipality Finance Plc	Guarantees	Funding 31.12.2011
Municipal Housing Finance Plc (-30.4.2001)		
EMTN Programme	1 500,0	98,6
Total	**1 500,0**	**98,6**
Kuntarahoitus Oyj (1.5.2001-)		
EMTN Programme	22 000,0	14 357,1
AUD 1 billion Programme (Kangaroo)	3 143,9	43,7
Treasury Bill Programme	2 000,0	262,0
Domestic Debt Issuance Programme	800,0	154,5
Other domestic and foreign funding	5 000,0	2 518,6
Separate Decisions		25,0
Back up facilities	140,0	0,0
Total	**33 083,9**	**17 360,9**
Total	34 583,9	17 459,5
Receivables of Municipality Finance Plc derivatives guaranteed		361,6
by the Municipal Guarantee Board from counterparties, net.	Max 4 %	2,0 %
Total		**17 821,09**

REGISTERED AND HEAD OFFICE OF THE ISSUER
Municipality Finance Plc
(Kuntarahoitus Oyj)
P.O. Box 744 Jaakonkatu 3A
5th Floor
FI-00101 Helsinki
Finland

REGISTERED AND HEAD OFFICE OF THE GUARANTOR
The Municipal Guarantee Board
(Kuntien takauskeskus)
Yrjönkatu 11 A 1,
FI-00120 Helsinki
Finland

FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT
Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London El4 5LB
United Kingdom

REGISTRAR
Citigroup Global Markets Deutschland AG
Germany Agency and Trust Department
Reuterweg 16
60323 Frankfurt
Germany

JOINT LEAD MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013
United States of America

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
England

Nordea Bank Danmark A/S
Christiansbro, Strandgade 3
PO Box 850
DK-0900 Copenhagen C
Denmark

CO MANAGERS

Daiwa Capital Markets Europe Limited
5 King William Street
London EC4N 7AX
United Kingdom

Mitsubishi UFJ Securities International plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

RBC Europe Limited
Riverbank House
2 Swan Lane
London, EC4R 3BF
United Kingdom

LEGAL ADVISER TO THE ISSUER AND THE GUARANTOR
(as to Finnish law)
Peltonen LMR Attorneys Ltd.
Fabianinkatu 23
FI-00130 Helsinki
Finland

LEGAL ADVISER TO THE JOINT LEAD MANAGERS
(as to US and UK law)
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

AUDITORS
TO THE ISSUER AND THE GUARANTOR
KPMG Oy Ab
Mannerheimintie 20B
FI-00100 Helsinki
Finland

MuniFin
MUNICIPALITY FINANCE

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